



# NORTHERN TRUST

## **Northern Trust Management Services Limited**

### **Directors' Report and Financial Statements**

**For the Year Ended 31 December 2019**

**Registered number: 4794949**



**Northern Trust Management Services Limited**

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**Company information**

**Directors**

Mr. J. Davie  
Mr. M. Lacey

**Company secretary**

Mr. M. Wright

**Registered number**

4794949

**Registered office**

50 Bank Street  
Canary Wharf  
London  
United Kingdom  
E14 5NT

**Independent auditor**

KPMG  
Chartered Accountants, Statutory Audit Firm  
1 Harbourmaster Place  
International Financial Services Centre  
Dublin 1  
Ireland

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## Strategic Report

### For the Year Ended 31 December 2019

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

#### Business review and strategy

The Company's principal activity is the provision of management services to fellow Northern Trust group undertakings. The Company also acts as a holding company for its subsidiary undertaking, Northern Trust Global Investments Limited ("NTGIL") and continues to support the growth and development of the core activities undertaken by the subsidiary.

The Company's key performance indicators are:

	2019 \$000	2018 \$000
Turnover	404,816	410,806
Administrative expenses	(358,214)	(366,939)
Operating profit	48,362	44,325
Profit for the financial year	41,047	88,037
Shareholder's funds	362,479	320,241
Current assets as a % of current liabilities (quick ratio)	487%	404%
Average number of employees	1,403	1,443

The Company's turnover for the year was \$404,816,000 (2018: \$410,806,000) which represented a 1.46% decrease from 2018. The Company's turnover is based on a transfer pricing allocation received from the Northern Trust Corporation ("the Group"). The Company's shareholder's funds at 31 December 2019 amounted to \$362,479,000 (2018: \$320,241,000).

The Company's strategy is to continue to provide management services to fellow Group undertakings. It is expected that the Company will continue to own 100% of the ordinary shares in Northern Trust Global Investments Limited. It is expected that the Company will remain profitable, with the Company's revenue and expenses continuing at a correlated rate as a result of the transfer pricing methodology.

#### Principal risks and uncertainties

The principal risks and uncertainties continue to come from the complex regulatory environment as it impacts Northern Trust Companies which Northern Trust Management Services Limited supports. The principal risks and uncertainties are as follows:

##### Brexit

There remains much uncertainty regarding the state of the future relationship between the United Kingdom ("UK") and the European Union ("EU") and therefore the potential impact of the UK's withdrawal from the EU on the financial regulatory framework in the UK.

The UK left the EU on 31 January 2020 pursuant to the withdrawal agreement negotiated between the UK and the EU in October 2019 and a transition period began that will last until 31 December 2020. As a result of the adoption of EU legislation in the UK, companies in the UK initially remain subject to substantially the same rules and regulations as before Brexit. The UK may however seek to make changes to these rules going forward, particularly in the event that no agreement is reached in respect of financial services.

The Company owns 100% of the ordinary shares in Northern Trust Global Investments Limited ("NTGIL"). As part of its Brexit strategy, the Northern Trust Group made a decision to provide Individual Portfolio Management ("IPM") services to new European Economic Area ("EEA") clients through another group company, Northern Trust Fund Managers (Ireland) Limited ("NTFMIL") instead of Northern Trust Global Investments Limited.

The political and economic uncertainties arising from the UK's decision to exit from the European Union continues to be closely monitored by the Directors.

**Strategic Report (continued)**  
**For the Year Ended 31 December 2019****COVID-19 (Coronavirus) Pandemic**

The COVID-19 (Coronavirus) pandemic that arose in the first quarter of 2020 has caused major disruption to the global economy and social fabric of many countries. The Company and the Northern Trust Group are closely monitoring our business practices, taking into account guidance from the Centers for the Disease Control and Prevention ("CDC") and World Health Organization ("WHO"), regulators, governments and local public health departments. The Company has participated in Group measures to implement risk mitigation strategies including alternate work schedules and work-from-home ("WFH") arrangements. A number of internal programs have been implemented to ensure that the Company can continue to provide the level of service expected while also providing the necessary support for employees during this pandemic. In addition, operations and client service teams are working hand in hand with Information Technology, Legal, and Risk and Control teams to adapt to the evolving local developments.

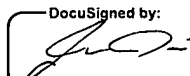
The Northern Trust Group formally activated the Enterprise Pandemic Phase of our Business Resiliency Plan on 11 March 2020, ahead of the WHO announcement. The Group has implemented best practices including stress testing of BCP plans to include extended WFH, implementing social distancing arrangements, adapting and refining our established and tested transfer-of-work protocols, and cancelling in-person meetings and events.

The Company maintains robust business resiliency plans to manage its operations in support of clients. Its service has been designed to be fault tolerant, minimising the potential for any single points of failure. To achieve this, the Group is utilising its dedicated Business Resiliency Centers, optimising work-from-home arrangements and will invoke transfer-of-work capabilities as required to complete processes across multiple offices, countries and regions.

**Conduct**

The Company is conscious that the behaviours and actions of its employees have the potential to cause harm to clients or financial markets, and has implemented a programme of training for all employees to ensure understanding of its standards. Northern Trust has established a risk appetite and regularly monitors performance against a suite of relevant metrics, with regular reporting to management bodies including the Board of Directors.

This report was approved by the board on 14 September 2020.

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**Mr. J. Davie**  
Director

## Directors' Report For the Year Ended 31 December 2019

The Directors present their report and the financial statements for the year ended 31 December 2019.

### Results and dividends

The financial statements for the year ended 31 December 2019 are set out on pages 9 to 41. The profit for the year after taxation was \$41,047,000 (2018: \$88,037,000). The Company's shareholder's funds at 31 December 2019 amounted to \$362,479,000 (2018: \$320,241,000).

During the year, the Company did not receive a dividend (2018: \$47,000,000). The Company did not pay a dividend during the year (2018: \$200,000,000).

### Directors

The Directors who served during the year:

Mr. J. Davie  
Mr. M. Lacey

### Political contributions

The Company did not make any political donations during the year (2018: Nil).

The Company made charitable donations during the year of \$261,596 (2018: \$23,474).

### Principal risks and uncertainties

Taking risks is core to the 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 (note 32).

The principal risks of the entity are FX risk and liquidity risk arising from non-functional currency accounts receivable and payable balances. These risks are managed through adherence to policies approved by the Board of Directors as well as procedures and control frameworks that are subject to functional oversight by the Asset and Liability Management Committee ("ALCO") and the Market and Liquidity Risk Committee ("MLRC") of the ultimate parent company, the Northern Trust Corporation. The Northern Trust Corporation's internal audit function is responsible for the independent review of both risk management and the control environment.

The ultimate impact of Brexit on the Company remains uncertain and will depend on the terms of the withdrawal and the post-Brexit relationships between the UK and other nations. The political and economic uncertainties arising from the UK's decision to exit from the European Union continue to be closely monitored by the Company.

### Financial resources and going concern

The Company has made a profit for 2019 and due to the transfer pricing methodology is projected to continue to generate positive cash flows. Under the transfer pricing mechanism, the turnover of the Company will increase and decrease in line with expenses.

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, as reported in the quarterly earnings releases.

The Directors have considered the disruption and uncertainty caused by the Covid-19 pandemic as outlined in the Strategic Report. The Directors have also considered the uncertainty of "Brexit" as outlined in the Strategic Report.

On the basis of their assessment of the Company's financial position and 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.

### Future developments

The Directors expect that the Company will remain profitable, with the Company's revenue and expenses continuing at a correlated rate. It is the intention of the Board of Directors to continue to develop the core activity of the Company. The Directors are monitoring the political and economic uncertainties arising from UK's decision to exit the European Union. The Company's current response to this is addressed in the strategic report under principal risks and uncertainties.

### Employee involvement

The Company encourages free 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.

## Directors' Report (continued) For the Year Ended 31 December 2019

### Diversity, equity and inclusion

The Company is committed to providing equal employment opportunities to all employees and applicants and does not discriminate on the basis of disability, race, colour, religion, nationality, ethnic or national origin, sex, marital status, sexual orientation or age. All employment decisions are based on business requirements and comply with obligations under applicable law and codes of practice. This includes human resources decisions relating to recruitment, terms and conditions of employment, transfers, promotions and access to training.

An important factor in the Company's business success is the people who are employed and the creative energy, innovation and quality of service they deliver to the clients of the Group. The Company is committed to fostering an organisational environment in which outstanding people are attracted and retained by the Company regardless of their disability, race, colour, religion, nationality, ethnic or national origin, sex, marital status, sexual orientation or age. The Company seeks to establish an environment that values diversity of background and experience in the workforce at all levels of the organisation.

### Disclosure of information to auditor

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

- so far as the Directors are aware, there is no relevant audit information of which the Company's auditor is unaware, and
- the Directors have 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 auditor is aware of that information.

