NORTHERN
TRUST

Northern Trust Management Services Limited

Directors' Report and Financial Statements

For the Year Ended 31 December 2017

Registered number: 4794949

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 auditors	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 2017

In accordance with Section 414A(1) of the Companies Act 2006, we have prepared the Strategic report which includes a review of Northern Trust 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 and continues to support the growth and development of the core activities undertaken by the subsidiary and its branches.

The Company's key performance indicator is its expense base.

	2017	2016
	$000	$000
Turnover	**390,699**	373,099
Operating profit	**45,905**	49,501
Profit for the financial year	**38,900**	41,008
Shareholder's funds	**432,554**	392,537
Current assets as a % of current liabilities ("quick ratio")	**496%**	461%
Average number of employees	**1,529**	1,532

The Company's turnover for the year was $390,699,000 (2016: $373,099,000) which represented a 4.7% increase from 2016. 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 2017 amounted to $432,554,000 (2016: $392,537,000).

The Company's strategy is to continue to provide management services to fellow Group undertakings. 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 principle risks and uncertainties continue to come from the complex regulatory environment as it impacts Northern Trust Companies which Northern Trust Management Services Limited supports.

In June 2016, the United Kingdom held a referendum and voters approved a departure from the European Union, commonly referred to as "Brexit." In March 2017, the United Kingdom delivered a formal notice of withdrawal to the European Union. The terms of the withdrawal are subject to a negotiation period expected to last at least two years from the withdrawal notification date and it is anticipated that this negotiation period will be followed by additional negotiations between the European Union and the United Kingdom concerning future relations between the parties. 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 United Kingdom and other nations. The political and economic uncertainties arising from the United Kingdom's decision to exit from the European Union continue to be closely monitored by the Company.

This report was approved by the Board and signed on its behalf.

Mr. J. Davie
Director

Date: 31 May 2018

Directors' Report
For the Year Ended 31 December 2017

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

Results and dividends

The financial statements for the year ended 31 December 2017 are set out on pages 8 to 32. The profit for the year after taxation was $38,900,000 (2016: $41,008,000). The Company's shareholder's funds at 31 December 2017 amounted to $432,554,000 (2016: $392,537,000).

No dividend was declared or paid during the year by the Company (2016: Nil) and the Directors do not recommend payment of a dividend.

Directors

The Directors who served during the year were:

Mr. J. Davie
Mr. M. Lacey

Political and charitable contributions

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

The Company made charitable donations during the year of $69,600 (2016: $115,886).

Principal risks and uncertainties

The Company's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking 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 26).

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.

Financial resources and going concern

The Company has made a profit for 2017 and due to the transfer pricing methodology is projected to continue to generate positive cash flows. As transfer pricing applies an arm's length mark-up to the Company's reimbursed expenses, the turnover of the Company will increase and decrease in line with expenses.

The Company participates in Northern Trust's centralised treasury arrangements and so shares banking arrangements with its parent and fellow subsidiaries. The Directors, having assessed the responses of the Directors of the Northern Trust Corporation, to their enquiries have no reason to believe that a material uncertainty exists that may cause significant doubt about the ability of the Company to continue as a going concern or its ability to continue with the current banking arrangements.

On the basis of their assessment of the Company's financial position and 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 United Kingdom'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
For the Year Ended 31 December 2017

Disabled employees

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 auditors

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 auditors are 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 auditors are aware of that information.

Post balance sheet events

There have been no significant events affecting the Company since the year end.

Auditors

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 and signed on its behalf.

Mr. J. Davie

Director

Date: 31 May 2018

Company Registered Number: 4794949

Directors' Responsibilities Statement
For the Year Ended 31 December 2017

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 which disclose with reasonable accuracy at any time the assets, liabilities, financial position and profit or loss of the Company and enable them to ensure that the financial statements comply with the Companies 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. The Directors are also responsible for preparing a Directors' report that complies with the requirements of the Companies Act 2006.

KPMG

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Audit
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Independent Auditor's Report to the members of Northern Trust Management Services Limited

1 Report on the audit of the financial statements

Opinion

We have audited the financial statements of Northern Trust Management Services Limited ('the Company') for the year ended 31 December 2017 set out on pages 8 to 32, which comprise the Profit and Loss Account, Statement of Other Comprehensive Income, Balance Sheet and 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 2017 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

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

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 Strategic and Directors' Report other than the financial statements and our auditor's report thereon. 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.