### Post balance sheet events

The COVID-19 (Coronavirus) pandemic that arose in the first quarter of 2020 has caused major disruption to the global economy and social fabric of many countries. The Company and the Northern Trust Group are closely monitoring our business practices, taking into account guidance from the Centers for Disease Control and Prevention ("CDC") and World Health Organization ("WHO"), regulators, governments and local public health departments. The Company has participated in Group measures to implement risk mitigation strategies including alternate work schedules and work-from-home ("WFH") arrangements. A number of internal programs have been implemented to ensure that the Company can continue to provide the level of service expected while also providing the necessary support for employees during this pandemic. In addition, operations and client service teams are working hand in hand with Information Technology, Legal, and Risk and Control teams to adapt to the evolving local developments.

The Northern Trust Group formally activated the Enterprise Pandemic Phase of our Business Resiliency Plan on 11 March 2020, ahead of the WHO announcement. The Group has stress tested its BCP plans to include extended WFH, implemented social distancing arrangements, adapted and refined our established and tested transfer-of-work protocols, and cancelled in-person meetings and events. The Company maintains business resiliency plans to manage its operations in support of its clients. Its service has been designed to be fault tolerant, aiming to minimise the potential for any single points of failure. To achieve this, the Group is utilising its dedicated Business Resiliency Centers, applying work-from-home arrangements and will invoke transfer-of-work capabilities as required to complete processes across multiple offices, countries and regions.

The financial position has been assessed as at 31 December 2019 with no significant consequential change found in any carrying value and no material change in the outlook. Therefore the Directors have agreed to adopt the going concern basis of accounting in preparing the annual financial statements.

On 28 February 2020, a new lease agreement was signed and executed on the property located at 50 Bank Street, Canary Wharf, London, UK, E14 5NT. The new lease agreement has a lease term of 15 years and replaced an existing lease agreement with the Landlord that was due to cease on 31 March 2022. Due to a beneficial change in certain conditions in the new lease agreement, a dilapidation provision that was recognized under certain conditions stipulated in the original lease agreement was derecognised on commencement of the new lease agreement. This dilapidation provision was reported at \$7,298,070 on 28 February 2020.

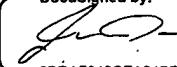
Deferred tax calculated at 31 December 2019 within these financial statement takes into account a reduction in main Corporation Tax rate to 17%. In March 2020, the UK Government announced the main Corporation tax rate will remain at 19% from April 2020. If so, the 19% rate will increase future current tax charges and the net deferred tax asset would then need to be re-measured at 19% going forward.

There have been no other significant events affecting the Company since the year end other those disclosed above and in the strategic report.

### Auditor

Pursuant to an elective resolution passed by the sole shareholder of the Company, the Company has elected pursuant to section 487 of the Companies Act 2006 to dispense with the annual obligation to appoint KPMG as auditors of the Company.

This report was approved by the board on 14 September 2020 and signed on its behalf.

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**Mr. J. Davie**  
Director

**Directors' Responsibilities**  
**Statement for the Year Ended 31 December 2019**

The Directors are responsible for preparing 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 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 assets, liabilities and financial position of the Company and of its profit or loss for that year. In preparing these 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 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 related 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 enable them to ensure that the financial statements comply with the Company Act 2006. They are responsible for such internal controls 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 Management Services Limited**

### **Opinion**

We have audited the financial statements of Northern Trust Management Services Limited ('the Company') for the year ended 31 December 2019 set out on pages 9 to 41, which comprise the Profit and Loss Account, Statement of Other Comprehensive Income, Balance Sheet, Statement of Changes in Equity and related notes, including the summary of significant accounting policies set out in note 1. The financial reporting framework that has been applied in their preparation is UK Law and FRS 101 Reduced Disclosure Framework.

In our opinion, the accompanying financial statements:

- give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with FRS 101 Reduced Disclosure Framework; and
- have been properly 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 under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with ethical requirements that are relevant to our audit of financial statements in the UK, including the Financial Reporting Council (FRC)'s Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **We have nothing to report on going concern**

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

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 a year from the date of approval of the financial statements. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Company will continue in operation.

## **Independent Auditor's Report to the Members of Northern Trust Management Services Limited (continued)**

### **Other information**

The directors are responsible for the other information presented in the Annual Report together with the financial statements. The other information comprises the information included in the directors' report and the strategic report. The financial statements and our auditor's report thereon do not comprise part of the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information 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 the other information.

Based solely on our work on the other information:

- we have not identified material misstatements in the directors' report or the strategic report;
- in our opinion, the information given in the directors' report and the strategic report is consistent with the financial statements; and
- in our opinion, the directors' report and the strategic report have been prepared in accordance with the Companies Act 2006.

### **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, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to take advantage of the small companies exemption from the requirement to prepare a strategic report.

We have nothing to report in these respects.

### **Respective responsibilities and restrictions on use**

#### **Responsibilities of Directors for the financial statements**

As explained more fully in the directors' responsibilities statement set out on page 5, 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.

## **Independent Auditor's Report to the Members of Northern Trust Management Services Limited (continued)**

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

### **The purpose of our audit work and to whom we owe our responsibilities**

Our 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.

### **KPMG**

Chartered Accountants, Statutory Audit Firm  
1 Harbourmaster Place  
International Financial Services Centre  
Dublin 1  
Ireland

14 September 2020

## Northern Trust Management Services Limited


**Profit and Loss Account**  
**For the Year Ended 31 December 2019**

	Note	2019 \$000	2018 \$000
Turnover	2	404,816	410,806
<b>Gross profit</b>		<b>404,816</b>	<b>410,806</b>
Administrative expenses	3	(358,214)	(366,939)
Other operating income	5	1,760	458
<b>Operating profit</b>		<b>48,362</b>	<b>44,325</b>
Income from investment in subsidiary	8	-	47,000
Interest receivable and similar income	9	5,538	7,252
Interest payable and similar charges	10	(976)	283
<b>Profit before tax</b>		<b>52,924</b>	<b>98,860</b>
Tax on profit	12	(11,877)	(10,823)
<b>Profit for the financial year</b>		<b>41,047</b>	<b>88,037</b>

**Statement of Other Comprehensive Income**  
**For the Year Ended 31 December 2019**

	Note	2019 \$000	2018 \$000
Profit for the financial year		41,047	88,037
<b>Other comprehensive income:</b>			
<b>Items that will not be reclassified to profit or loss:</b>			
Actuarial gain on defined benefit plan	29	157	52
Actuarial gain on post retirement medical scheme	30	9	30
Deferred tax relating to pension plan and medical scheme	12	(26)	(16)
<b>Total other comprehensive income</b>		<b>140</b>	<b>66</b>
<b>Total comprehensive income for the year</b>		<b>41,188</b>	<b>88,103</b>

The notes on pages 13 to 41 form part of these financial statements.

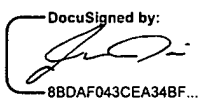
## Northern Trust Management Services Limited


**Balance Sheet**  
**As At 31 December 2019**

	Note	2019 \$000	2018 \$000
<b>Fixed assets</b>			
Intangible assets	15	798	572
Tangible fixed assets	16	46,547	28,299
Investment in subsidiary	17	37,180	37,180
Deferred costs	18	1,079	1,959
		<b>85,604</b>	<b>68,010</b>
<b>Current assets</b>			
Debtors: Amounts falling due within one year	19	101,401	75,992
Cash and cash equivalents	20	270,837	268,546
		<b>372,238</b>	<b>344,538</b>
Creditors: Amounts falling due within one year	21	(76,487)	(85,267)
<b>Net current assets</b>		<b>295,751</b>	<b>259,271</b>
<b>Total assets less current liabilities</b>		<b>381,355</b>	<b>327,281</b>
Creditors: Amounts falling due after more than one year	22	(14,899)	(2,420)
Provision for liabilities and charges	24	(11,260)	(11,277)
<b>Net assets excluding pension asset</b>		<b>355,196</b>	<b>313,584</b>
Pension asset	29	7,572	6,940
Post retirement medical scheme	30	(289)	(285)
<b>Net assets</b>		<b>362,479</b>	<b>320,239</b>
<b>Capital and reserves</b>			
Called up share capital	26	40,000	40,000
Share premium account	28	8,703	8,703
Merger reserve	27	1,687	1,687
Profit and loss account		312,089	269,851
<b>Shareholder's funds</b>		<b>362,479</b>	<b>320,241</b>

The notes on pages 13 to 41 form part of these financial statements.

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 14 September 2020.

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**Mr. J. Davie**  
 Director

Company Registration Number: 4794949

**Statement of Changes in Equity  
For the Year Ended 31 December 2019**

	Called up share capital \$000	Share premium account \$000	Merger reserve \$000	Profit and loss account \$000	Total equity \$000
At 1 January 2019	40,000	8,703	1,687	269,851	320,241
Adjustment on initial application of IFRS 16 (note 1.4)	-	-	-	1,050	1,050
Restated 1 January 2019	40,000	8,703	1,687	270,901	321,291
<b>Comprehensive income for the year</b>					
Profit for the year	-	-	-	41,047	41,047
Actuarial gain on pension plan and medical scheme	-	-	-	166	167
Deferred tax relating to pension plan and medical scheme	-	-	-	(26)	(26)
<b>Other comprehensive income for the year</b>	-	-	-	140	140
<b>Total comprehensive income for the year</b>	-	-	-	41,188	41,188
<b>At 31 December 2019</b>	<b>40,000</b>	<b>8,703</b>	<b>1,687</b>	<b>312,089</b>	<b>362,479</b>

## Northern Trust Management Services Limited


**Statement of Changes in Equity  
For the Year Ended 31 December 2018**

	Called up share capital \$000	Share premium account \$000	Merger reserve \$000	Profit and loss account \$000	Total equity \$000
At 1 January 2018	40,000	8,703	1,687	382,164	432,554
Adjustment on initial application of IFRS 9	-	-	-	(8)	(8)
Restated 1 January 2018	40,000	8,703	1,687	382,156	432,546
<b>Comprehensive income for the year</b>					
Profit for the year	-	-	-	88,037	88,037
Actuarial gain on pension plan and medical scheme	-	-	-	82	82
Deferred tax relating to pension plan and medical scheme	-	-	-	(16)	(16)
<b>Other comprehensive income for the year</b>	-	-	-	66	66
<b>Total comprehensive income for the year</b>	-	-	-	88,103	88,103
Dividends paid	-	-	-	(200,000)	(200,000)
Deferred tax relating to share based payment	-	-	-	(408)	(408)
<b>At 31 December 2018</b>	<b>40,000</b>	<b>8,703</b>	<b>1,687</b>	<b>269,851</b>	<b>320,241</b>

The notes on pages 13 to 41 form part of these financial statements.

## Northern Trust Management Services Limited


**Notes to the Financial Statements  
For the Year Ended 31 December 2019**
**1. Accounting policies**
**1.1 Basis of preparation of financial statements**

Northern Trust Management Services Limited ("the Company") is a private company incorporated and domiciled in the United Kingdom.

The financial statements have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' ("FRS 101") 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 judgment in applying the Company's accounting policies (see note 34).

The Directors have adopted the provisions of section 401, subsection 2(b) of the Companies Act 2006, and in accordance with the provisions of the Seventh Directive (83/349/EEC) as referred to within the Act, the Company is exempt from the requirement to prepare group financial statements, on the grounds that it is a wholly owned subsidiary. The financial statements for the year ended 31 December 2019, together with the comparative numbers, reflect the activities of the Company on an unconsolidated basis.

**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 Payments;
- the requirements of IFRS 7 Financial Instruments: Disclosures;
- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement;
- 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
  - paragraphs 76 and 79(d) of IAS 40 Investment Property;
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134 to 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 18A 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 110, 113(a), 114, 115, 118, 119(a), 119(b), 119(c), 120(a), 120(b), 121 to 125, 126(a), 126(b), 126(c), 126(d), 127 and 129 of IFRS 15 Revenue from Contracts with Customers; and
- the requirements of paragraph 52 of IFRS 16 Leases

**1.3 Going concern**

On the basis of their assessment of the Company's financial position and 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.



## Northern Trust Management Services Limited


**Notes to the Financial Statements  
For the Year Ended 31 December 2019**
**1. Accounting policies (continued)**
**1.4 Changes in accounting policies**

On 1 January 2019, the Company adopted IFRS 16 Leases ("IFRS 16"). The standard applies a single lessee accounting model which requires lessees to recognise almost all leases on the balance sheet in the form of a "right-of-use" ("ROU") asset, representing its right to use the underlying leased asset, and a corresponding lease liability, representing its obligation to make lease payments.

The Company elected the practical expedients to apply IFRS 16 to contracts that were previously identified as leases upon transition, to rely on its assessment of whether leases are onerous under IAS 37 immediately before the date of initial application.

The Company adopted IFRS 16 on a modified retrospective basis and accordingly, comparative information has not been restated. As a result of adopting IFRS 16, the Company recognised lease liabilities at 1 January 2019 of \$28,492,916 with corresponding ROU assets of \$34,865,429 calculated based on the present value of the remaining lease payments, and adjustments to the ROU assets by the amount of any prepaid or accrued lease payments and by the amount of the IAS 37 onerous lease provision recognised in the Balance Sheet immediately before the date of initial application. The opening net investment in subleases balance recognised was \$1,240,662. There was no significant impact to the Company's profit for the year.

The Company discounted the remaining lease payments using its incremental borrowing rate at 1 January 2019 when measuring lease liabilities. The weighted average rate applied is 3.06%.

The following table outlines the impact on transition upon adoption of IFRS 16:

	<b>1 January 2019</b>
	<b>\$000</b>
ROU asset	28,493
Prepaid rent	3,586
Onerous lease provision	1,503
Net investment in sublease	1,241
Lease liabilities	(34,865)
FX conversion of lease liability	1,093
Retained Earnings	(1,050)

**1.5 Foreign currency translation**
**Functional and presentation currency**

The Company's functional currency is US Dollars which is denoted by the symbol \$.

**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 exchange 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 exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Profit and Loss Account except when deferred in other comprehensive income as qualifying cash flow hedges.

All other foreign exchange gains and losses are presented in the Profit and Loss Account within 'other operating income' and 'other operating expenses' respectively.

**1.6 Measurement convention**

The financial statements are prepared on the historical cost basis except for pension assets and lease liabilities which are stated at present value.

## Notes to the Financial Statements For the Year Ended 31 December 2019

### 1. Accounting policies (continued)

#### 1.7 Turnover

Turnover primarily represents amounts receivable for services provided in the normal course of business, net of value added tax.

The amounts receivable represent a routine return and are calculated based on the global transfer pricing methodology with operating expenses being reimbursed plus an arm's length mark-up.

#### 1.8 Leases

The Company recognises a "right-of-use" ("ROU") asset and a lease liability at lease commencement date for all leases. The lease liability is measured at the present value of the lease payments that are not paid at lease commencement and discounted using the Company's incremental borrowing rate. The ROU asset is initially measured at an amount equal to the lease liability, adjusted for any initial direct costs incurred and any lease payments made or incentives received before the commencement date.

Unless immaterial, the Company will present the interest expense on the lease liability and depreciation charge for the ROU asset separately in the statement of profit or loss. The ROU asset is depreciated using the straight-line method from the commencement date.

#### 1.9 Finance costs

Finance costs are charged to the Profit and Loss Account over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

#### 1.10 Pensions

##### *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.

##### *Defined benefit pension plan*

The Company operates a defined benefit plan for certain employees. A defined benefit plan defines the pension benefit that the employee will receive on retirement, usually dependent upon several factors including but not limited to age, length of service and remuneration. A defined benefit plan is a pension plan that is not a defined contribution plan.

The liability recognised in the Balance Sheet in respect of the defined benefit plan is the present value of the defined benefit obligation at the end of the balance sheet date less the fair value of plan assets at the balance sheet date (if any) out of which the obligations are to be settled.

The defined benefit obligation is calculated using the projected unit credit method. Annually, the Company engages independent actuaries to calculate the obligation. The present value is determined by discounting the estimated future payments using market yields on high quality corporate bonds that are denominated in US dollars and that have terms approximating to the estimated period of the future payments ('discount rate').

The fair value of plan assets is measured in accordance with the IFRS 13 fair value hierarchy and in accordance with the Company's policy for similarly held assets. This includes the use of appropriate valuation techniques.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income. These amounts together with the return on plan assets, less amounts included in net interest, are disclosed as 'Remeasurement of net defined benefit liability'.

The cost of the defined benefit plan, recognised in profit or loss, except where included in the cost of an asset, comprises:

- the increase in net pension benefit liability arising from employee service during the period; and
- the cost of plan introductions, benefit changes, curtailments and settlements.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is recognised in the profit or loss account under 'interest expense and similar charges'.

## Notes to the Financial Statements For the Year Ended 31 December 2019

### 1. Accounting policies (continued)

#### 1.11 Share based payments

Where the Company grants rights to its parent's equity instruments to its employees, 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 Taxation

Corporation tax is calculated based on the taxable profits for the year.

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

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

#### 1.13 Loans and advances

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

#### 1.14 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 have 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.

#### 1.15 Intangible assets

Intangible assets are initially recognised at cost. After recognition, under the cost model, intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses.

The estimated useful life for computer software is 7 years.

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

## Notes to the Financial Statements For the Year Ended 31 December 2019

### 1. Accounting policies (continued)

#### 1.16 Tangible fixed assets

Tangible fixed assets under the cost model, other than investment properties, 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.

The estimated useful lives range as follows:

Long-term leasehold property	15 years
Fixtures and fittings	10 years
Office equipment	5 years

Other fixed assets are not depreciated as they are deemed to have an indefinite useful life. 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 within 'other operating income' in the Profit and Loss Account.

#### 1.17 Investment in subsidiary

Investments in subsidiaries are measured in accordance with IAS 27 'Separate Financial Statements' at cost less any accumulated impairment. Investments are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairments are calculated such that the carrying value of the fixed assets investment is the lower of its cost or recoverable amount. Recoverable amount is the higher of its net realizable value and value in use.

#### 1.18 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 represents a probable 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.

#### 1.19 Dilapidations

The estimated present value of the obligation payable at the end of the lease is recognised at lease inception. This amount is booked as an increase to the cost basis of the related assets at the date of asset acquisition. The increased cost basis of the asset is depreciated annually based on the estimated life of the asset. The obligation is increased annually to reflect the passage of time and inflation and the estimate is reassessed regularly and updated for any change in the expected future obligation.