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

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;
- 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 on these matters/in regard to these matters.

2 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 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for 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 the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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.

KPMG

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

A fuller description of our responsibilities is provided on the FRC's website at 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.

31 May 2018

Frank Gannon

Frank Gannon (Senior Statutory Auditor)
for and on behalf of
***KPMG* Statutory Auditor**
1 Harbourmaster Place
IFSC
Dublin 1
Ireland.

Profit and Loss Account
For the Year Ended 31 December 2017

	Note	2017 $000	2016 $000
Turnover	2	**390,699**	373,099
Gross profit		**390,699**	373,099
Administrative expenses	3	**(345,794)**	(323,118)
Other operating income / (expenses)	9	**1,000**	(480)
Operating profit		**45,905**	49,501
Interest receivable and similar income	7	**3,737**	1,092
Interest payable and similar charges	8	**(123)**	(150)
Profit before tax		**49,519**	50,443
Tax on profit	11	**(10,619)**	(9,435)
Profit for the financial year		**38,900**	41,008

Statement of Other Comprehensive Income
For the Year Ended 31 December 2017

	Note	2017 $000	2016 $000
Profit for the financial year		**38,900**	41,008
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Actuarial gain on defined benefit plan	23	**1,732**	605
Actuarial gain / (loss) on post retirement medical scheme	24	**69**	(85)
Deferred tax relating to pension plan and medical scheme	11	**(342)**	(99)
Total other comprehensive income		**1,459**	421
Total comprehensive income for the year		**40,359**	41,429

The notes on pages 11 to 32 form part of these financial statements.

Balance Sheet
As at 31 December 2017

	Note	2017 $000	2016 $000
Fixed assets			
Intangible assets	13	**362**	340
Tangible fixed assets	14	**31,021**	32,232
Investments in subsidiaries	15	**37,180**	37,180
Deferred costs	16	**4,244**	5,673
		72,807	75,425
Current assets			
Debtors: Amounts falling due within one year	17	**50,386**	41,024
Cash and cash equivalents	18	**409,896**	373,468
		460,282	414,492
Creditors: amounts falling due within one year	19	**(92,838)**	(89,922)
Net current assets		**367,444**	324,570
Total assets less current liabilities		**440,251**	399,995
Creditors: amounts falling due after more than one year	20	**(3,714)**	(4,438)
Provision for liabilities and charges	21	**(12,168)**	(8,632)
Net assets excluding pension asset		**424,369**	386,925
Pension asset	23	**8,523**	5,987
Post retirement medical scheme	24	**(338)**	(375)
Net assets		**432,554**	392,537
Capital and reserves			
Called up share capital	22	**40,000**	40,000
Share premium account	33	**8,703**	8,703
Merger reserve	32	**1,687**	1,687
Profit and loss account		**382,164**	342,147
Shareholder's funds		**432,554**	392,537

The notes on pages 11 to 32 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 31 May 2018.

Mr. J. Davie
Director

Company Registration Number: 4794949

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

	Called up share capital $000	Share premium account $000	Merger reserve $000	Profit and loss account $000	Total equity $000
At 1 January 2017	40,000	8,703	1,687	342,147	392,537
Comprehensive income for the year					
Profit for the year	-	-	-	38,900	38,900
Actuarial gain on pension plan and medical scheme	-	-	-	1,801	1,801
Deferred tax relating to pension plan and medical scheme	-	-	-	(342)	(342)
Other comprehensive income for the year	-	-	-	1,459	1,459
Total comprehensive income for the year	-	-	-	40,359	40,359
Deferred tax relating to share based payments	-	-	-	(342)	(342)
At 31 December 2017	40,000	8,703	1,687	382,164	432,554

	Called up share capital $000	Share premium account $000	Merger reserve $000	Profit and loss account $000	Total equity $000
At 1 January 2016	40,000	8,703	1,687	299,967	350,357
Comprehensive income for the year					
Profit for the year	-	-	-	41,008	41,008
Actuarial gain on pension plan and medical scheme	-	-	-	520	520
Deferred tax related to pension plan and medical scheme	-	-	-	(99)	(99)
Other comprehensive income for the year	-	-	-	421	421
Total comprehensive income for the year	-	-	-	41,429	41,429
Deferred tax related to share based payments	-	-	-	751	751
At 31 December 2016	40,000	8,703	1,687	342,147	392,537

The notes on pages 11 to 32 form part of these financial statements.

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

1. Accounting policies

1.1 Basis of preparation of financial statements

Northern Trust 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 31).

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 2017, 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; and
- the requirements of paragraphs 134(d) to 134(f) and 135(c) to 135(e) of IAS 36 Impairment of Assets.

1.3 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 price allocation process with operating expenses being reimbursed plus an arm's length mark-up.

1.4 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.

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

1. Accounting policies (continued)

1.4. Foreign currency translation

Transactions and balances

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/(expenses)'.

1.5 Measurement convention

The financial statements are prepared on the historical cost basis except that derivative financial instruments are stated at fair value.

1.6 Future accounting developments

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

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

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

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

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

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

1.7 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.

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

1. Accounting policies (continued)

1.8 *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.

1.9 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.

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

The estimated useful lives range as follows:

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/(expenses)' in the Profit and Loss Account.

1.10 Operating leases

Payments and income (excluding costs for services and insurance) made under operating leases are recognised in the Profit and Loss Account on a straight line basis over the term of the lease. Lease incentives received or granted are recognised in the Profit and Loss Account as an integral part of the total lease expense or lease income over the term of the lease.

1.11 Investment in subsidiary

Investments in subsidiaries are measured at cost less 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 asset investment is the lower of its cost or recoverable amount. Recoverable amount is the higher of its net realisable value and value in use.

1.12 Debtors

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

1.13 Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

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

1. Accounting policies (continued)

1.14 Creditors

Creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers.

Creditors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

1.15 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.

1.16 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.

1.17 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 is 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 profit or loss as an 'administrative expense'.

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

1. Accounting policies (continued)

1.18 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.

1.19 Termination benefits

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

1.20 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.

1.21 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.

1.22 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.

1.23 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 that 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.

1.24 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.

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

1. Accounting policies (continued)

1.25 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.

1.26 Comparatives

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

2. Turnover

	2017 $000	2016 $000
Income for services provided to group entities	**390,699**	373,099

Further details on the transfer pricing allocation are disclosed in note 10.

3. Administrative expenses

	2017 $000	2016 $000
Staff costs (note 4)	**243,304**	228,116
Operating lease charges - property	**9,248**	9,422
Amortisation of intangible fixed assets (note 13)	**132**	327
Depreciation of tangible fixed assets (note 14)	**9,480**	8,805
Other administrative expenses	**83,630**	76,448
Total administrative expenses	**345,794**	323,118

4. Staff Costs

	2017 $000	2016 $000
Wages and salaries	**181,549**	170,767
Social security costs	**24,916**	22,309
Share based payments	**10,993**	7,966
Cost of defined benefit plan	**(164)**	(216)
Cost of defined contribution plan	**14,964**	14,380
Other staff costs	**11,046**	12,910
Total staff costs	**243,304**	228,116

The average number of persons employed by the Company during the year was 1,529 (2016: 1,532), all of whom support activities of fellow group undertakings.

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

5. Directors' remuneration

Director's emoluments are allocated based on the apportionment of time incurred by Directors for services to the Company.

	2017 $000	2016 $000
Directors' emoluments	39	41
Amount of money receivable by Directors under short term incentives	7	7
Amount of money receivable by Directors under long term incentives	10	8
Company contributions paid to defined contribution plan	1	2
	57	58

The number of Directors who were members of the Company defined contribution pension plan during the year was 2 (2016: 3) . None of the Directors were members of the defined benefit plan during the current or previous years.

Short term incentives awarded are delivered in the form of both cash based incentives and non-cash instruments.

For long term incentive awards in respect of the year 2017 and onwards, awards are delivered in the form of non-cash instruments only and these restricted stock units are recognised over the period that the restricted stock vests. Certain restricted stock units vested during the current year.

For long term incentive awards in respect of the 2016 year, awards were delivered in the form of both deferred cash and non-cash instruments. Deferred cash compensation expense is typically amortised over 3 years from the original grant date. Non-cash instruments in the form of restricted units are recognised over the period that the restricted stock vests. Certain restricted stock units vested during the 2016 year.

The Directors did not exercise share options during the year (2016: 0). The number of Directors in respect of whose services shares were received or repayable under long term incentive schemes during the year was 2 (2016: 2).