#### 1.20 Financial instruments

##### Classification

On initial recognition, a financial asset is classified and measured at, amortised cost, FVOCI, or FVTPL. It is measured at amortised cost if it meets both of the following conditions and is not designated at FVTPL:

- the asset is held in a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the asset give rise to cash flows that are solely payments of principal and interest.

## Northern Trust Management Services Limited


**Notes to the Financial Statements  
For the Year Ended 31 December 2019**
**1. Accounting policies (continued)**
**1.20 Financial instruments (continued)**

A financial asset is measured at FVOCI if it meets both of the following conditions and is not designated at FVTPL:

- the financial asset is held in a business model whose objective is both to hold assets to collect contractual cash flows and sell financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial liabilities are measured at amortised cost except for financial liabilities at fair value through profit or loss.

**Business model assessment**

The Company utilises the framework of the Northern Trust Corporation group ("the Group"), when assessing the business model. This assessment is done at the portfolio level in the same manner that performance is reported. Information considered in this assessment includes stated policies and objectives for the portfolio and Group strategy; how performance is evaluated and reported; risks that impact the business model and how those risks are managed; and the frequency, volume, timing and reasons for sales in prior periods. Instruments are not reclassified unless a business model for managing the assets has changed.

The Northern Trust Corporation's Asset and Liability Management Policy ("ALMP") governs the management of different portfolios of financial assets. Per the ALMP, investments are made primarily for the purpose of maintaining high quality securities, managing interest rate risk, providing a temporary investment of excess funds, or providing interest income. The ALMP states that the assets considered as held to collect contractual cash flows can only consist of those investments purchased with the intent and ability to hold to maturity in order to meet one or more of the previously listed portfolio objectives. All financial instruments fall within this business model.

**Solely payments of principal and interest ("SPPI") assessment**

Principal is defined as the fair value of the financial asset at initial recognition. Interest is defined as consideration for the time value of money, credit risk, other basic lending risks and costs, and a reasonable profit margin. The evaluation of whether cash flows are solely payments of principal and interest is based on the contractual terms of the instrument. The Company considers whether contractual terms could change the timing or amount of cash flows so they are not solely payments of principal and interest. These features may include leverage features, prepayment or extension features, non-recourse arrangements, and periodic resets of interest rates.

The Company considered interest rates, call options, redemption prices, seniority rankings, etc. in this evaluation before concluding instruments pass the SPPI test.

**Cash and cash equivalents**

Cash and cash equivalents comprise cash balances and call deposits that are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

**Loans and advances**

Loans and advances to banks include loans and advances originated by the Company which are not intended to be sold in the short term and have not been classified as held for trading or designated at fair value. Loans and advances are recognised when cash is advanced to borrowers and are derecognised when either borrower 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.

**Other debtors**

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.

**Other creditors**

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

## Notes to the Financial Statements For the Year Ended 31 December 2019

### 1. Accounting policies (continued)

#### 1.20 Financial instruments (continued)

##### 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.

Financial assets and financial liabilities are initially measured at fair value.

All recognised financial assets are subsequently measured in their entirety at either fair value or amortised cost, depending on the classification of the financial assets.

#### 1.21 Impairment excluding deferred tax assets

IFRS 9 replaced the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39. The Company's financial assets at amortised cost consist of cash and cash equivalents.

##### Financial assets (including other debtors)

The Company recognises loss allowances for ECLs on the following financial instruments that are not measured at FVTPL.

- Cash and cash equivalents

There were no ECLs recognised for other debtors or loans and advances.

The Company measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured using 12-month ECLs:

- Other financial instruments that have not experienced a significant increase in credit risk since initial recognition.

12 month ECLs refer to the portion of ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Lifetime ECLs result from all possible default events over the expected life of a financial instrument.

##### Credit impaired financial assets

At each reporting date, the Company assesses whether financial assets at amortised cost are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events:

- Significant financial difficulty of the issuer or the borrower;
- A breach of contract, such as a default or past due event;
- The Company has granted to the borrower a concession that it would not otherwise consider;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- The purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event and the combined effect of several events may have caused financial assets to become credit-impaired.

##### Determining significant increases in credit risk

In determining whether an instrument has experienced a significant increase in credit risk, the Company considers reasonable and supportable information available without undue cost or effort. This includes historical experience and forward-looking information.

The Company has adopted the Northern Trust Corporate Credit Policy and Standards for monitoring and managing credit risk. Credit risk arising in the context of the Company's operations is not considered significant.

##### Measuring ECLs

Borrower ratings are a primary input into determining probability of default: PD is based off Moody's historical loss rates segmented by borrower rating, industry segment, and exposure at default ("EAD"). PD is adjusted for the maturity of an instrument if it has low credit risk and a maturity of less than a year. Each financial instrument's ECL is calculated individually (assets are not grouped).

**Notes to the Financial Statements  
For the Year Ended 31 December 2019**
**1. Accounting policies (continued)**
**1.21 Impairment excluding deferred tax assets (continued)**

The key inputs into the measurement of the ECLs are the PD, loss given default ("LGD"), and EAD. PDs are calculated based on statistical models (which incorporate forward-looking information, discussed below). If a counterparty's BR changes, the PD and subsequent calculation of the ECL will also change. LGD is the size of the likely loss in the case of default. LGD is estimated based on historical data from external sources and internal subject matter expertise. LGD varies by the type of exposure, asset class, and geography of a financial instrument. EAD represents the current exposure amount in the case of a default (for financial assets, this is the carrying value of the asset). For off-balance sheet liability exposures, this is the estimated future amounts that may be drawn under the contract.

Subject to using a maximum 12-month PD for financial assets where credit risk has not significantly increased, the Company calculates ECLs considering the risk of default over the maximum contractual period it is exposed to credit risk.

The Company determines an asset is credit impaired when factors described above lead to a lowering of the counterparty's BR to 9 (default levels). These assets are considered credit-impaired and are measured at lifetime ECLs.

The International Credit Reserve Committee ("ICRC"), made up of Credit Risk and Finance, uses data provided quarterly from the Office of the Chief Economist ("OCE") to incorporate forward-looking information in the ECL calculation. The OCE provides a 12-month most likely scenario that incorporates GDP growth, unemployment rates, and housing prices across global regions into the ECL. Also provided is a downturn scenario for the same data points and a profitability assessment for each scenario over the next 12 months. The ICRC adjusts the ECL calculation to incorporate this forward-looking information. There were no changes to estimation techniques or significant assumptions made during the reporting period.

**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 generate 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 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.

**1.23 Termination benefits / provision**

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.

## Northern Trust Management Services Limited


**Notes to the Financial Statements  
For the Year Ended 31 December 2019**
**1. Accounting policies (continued)****1.24 Interest receivable and payable**

Interest income and expense for all interest-bearing financial instruments are recognised in 'Interest receivable and similar income' and 'Interest payable and similar charges' in the Profit and Loss Account using the effective interest rates of the financial assets or financial liabilities to which they relate.

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

**1.25 Dividends**

Equity dividends received are recognised when the right to receive payment is established, which is when the dividends are received or when the dividends are appropriately authorised. Dividends received are classified within 'Income from investment in subsidiary.'

Equity dividends paid are recognised in equity in the period in which they are paid or, if earlier, when approved by the shareholder of the Company.

**1.26 Comparatives**

To the extent necessary, the comparatives have been adjusted to facilitate changes in the presentation of the current year amounts. Comparative periods have not been restated for the adoption of IFRS 16. Differences in the carrying amounts of financial assets and liabilities are recognised in retained earnings and reserves at 1 January 2019. The amount of \$1,049,996 has been recognised in retained earnings on adoption of IFRS 16 Leases.

**2. Turnover**

	2019	2018
	\$000	\$000
Income for services provided to group entities	404,816	410,806

Further details on the transfer pricing allocation are disclosed in note 11 below.

**3. Administrative expenses**

	2019	2018
	\$000	\$000
Staff costs (note 4)	246,413	253,975
Depreciation of tangible fixed assets (note 16)	18,393	9,693
Amortisation of intangible fixed assets (note 15)	153	148
Operating lease charges	104	9,474
Other administrative expenses	93,151	93,649
	358,214	366,939



## Northern Trust Management Services Limited


**Notes to the Financial Statements**  
**For the Year Ended 31 December 2019**
**4. Staff costs**

	2019 \$000	2018 \$000
Wages and salaries	187,678	190,465
Social security costs	24,623	26,904
Share based payments	10,641	11,229
Cost of defined benefit plan (Note 29)	(182)	1,185
Cost of defined contribution plan	14,560	15,082
Other staff costs	9,093	9,110
<b>Total staff costs</b>	<b>246,413</b>	<b>253,975</b>

The average number of persons employed by the Company during the year was 1,403 (2018: 1,443), all of whom support activities of fellow group undertakings.

**5. Other operating income**

	2019 \$000	2018 \$000
Foreign exchange difference gain	1,760	458

**6. Auditor's remuneration**

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

	2019 \$000	2018 \$000
Statutory audit	68	64
Audit related assurance services	-	-
Other assurance services	-	-
Tax advisory services	-	-
<b>Total auditor's remuneration</b>	<b>68</b>	<b>64</b>

The amounts disclosed above are exclusive of VAT.