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

6. Auditors' 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.

	2017 $000	2016 $000
Statutory audit	64	64
Audit related assurance services	-	-
Other assurance services	-	-
Total auditor's remuneration	64	64

7. Interest receivable and similar income

	2017 $000	2016 $000
Interest receivable and similar income from group undertakings	3,737	1,092
	3,737	1,092

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

8. Interest payable and similar charges

	2017 $000	2016 $000
Accretion of dilapidation liability (note 21)	(123)	(150)
	(123)	(150)

9. Other operating income / (expenses)

	2017 $000	2016 $000
Foreign exchange difference - gain / (loss)	1,000	(314)
Loss on the disposal of fixed assets	-	(166)
	1,000	(480)

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

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

	2017 $000	2016 $000
Profit and loss account		
Amounts transferred to the global transfer pricing pool	(4,743)	(1,244)
Re-imbursement of expenses, plus mark-up	395,442	374,343
Transfer pricing allocation for the Company (note 2)	390,699	373,099

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

11. Taxation

	2017 $000	2016 $000
Corporation tax		
Current tax on profits for the year	**10,289**	10,624
Adjustments in respect of prior periods	**101**	(290)
Tax withheld overseas	**15**	28
Interest on overpaid corporation tax	**-**	-
Total current tax	**10,405**	10,362
Deferred tax		
Pension benefits	**152**	(134)
Post retirement medical benefits	**(6)**	17
Fixed assets	**(148)**	(476)
Other timing differences	**216**	(334)
Total deferred tax	**214**	(927)
Total tax charge	**10,619**	9,435

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

	2017 $000	2016 $000
Profit on ordinary activities before tax	**49,519**	50,443
Profit on ordinary activities multiplied by the standard rate of corporation tax of 19.25% (2016 : 20%)	**9,532**	10,088
Effects of:		
Permanent differences	**932**	454
Deferred tax movements	**39**	(981)
Impact of rate change relating to deferred tax movements only	**-**	136
Tax witheld overseas	**15**	28
Adjustment to the tax charge in respect of previous periods	**101**	(290)
Interest on overpaid corporation tax	**-**	-
Total tax charge for the year	**10,619**	9,435

Factors that may affect future tax charges

Deferred tax has been recognised at 19% which was the rate substantively enacted as at 31 December 2017. The corporation tax rate will reduce to 17% from 1 April 2020, which was enacted on 15 September 2016. The Company's future current tax rate is therefore anticipated to reduce further.

11. Taxation (continued)

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

	2017 $000	2016 $000
Pension benefits	329	115
Post retirement medical benefits	13	(16)
Total deferred tax recognised in the statement of other comprehensive income	**342**	**99**

The Company recognised deferred tax on temporary differences in respect of share based payments. The amount recognised within the 'other timing differences' total of $216,000 (2016: $334,000) was limited to the cumulative share based expense recorded in the Profit and Loss account.

The excess deferred tax of $342,000 (2016: $751,000) was recognised within retained earnings (please refer to the Statement of Changes in Equity for the year ended 31 December 2017). The approach taken by the Company is in accordance with FRS 101.

12. Deferred tax assets and liabilities

	Assets		Liabilities		Net	
	2017	2016	2017	2016	2017	2016
Recognised deferred tax assets and liabilities	$000	$000	$000	$000	$000	$000
Fixed assets	658	509	-	-	658	509
Other timing differences	4,312	4,871	-	-	4,312	4,871
Defined benefit pension plan	-	-	(1,620)	(1,138)	(1,620)	(1,138)
Post retirement medical benefit	64	71	-	-	64	71
	5,034	5,451	(1,620)	(1,138)	3,414	4,313

	1 Jan 2017 $000	Recognised in income $000	31 Dec 2017 $000
Movement in deferred tax during the year			
Fixed assets	509	149	658
Other timing differences	4,871	(559)	4,312
Defined benefit pension plan	(1,138)	(482)	(1,620)
Post retirement medical benefit	71	(7)	64
	4,313	(899)	3,414

	1 Jan 2016 $000	Recognised in income $000	31 Dec 2016 $000
Movement in deferred tax during the prior year			
Fixed assets	33	476	509
Other timing differences	3,786	1,085	4,871
Defined benefit pension plan	(1,157)	19	(1,138)
Post retirement medical benefit	72	(1)	71
	2,734	1,579	4,313

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

13. Intangible assets

	Computer Software $000
Cost	
At 1 January 2017	9,059
Additions - internal	154
At 31 December 2017	9,213
Amortisation	
At 1 January 2017	8,719
Charge for the year	132
At 31 December 2017	8,851
Net book value	
At 31 December 2017	362
At 31 December 2016	340

Intangible assets comprise of computer software which is amortised on a straight line basis over 7 years.