## Northern Trust Management Services Limited


**Notes to the Financial Statements  
For the Year Ended 31 December 2019**
**7. Directors' remuneration**

Directors' emoluments are allocated based on the apportionment of time incurred by Directors in respect of qualifying services to the Company.

The remuneration of the Directors' was as follows:

	2019 \$000	2018 \$000
Directors' emoluments	42	41
Amount of money receivable by Directors under short-term incentive plan	8	8
Amount of money receivable by Directors under long-term incentive plan	11	10
Company contributions paid to defined contribution pension plan	1	1
	<u>62</u>	<u>60</u>

Short term and long term incentives awarded are delivered in the form non-cash instruments and these restricted stock units are recognised over the period that the restricted stock vests. Certain restricted stock units vested during the current year.

The number of Directors who were members of the Company's defined contribution pension plan during the year was 2 (2018: 2).

None of the Directors were members of the defined benefit plan during the current or prior years.

The Directors did not exercise share options during the year (2018: Nil). The number of Directors in respect of whose services shares were received or repayable under long term incentive schemes during the year was 2 (2018: 2).

No compensation was paid during the year to past or present Directors pertaining to compensation for loss of office.

**8. Income from investment in subsidiary**

	2019 \$000	2018 \$000
Dividends received	-	47,000

The Company did not receive any dividends during the year. During 2018, the Company received a dividend of \$2.21 per share amounting to \$47,000,000 from Northern Trust Global Investments Limited.

**9. Interest receivable and similar income**

	2019 \$000	2018 \$000
Interest receivable and similar income	5,538	7,252

**10. Interest payable and similar charges**

	2019 \$000	2018 \$000
Accretion of dilapidation liability	(116)	(123)
Provision reassessment of dilapidation liability	-	406
Interest on lease liabilities (note 25)	(859)	-
	<u>(976)</u>	<u>283</u>

In 2018, the provision for dilapidation obligation was reassessed and an adjustment was recorded to reflect an updated inflation rate that resulted in a change in the expected future obligation.

## Northern Trust Management Services Limited


**Notes to the Financial Statements**  
**For the Year Ended 31 December 2019**
**11. Transfer pricing**

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

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

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

	2019 \$000	2018 \$000
<b>Profit and loss account</b>		
Amounts transferred to the global transfer pricing pool	(7,356)	(8,340)
Re-imbursement of expenses plus mark-up	412,172	419,146
<b>Transfer pricing allocation for the Company</b>	<b>404,816</b>	<b>410,806</b>

**12. Taxation**

	2019 \$000	2018 \$000
<b>Corporation tax</b>		
Current tax on profits for the year	11,039	11,472
Adjustments in respect of previous periods	(105)	290
Tax withheld overseas	20	21
Foreign exchange	26	-
<b>Total current tax</b>	<b>10,980</b>	<b>11,783</b>
<b>Deferred tax</b>		
Rate change	449	-
Defined benefit pension plan	70	(310)
Post retirement medical benefits	2	4
Fixed assets	(1,893)	(60)
Other timing differences	2,218	(594)
Adjustments in respect of previous periods	51	-
<b>Total deferred tax charge</b>	<b>897</b>	<b>(959)</b>
<b>Total tax charge</b>	<b>11,877</b>	<b>10,823</b>

## Northern Trust Management Services Limited


**Notes to the Financial Statements**  
**For the Year Ended 31 December 2019**
**12. Taxation (continued)****Factors affecting tax charge for the year**

The tax assessed for the year is higher than (2018: lower than) the standard rate of corporation tax in the UK of 19% (2018: 19%). The differences are explained below:

	2019 \$000	2018 \$000
Profit on ordinary activities before tax	52,924	98,859
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2018: 19%)	10,056	18,783
<b>Effects of:</b>		
Permanent differences	(1,381)	(8,024)
Timing differences	42	(101)
Transitional adjustments on adoption of IFRS 16	185	-
Differences in exchange rates	26	(145)
Tax withheld overseas	20	21
Share based payments	2,533	-
Adjustments to the tax charge in respect of previous periods	(54)	289
Impact of change in tax rate	450	-
<b>Total tax charge for the year</b>	<b>11,877</b>	<b>10,823</b>

**Factors that may affect future tax charges**

Deferred tax calculated at 31 December 2019 took into account a reduction in main Corporation Tax rate to 17%. In March 2020, the UK Government announced the main Corporation tax rate will remain at 19% from April 2020. As such, the 19% rate will increase future current tax charges and the net deferred tax asset will need to be re-measured at 19% going forward

**Deferred tax (credited)/charged to other comprehensive income**

Deferred tax on pension benefits charges to other comprehensive income: \$27,650 (2018: \$9,866).

Deferred tax on post retirement medical benefits to other comprehensive income: \$(1,575) (2018: \$5,700).

The Company recognised deferred tax on temporary differences in respect of share based payments. The amount recognised within the 'other timing differences' total of \$1,181,270 (2018: \$(3,437,878)) was limited to the cumulative share based expense recorded in the Profit and Loss account.

## Northern Trust Management Services Limited


**Notes to the Financial Statements**  
**For the Year Ended 31 December 2019**
**13. Deferred tax assets and liabilities**

	Assets		Liabilities		Net	
	2019 \$000	2018 \$000	2019 \$000	2018 \$000	2019 \$000	2018 \$000
<b>Recognised deferred tax assets and liabilities</b>						
Fixed assets	2,404	717	-	-	2,404	717
Other timing differences	1,885	4,498	-	-	1,885	4,498
Defined benefit pension plan	-	-	(1,313)	(1,319)	(1,313)	(1,319)
Post retirement medical benefit	51	54	-	-	51	54
	<u>4,340</u>	<u>5,269</u>	<u>(1,313)</u>	<u>(1,319)</u>	<u>3,027</u>	<u>3,950</u>

	01 January 2019 \$000	Recognised in income \$000	31 December 2019 \$000
<b>Movement in deferred tax during the year</b>			
Fixed assets	717	1,687	2,404
Other timing differences	4,498	(2,613)	1,885
Defined benefit pension plan	(1,319)	7	(1,313)
Post retirement medical benefit	54	(4)	51
	<u>3,950</u>	<u>(923)</u>	<u>3,027</u>

	01 January 2018 \$000	Recognised in income \$000	31 December 2018 \$000
<b>Movement in deferred tax during the prior year</b>			
Fixed assets	658	59	717
Other timing differences	4,312	186	4,498
Defined benefit pension plan	(1,620)	301	(1,319)
Post retirement medical benefit	64	(10)	54
	<u>3,414</u>	<u>536</u>	<u>3,950</u>

**14. Dividends**

	2019 \$000	2018 \$000
Dividends paid	-	200,000
	<u>-</u>	<u>200,000</u>

On 14 December 2018, the Company paid a final dividend of \$5.00 per share amounting to \$200,000,000 to The Northern Trust International Banking Corporation.

## Northern Trust Management Services Limited


**Notes to the Financial Statements  
For the Year Ended 31 December 2019**
**15. Intangible assets**

	<b>Computer software \$000</b>
<b>Cost</b>	
At 1 January 2019	9,289
Additions	392
Disposal	(13)
At 31 December 2019	<u>9,668</u>
<b>Amortisation</b>	
At 1 January 2019	8,717
Charge for the year	153
Disposal	
At 31 December 2019	<u>8,870</u>
<b>Net book value</b>	
At 31 December 2019	<u><u>798</u></u>
At 31 December 2018	<u><u>572</u></u>

Intangible assets comprise of computer software which is amortised on a straight line basis over 7 years. Amortisation is recognised within "Administrative expenses" in the Profit and Loss Account.

## Northern Trust Management Services Limited


**Notes to the Financial Statements  
For the Year Ended 31 December 2019**
**16. Tangible fixed assets**

	Long-term leasehold property \$000	Fixtures and fittings \$000	Office equipment \$000	Other fixed assets \$000	Total \$000
<b>Cost or valuation</b>					
At 1 January 2019	56,396	7,753	50,781	233	115,163
Recognition of right-of-use asset on initial application of IFRS 16*	28,493	-	-	-	28,493
Additions	632	326	7,193	-	8,151
Disposals	-	-	(11)	-	(11)
At 31 December 2019	85,521	8,079	57,963	233	151,796
<b>Depreciation</b>					
At 1 January 2019	46,843	7,267	32,753	-	86,863
Charge for the year	11,312	174	6,907	-	18,393
Disposals	-	-	(7)	-	(7)
At 31 December 2019	58,155	7,441	39,653	-	105,249
<b>Net book value</b>					
At 31 December 2019	27,366	638	18,310	233	46,547
At 31 December 2018	9,553	486	18,027	233	28,299

\*The Company adopted IFRS 16 Leases on 1 January 2019 and recognised "right of use" ("ROU") assets and lease liabilities for its respective finance leases. Included in the current year depreciation charge under 'Long-term leasehold property' is \$8,356,000 relating to depreciation for ROU assets accounted for under IFRS 16 Leases.

**17. Investment in subsidiary**

	2019 \$000	2018 \$000
Cost or valuation	37,180	37,180

The Company owns 100% of the ordinary shares in Northern Trust Global Investments Limited. No commitments, guarantees or contingencies have been undertaken on behalf of the subsidiary.

An impairment assessment was performed for the year ended 31 December 2019 and there was no impairment on the investment during the year.

## Northern Trust Management Services Limited


**Notes to the Financial Statements  
For the Year Ended 31 December 2019**
**18. Deferred costs**

	2019 \$000	2018 \$000
Deferred costs	1,079	1,959

Costs are incurred in obtaining and fulfilling contracts to provide goods and services to customers for both contracts obtained and contracts under negotiation. These costs are typically referred to as implementation or set-up costs. Certain customer implementation costs are capitalized as deferred costs due to appropriateness and are amortised over the life of the contract.

**19. Debtors: Amounts falling due within one year**

	2019 \$000	2018 \$000
Amounts owed by group undertakings	85,944	57,579
Other debtors	601	2,101
Prepayments and accrued income	10,516	11,043
Deferred taxation (note 13)	4,340	5,269
	<u>101,401</u>	<u>75,992</u>

The amounts owed by group undertakings are unsecured, non-interest bearing and repayable on demand.

**20. Cash and cash equivalents**

	2019 \$000	2018 \$000
Cash at bank and in hand	3,501	1,848
Demand deposits held with group undertakings	267,344	266,705
ECL cash and cash equivalents	(8)	(7)
	<u>270,837</u>	<u>268,546</u>

**21. Creditors: Amounts falling due within one year**

	2019 \$000	2018 \$000
Amounts owed to group undertakings	8,728	24,832
Deferred tax	1,313	1,319
Social security	4,476	4,736
Other creditors	6,003	5,538
Accruals and deferred income	45,852	48,842
Lease liability (note 25)	10,115	-
	<u>76,487</u>	<u>85,267</u>

The amounts owed to group undertakings are unsecured, non-interest bearing and payable on demand.



## Northern Trust Management Services Limited


**Notes to the Financial Statements  
For the Year Ended 31 December 2019**
**22. Creditors: Amounts falling due after more than one year**

	2019 \$000	2018 \$000
Deferred income - one to five years	-	2,420
Lease liability (note 25)	14,899	-
	<b>14,899</b>	<b>2,420</b>

Deferred income under creditors: amounts falling due after more than one year disclosed in 2018 represented a rent-free reserve recognized by the Company under the terms of the lease agreement on the leasehold property held at 50 Bank Street, Canary Wharf, London, E14 5NT. The amounts are amortised over the term of the lease.

On 1 January 2019, the Company adopted 'IFRS 16 Leases' and transferred the reserve balance to Long-term leasehold property under Tangible Fixed Assets with the right of use asset.

Deferred income under creditors: amounts falling due after more than one year disclosed in 2019 represents the Company's lease liabilities and obligations following the adoption of 'IFRS 16' on 1 January 2019.

**23. Financial instruments**

	2019 \$000	2018 \$000
<b>Financial assets</b>		
Financial assets measured at amortised cost (note 20)	270,837	268,546
Financial assets that are debt instruments measured at amortised cost (note 19)	109,360	59,680
	<b>380,197</b>	<b>328,226</b>
<b>Financial liabilities</b>		
Financial liabilities measured at amortised cost	(84,522)	(81,632)

**24. Provision for liabilities and charges**

	2019 \$000	2018 \$000
<b>Dilapidations</b>		
1 January	7,558	8,314
Accretion	116	123
Provision reclassification	-	(406)
Foreign currency translation adjustment	307	(473)
<b>31 December</b>	<b>7,981</b>	<b>7,558</b>

The provision for dilapidations represents management's obligation to remove, dismantle and restore certain long term leasehold property. The estimated present value of the obligation at the end of the lease is recognised at lease inception. The amount is booked as an increase to the cost basis of the related assets at the date of asset acquisition. The increased cost basis of the asset is depreciated annually based on the estimated life of the asset. The obligation is increased annually to reflect the passage of time and inflation and the estimate is reassessed regularly and updated for any change in the expected future obligation.

## Northern Trust Management Services Limited


**Notes to the Financial Statements  
For the Year Ended 31 December 2019**
**24. Provision for liabilities and charges (continued)**

	2019 \$000	2018 \$000
<b>Termination benefits</b>		
1 January	2,276	1,247
Provision raised	4,876	8,344
Provision utilised	(4,042)	(7,180)
Foreign currency translation adjustment	169	(135)
<b>31 December</b>	<b>3,279</b>	<b>2,276</b>

Termination benefits are provided for and 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 retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. If benefits are payable more than 12 months after reporting date, then they are discounted to their present value.

	2019 \$000	2018 \$000
<b>Onerous lease</b>		
1 January	1,443	2,607
Provision amortised	-	(1,042)
Provision reclassification	(1,512)	-
Foreign currency translation adjustment	69	(122)
<b>31 December</b>	<b>-</b>	<b>1,443</b>

The provision for onerous lease provides for a portion of certain leasehold property located at 50 Bank Street, Canary Wharf, London, UK, E14 5NT. The onerous lease cost is an unavoidable cost of meeting the obligation under the leasehold contract where the costs exceed the economic benefits expected to be received from it. The future cash outflow for the lease has been discounted and takes into account the lease amounts the Company pays for the building, the miscellaneous costs associated with the lease, marketing costs in order to secure a new tenant, and expected future inflows from subletting.

On adoption of IFRS 16 Leases, the onerous lease provision was transferred to Tangible Fixed Assets under 'Recognition of right-of-use asset on initial application of IFRS 16\*'.

	2019 \$000	2018 \$000
<b>Total provision for liabilities and charges</b>	<b>11,260</b>	<b>11,277</b>

## Northern Trust Management Services Limited


**Notes to the Financial Statements  
For the Year Ended 31 December 2019**
**25. Leases**

On 25 November 2002, the Company entered into a lease agreement for property held at 50 Bank Street, Building HQ-4, Canary Wharf, London, E14 5NT, UK. The lease term per the lease agreement ceases on 31 March 2022.

On 6 February 2009, the Company entered into a lease agreement for property held at Horsecroft Road, Unit 9, Roydonbury Industrial Estate Harlow, CM19 5BZ, UK. The lease term per the lease agreement ceases on 5 February 2029.

On 1 January 2018, the Company entered into an agreement to lease data centre property and services. The Company recognises this lease agreement as a finance lease and accounts for the lease as a right of use asset under Tangible Fixed Assets. The lease term per the lease agreement ceases on 30 November 2021.

On 1 January 2019, the Company adopted 'IFRS 16 Leases' and transferred the provision for onerous leases, relating to certain leasehold property located 50 Bank Street, Building HQ-4, Canary Wharf, London, E14 5NT, UK, to the right of use assets held under Tangible Fixed Assets. The onerous lease cost is an unavoidable cost of meeting the obligation under the leasehold agreement where the costs exceed the economic benefits expected to be received from it.

	<b>2019</b>
	<b>\$000</b>
<b>ROU assets</b>	
Balance as at 1 January (note 1.4)	28,493
Additions during the year (note 16)	185
Depreciation charge for the year (note 16)	(8,356)
<b>Carrying amount of ROU asset as at 31 December</b>	<b>20,323</b>
<b>Maturity analysis of lease liabilities (undiscounted)</b>	
Less than 1 year	10,709
1 to 5 years	13,882
More than 5 years	1,322
<b>Total undiscounted lease liabilities as at 31 December</b>	<b>25,914</b>
<b>Amounts recognised in profit and loss</b>	
Interest on lease liabilities (note 10)	889
Finance income from subleasing ROU assets (note 10)	(31)
Depreciation charge for ROU assets (note 3 and 16)	8,356
Cessation of net investment in sublease	(234)
<b>Total amount recognised in profit and loss as at 31 December</b>	<b>8,980</b>
<b>Lease liabilities included in the statement of financial position at 31 December</b>	
Balance as at 1 January	34,865
Rental payments	(10,709)
Interest on lease liabilities (note 8)	858
<b>Balance as at 31 December</b>	<b>25,014</b>
Current (note 15)	10,115
Non-current (note 16)	14,899

The Company had cash outflows for leases of \$9,590,793 in 2019.

The Company also subleased certain floors of office space, classified as finance leases. On 24 December 2019, the sub-lease agreement, for property located at 50 Bank Street, Canary Wharf, London, E14 5NT, UK was terminated early under agreement between the Company and the Subtenant. An exit penalty of \$850,714 (£642,000) was paid by the Subtenant under the terms of the lease agreement.

## Northern Trust Management Services Limited


**Notes to the Financial Statements**  
**For the Year Ended 31 December 2019**

<b>25. Leases (continued)</b>	<b>2019</b>
	<b>\$000</b>
Balance as at 1 January	1,295
Unearned finance income day 1	(55)
Finance income from subleasing ROU assets	32
Payments	(471)
Cessation of net investment in sublease	(802)

**Net investment in sublease**


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There were no lease receivables or undiscounted lease payments received after the reporting date.

The following table outlines the opening adjustments made upon adoption of IFRS 16:

	<b>1 January 2019</b>
ROU asset	28,493
Prepaid rent	3,586
Onerous lease provision	1,503
Net investment in sublease	1,241
Lease liabilities	(34,865)
FX conversion of lease liability	1,093
<b>Retained Earnings</b>	<b>(1,050)</b>

**26. Share capital**

	<b>2019</b>	<b>2018</b>
	<b>\$000</b>	<b>\$000</b>
<b>Authorised, allotted, called up and fully paid</b>		
40,000,000 ordinary share capital shares of \$1 each	<b>40,000</b>	<b>40,000</b>

The Company is not subject to any external capital requirements. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

**27. Merger Reserve**

The Company acquired Northern Trust Global Investments Limited on 29 December 2006 from Northern Trust International Banking Corporation. The purchase consideration of \$24,680,000 was satisfied by the issue of 14,290,000 ordinary shares of \$1 each, with a share premium of \$10,390,000. The net assets of Northern Trust Global Investments Limited were valued at \$22,993,000 at the date of acquisition. The difference between the purchase consideration and the net assets of Northern Trust Global Investments of \$1,687,000 has been taken to the Merger Reserve.

## Northern Trust Management Services Limited


**Notes to the Financial Statements  
For the Year Ended 31 December 2019**
**28. Share premium**

The difference between the purchase consideration and the net assets of Northern Trust Global Investments Limited of \$1,687,000 has been taken to the Merger Reserve. The difference of \$8,703,000 between the share premium paid of \$10,390,000 and the merger reserve of \$1,687,000 was taken to the share premium account.

**29. Pension commitments**

The Company operates defined benefit pension plan, defined contribution pension arrangements (under the same pension plan) and a post-retirement medical scheme. The Company has accounted for both the defined contribution pension plan and the defined benefit pension plan in accordance with IAS 19 Employee Benefits. There were no charges owing at the end of 2019 in respect of the defined contribution plan (2018: Nil).

The Company previously operated a defined benefit pension arrangement for qualifying employees. A defined benefit arrangement defines the pension benefit that the employee will receive on retirement, usually dependent upon several factors including but not limited to age, length of service and remuneration, providing a benefit as a proportion of final pensionable salary. The defined benefit arrangement was closed to new entrants in 1992. Effective 31 March 2010 it was also closed to future service accrual.

The Plan is established under trust and the Trustee is the Northern Trust Company UK Pension Plan Limited. The Plan assets are held under the trust and are managed by third party investment managers. The Plan is governed by the Trustee who is required to act in accordance with the trust deed and plan rules, within the framework of pension and trust law and act in the best interest of the Plan's beneficiaries. The appointment of trustees to the plan is determined by the plan's trust documentation and the member nominated director requirements.

The defined benefit pension arrangement is valued every three years by a professionally qualified independent actuary, appointed by the Trustee. Under the Pensions Act 2004, every scheme is subject to the "Statutory Funding Objective", which requires that the defined benefit plan have sufficient and appropriate assets to cover its technical provisions. The technical provisions represent the present value of the benefit members are entitled to based on pensionable service to the valuation date. This is assessed using the assumptions agreed between the Trustee and the Company and set out in the statement of funding principles, which is available to Plan members on request.

The latest triennial valuation of the defined benefit arrangement, undertaken as at 1 January 2017 by the Plan Actuary, a professionally qualified independent actuary, revealed that the funding deficit noted in the previous valuation has changed to a surplus and the Company has agreed that no further funding is required. Funding requirements will continue to be assessed, with the next valuation of the defined benefit arrangement being due as at 1 January 2020 and currently in process.

The key risks to which the Company is exposed are falls in long term investment returns used to set the discount rate, falls in equity values and increases in members' life expectancy. The post-retirement medical scheme is a closed scheme.

## Northern Trust Management Services Limited


**Notes to the Financial Statements  
For the Year Ended 31 December 2019**
**29. Pension commitments (continued)**

Reconciliation of present value of pension liabilities:

	2019 \$000	2018 \$000
<b>At the beginning of the year</b>	<b>(43,977)</b>	<b>(47,058)</b>
Interest on obligation	(1,126)	(1,094)
Actuarial (loss) / gain	(4,885)	1,438
Contributions	-	(1,386)
Benefits paid	1,954	1,385
Foreign exchange (loss) / gain	(1,990)	2,738
<b>At the end of the year</b>	<b>(50,024)</b>	<b>(43,977)</b>

An additional liability of \$1,386,000 was included in the Plan's defined benefit obligation as at 31 December 2018 in respect of the estimated impact of equalising benefits due to Guaranteed Minimum Pension (GMP's). This impact was recognised as a past service cost based on market conditions as at 31 December 2018 and was recognised within "Administrative expenses" in the Profit and Loss Account for the year ending 31 December 2018.

Reconciliation of fair value of plan assets:

	2019 \$000	2018 \$000
<b>At the beginning of the year</b>	<b>50,917</b>	<b>55,581</b>
Interest income	1,308	1,295
Actuarial gain / (loss)	5,042	(1,386)
Benefits received	(1,879)	(1,385)
Foreign exchange gain / (loss)	2,208	(3,188)
<b>At the end of the year</b>	<b>57,596</b>	<b>50,917</b>

Composition of plan assets:

	2019 \$000	2018 \$000
Index linked gilts	5,011	4,532
Fixed interest gilts	44,694	39,818
Diversified growth fund	7,833	6,467
Cash	58	101
<b>Total plan assets</b>	<b>57,596</b>	<b>50,918</b>

All of the plan's assets have a quoted market price in an active market. The plan holds no financial instruments issued by the Company (other than incidentally through investment in pooled funds), nor does it hold any property or other assets used by the Company.

## Northern Trust Management Services Limited


**Notes to the Financial Statements  
For the Year Ended 31 December 2019**
**29. Pension commitments (continued)**

	2019 \$000	2018 \$000
Fair value of plan assets	57,596	50,917
Present value of pension liabilities	(50,024)	(43,977)
<b>Net pension plan asset</b>	<b>7,572</b>	<b>6,940</b>

The amounts recognised in profit or loss are as follows:

	2019 \$000	2018 \$000
Interest on obligation	(1,126)	(1,094)
Past service costs - plan amendments	-	(1,386)
Interest income on plan assets	1,308	1,295
<b>Total</b>	<b>182</b>	<b>(1,185)</b>

	2019 \$000	2018 \$000
<b>Analysis of actuarial gain recognised in Other Comprehensive Income</b>		
Actual (loss) / gain on defined benefit plan	(4,885)	1,438
Return on pension plan assets gain / (loss)	5,042	(1,386)
<b>Gain recognised in Other Comprehensive Income</b>	<b>157</b>	<b>52</b>

Principal actuarial assumptions at the Balance Sheet date (expressed as weighted averages):

	2019 %	2018 %
Discount rate at end of year	1.90	2.60
Price inflation	3.20	3.40
Rate of salary increase	2.50	2.40
Rate of increase of pension payments	5.00	5.00
Rate of pension increases in defined benefits	2.50	2.40
Annual increase in healthcare costs	6.70	6.90

## Northern Trust Management Services Limited


**Notes to the Financial Statements  
For the Year Ended 31 December 2019**
**29. Pension commitments (continued)****Sensitivity analysis**

	Rate	Sensitivity Analysis	Effect on Defined Benefit Plan \$000
Discount rate	1.90%	0.1% increase	747
Price inflation (RPI)	3.20%	0.1% increase	105
Pension increases in-payment for service from 1 January 2002	2.50%	0.1% increase	87
Mortality - Long term trend	1.50%	2.0% increase	912

The sensitivities provided are based on the sensitivity of the latest full valuation results to small changes in the assumptions. The sensitivities provided are only appropriate for small changes in the assumptions, and extrapolation of the sensitivity for larger changes is less reliable.

For the RPI price inflation sensitivity, it has been assumed that there would also be a corresponding impact on the CPI price inflation assumption and on the in-payment pension increase assumption for service from 1 January 2002. For the pension increases in-payment sensitivity, it has been assumed that only pension increases in-payment are affected (pension increases for deferred benefits have been assumed to remain at 2.50% per annum per the independent actuarial report).

There have been no changes since the previous period in the methods and assumptions used in preparing the sensitivity analyses above.

**Asset-Liability matching strategies**

The defined benefit section of the Northern Trust (UK) Pension Plan is a funded defined benefit plan which is closed to new members and closed for future accruals. The Plan invests part of its assets in liability matching assets such as government bonds in order to manage its exposure to interest rate and inflation risks and limit its exposure to return seeking assets, with the intention to increase this allocation gradually as the Plan matures. The Plan has not taken any actions to manage its longevity risk at this stage.



## Northern Trust Management Services Limited


**Notes to the Financial Statements  
For the Year Ended 31 December 2019**
**30. Post-retirement medical benefits**

	2019 \$000	2018 \$000
<b>Reconciliation of post retirement medical benefits</b>		
At the beginning of the year	(285)	(338)
Other finance charge	(8)	(8)
Actuarial gain	9	30
Benefits paid	6	13
Foreign exchange (loss) / gain	(11)	17
<b>At the end of the year</b>	<b>(289)</b>	<b>(285)</b>

There are no assets in the post-retirement medical plan, therefore the net deficit of the plan is also the present value of the scheme's liabilities.

	2019 \$000	2018 \$000
<b>Analysis of post retirement medical benefits actuarial gain:</b>		
Experience gains arising on the scheme liabilities	36	21
Changes in assumptions underlying the present value of the scheme liabilities	(27)	9
<b>Actuarial gain recognised in the Statement of Other Comprehensive Income</b>	<b>9</b>	<b>30</b>

**31. Share based payments**

The Company participates in the Northern Trust Corporation 2017 Long-Term Incentive Plan (2017 Plan) which is administered by the Compensation and Benefits Committee ("the Committee") of the Board of Directors of the Group. The 2017 Plan provides for the grant of non-qualified and incentive stock options; tandem and free-standing stock appreciation rights; stock awards in the form of restricted stock, restricted stock units and other stock awards; and performance awards. Beginning with grants made on February 21, 2017 under the Northern Trust Corporation 2012 Stock Plan (2012 Plan), restricted stock unit and performance stock unit grants continue to vest in accordance with the original terms of the award if the applicable employee retires, after satisfying applicable age and service requirements. For all applicable periods, stock option grants continue to vest in accordance with the original terms of the award if the applicable employee retires, after satisfying applicable age and service requirements. Grants are outstanding under the 2017 Plan, the 2012 Plan, and the Amended and Restated Northern Trust Corporation 2002 Stock Plan (2002 Plan). The 2017 Plan was approved by stockholders in April 2017. Upon approval of the 2017 Plan, no additional shares have been or will be granted under the 2012 Plan or 2002 Plan.

The weighted average share price at the grant date of share options exercised during the year was \$66.12 (2018: \$62.23).

The options outstanding at the year end have an exercise price in the range of \$43.65 to \$88.06 and a weighted average contractual life of 4.90 years.

## Notes to the Financial Statements For the Year Ended 31 December 2019

### 32. Risk management

Northern Trust defines risk appetite as the aggregate level and types of risk the Board of Directors and senior management are willing to assume to achieve the Corporation's strategic objectives and business plan, consistent with prudent management of risk and applicable capital, liquidity, and other regulatory requirements. It includes consideration of the likelihood and impact of risks, using both monetary loss and non-financial threshold and guideline levels that are used as triggers for escalation to senior management, appropriate risk committees and the Board of Directors or committees thereof, as appropriate.

The Corporate Risk Appetite Statement reflects the Corporation's willingness to take risk and includes tolerance of certain levels of risk exposures as measured at the enterprise level, as well as business and regional levels, as applicable. The Corporate Risk Appetite Statement is established by senior management and reviewed and approved by the Board of Directors. The Corporate Risk Appetite Statement reflects the Corporation's expectation that risk is consciously considered as part of day-to-day activities and strategic decisions. The Corporation manages its business activities consistent with the Corporate Risk Appetite Statement, in which specific guidelines are detailed for credit, operational, fiduciary, compliance, market and liquidity, and strategic risks. 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

Risk management is the responsibility of the Company's Board. The Board 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 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. The Company aims to achieve an appropriate balance between risk and return and to minimise potential adverse effects on the Company's financial performance.

#### Credit risk

Credit risk is the risk to interest income or principal from the failure of a borrower or counterparty to perform an obligation. Company policies are aimed at minimising the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation. The principal credit risk is lost principal and interest on deposit balances. Management of credit risk

The Company has adopted the Northern Trust Corporate Credit Policy and Standards for monitoring and managing credit risk. Credit risk arising in the context of the Company's operations is not considered significant.

#### Liquidity risk

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

#### Management of liquidity risk

The Company operates within the Northern Trust liquidity management framework. Liquidity risk at Northern Trust is ultimately governed by the Asset and Liability Management Committee (ALCO) from a first line of defence perspective and the Market and Liquidity Risk Committee (MLRC) from a second line of defence perspective. At 31 December 2019 the Company's only significant liabilities were accrued expenses and balances due to group companies, which were due within one year. The Company has sufficient cash reserves as at the Balance Sheet date available to discharge all liabilities as they fall due.

#### Market risk

There are two types of market risk. Interest rate risk is defined as the potential for movements in interest rates to cause changes in earnings and the economic value of equity for the Company. Trading risk is defined as the potential for movements in market variables such as foreign exchange and interest rates to cause changes in the value of trading positions. Both are managed at the corporate level by ALCO from a first line of defence perspective and MLRC from a second line of defence perspective.

The Company does not engage in investment trading activities thus the directors are satisfied that the company is not subject to material market risk.

## Northern Trust Management Services Limited


**Notes to the Financial Statements  
For the Year Ended 31 December 2019**
**32. Risk management (continued)**
**Currency risk**

From the Company's perspective, trading risk arises predominantly through currency risk. Currency risk is the risk of financial volatility arising from currency movements, to which the Company is exposed through failure to convert current or historic profits to functional currency. The Company's primary currency exposure relates to expenses in Sterling. The Company's exposure to foreign currencies is reviewed on a monthly basis, and foreign exchange spot trades transacted to close exposures when currency levels become significant.

At 31 December 2019, the Company did not have any material exposure to exchange rate fluctuations impacting on Profit before Tax.

**Operational risk (unaudited)**

Northern Trust defines operational risk as the risk of loss from inadequate or failed internal processes, human factors and systems or from external events. The objective is to manage operational risk so as to balance the avoidance of financial losses and reputational damage with overall cost effectiveness.

**Management of operational risk**

The Company's operational risk framework is subject to documented procedural policies, with senior management within the Group being responsible for the implementation and maintenance of these policies. The Directors regularly review the risks which are faced by the Company. The risk management processes and procedures are subject to periodic review by the Group's Internal Audit function.

In response to the COVID-19 pandemic, the Northern Trust Group has formally activated the Enterprise Pandemic Phase of its Business Resiliency Plan to manage its operation in support of its clients. The service has been designed to be fault tolerant, minimising the potential for any single points of failure. To achieve this, the Group is utilising its dedicated Business Resiliency Centers, optimising work-from-home arrangements and will invoke transfer-of-work capabilities as required to complete processes across multiple offices, countries and regions.

The Company also recognises the risks around Brexit through these risk types, and as disclosed in the Strategic Report relating to Brexit.

**33. Contingent liabilities / capital commitments**

The Company had no contingent liabilities/capital commitments at 31 December 2019 and 31 December 2018.

**34. 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 judgement (apart from those involving estimates) has 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 11.

**Notes to the Financial Statements  
For the Year Ended 31 December 2019**
**35. Post balance sheet events**

The COVID-19 (Coronavirus) pandemic that arose in the first quarter of 2020 has caused major disruption to the global economy and social fabric of many countries. The Company and the Northern Trust Group are closely monitoring our business practices, taking into account guidance from the Centers for the Disease Control and Prevention ("CDC") and World Health Organization ("WHO"), regulators, governments and local public health departments. The Company has participated in Group measures to implement risk mitigation strategies including alternate work schedules and work-from-home ("WFH") arrangements. A number of internal programs have been implemented to ensure that the Company can continue to provide the level of service expected while also providing the necessary support for employees during this pandemic. In addition, operations and client service teams are working hand in hand with Information Technology, Legal, and Risk and Control teams to adapt to the evolving local developments.

The Northern Trust Group formally activated the Enterprise Pandemic Phase of our Business Resiliency Plan on 11 March 2020, ahead of the WHO announcement. The Group has stress tested its BCP plans to include extended WFH, implemented social distancing arrangements, adapted and refined our established and tested transfer-of-work protocols, and cancelled in-person meetings and events. The Company maintains business resiliency plans to manage its operations in support of its clients. Its service has been designed to be fault tolerant, aiming to minimise the potential for any single points of failure. To achieve this, the Group is utilising its dedicated Business Resiliency Centers, applying work-from-home arrangements and will invoke transfer-of-work capabilities as required to complete processes across multiple offices, countries and regions.

The financial position has been assessed as at 31 December 2019 with no significant consequential change found in any carrying value and no material change in the outlook. Therefore the Directors have agreed to adopt the going concern basis of accounting in preparing the annual financial statements.

On 28 February 2020, a new lease agreement was signed and executed on the property located at 50 Bank Street, Canary Wharf, London, UK, E14 5NT. The new lease agreement has a lease term of 15 years and replaced an existing lease agreement with the Landlord that was due to cease on 31 March 2022. Due to a beneficial change in certain conditions in the new lease agreement, a dilapidation provision that was recognized under certain conditions stipulated in the original lease agreement was derecognised on commencement of the new lease agreement. This dilapidation provision was reported at \$7,298,070 (£5,712,104) on 28 February 2020.

Deferred tax calculated at 31 December 2019 within these financial statement takes into account a reduction in main Corporation Tax rate to 17%. In March 2020, the UK Government announced the main Corporation tax rate will remain at 19% from April 2020. If so, the 19% rate will increase future current tax charges and the net deferred tax asset would then need to be re-measured at 19% going forward.

There have been no other significant events affecting the Company since the year end other those disclosed above and in the strategic report.

**36. Holding Company**

The Company is a subsidiary undertaking of The Northern Trust International Banking Corporation, incorporated in the United States of America.

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.