14. Tangible fixed assets

	Long-term leasehold property $000	Fixtures and fittings $000	Office equipment $000	Other fixed assets $000	Total $000
Cost or valuation					
At 1 January 2017	54,109	7,960	40,500	236	102,805
Additions	1,707	62	6,500	-	8,269
At 31 December 2017	55,816	8,022	47,000	236	111,074
Depreciation					
At 1 January 2017	40,432	7,169	22,972	-	70,573
Charge for the period	3,376	224	5,880	-	9,480
At 31 December 2017	43,808	7,393	28,852	-	80,053
Net book value					
At 31 December 2017	12,008	629	18,148	236	31,021
At 31 December 2016	13,677	791	17,528	236	32,232

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

15. Investment in subsidiaries

Name:	*Address of Incorporation*	*Principal Activity:*
Northern Trust Global Investments Limited	50 Bank Street, Canary Wharf London, E14 5NT	Investment Management Solutions

	2017 $000	2016 $000
Investment in subsidiary undertaking: 21.275 million ordinary shares of $1.00 each	**37,180**	37,180
	37,180	37,180

The Company owns 100% of the ordinary shares in Northern Trust Global Investments. No commitments, guarantees or contingencies have been undertaken on behalf of the subsidiary and there is no intention to provide such support as at the year end.

16. Deferred costs

	2017 $000	2016 $000
Deferred costs	**4,244**	5,673
	4,244	5,673

The deferred costs represents the future value of leasehold dilapidation costs capitalized on the commencement of the lease obligation and amortised over the lease term. The leasehold property is located at 50 Bank Street, Canary Wharf, London, E14 5NT.

17. Debtors

	2017 $000	2016 $000
Amounts owed by group undertakings	**33,265**	29,143
Other debtors	**1,091**	652
Prepayments and accrued income	**10,996**	5,778
Deferred taxation (note 12)	**5,034**	5,451
	50,386	41,024

18. Cash and cash equivalents

	2017 $000	2016 $000
Cash at bank and in hand	**4,602**	4,926
Demand deposits held with group undertakings	**405,294**	368,542
	409,896	373,468

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

19. Creditors: Amounts falling due within one year

	2017 $000	2016 $000
Bank overdrafts	-	138
Amounts owed to group undertakings	**36,914**	38,883
Social security	**4,376**	3,355
Other creditors	**5,673**	6,782
Accruals and deferred income	**44,255**	39,626
Deferred tax (note 12)	**1,620**	1,138
	92,838	89,922

20. Creditors: Amounts falling due after more than one year

	2017 $000	2016 $000
Deferred income - one to five years	**3,714**	4,180
- greater than five years	-	258
	3,714	4,438

Deferred income under creditors: amounts falling due after more than one year represents the Company's obligation for the full term of the lease per agreement on the leasehold property at 50 Bank Street, Canary Wharf, London, E14 5NT. The amounts are being recognised over the lease term.

21. Provision for liabilities and charges

	2017 $000	2016 $000
Dilapidations		
1 January	**7,478**	8,750
Accretion (note 8)	**123**	150
Foreign currency translation adjustment	**713**	(1,422)
31 December	**8,314**	7,478

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.

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

21. Provision for liabilities and charges (continued)

	2017 $000	2016 $000
Termination benefits		
1 January	**598**	190
Provision raised	**1,557**	3,714
Provision utilised	**(978)**	(3,122)
Foreign currency translation adjustment	**70**	(184)
31 December	**1,247**	598

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.

	2017 $000	2016 $000
Onerous lease		
1 January	**556**	3,967
Provision amortised	**(68)**	(108)
Provision increased/(reversed)	**2,037**	(3,085)
Foreign currency translation adjustment	**82**	(218)
31 December	**2,607**	556

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.

In November 2017, the onerous lease provision was increased by $2 million when Northern Trust vacated space on the 4th floor, located at 50 Bank Street, Canary Wharf, London, United Kingdom, E14 5NT.

Provision for liabilities and charges	**12,168**	8,632

22. Share capital

	2017 $000	2016 $000
Authorised, allotted, called up and fully paid		
40,000,000 ordinary shares of $1 each	**40,000**	40,000

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. There are no restrictions on the repayment of capital.

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

23. Pension commitments

The Company operates a defined benefit pension, a defined contribution pension arrangement (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 the 2017 in respect of the defined contribution plan (2016: 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 pension plan assets are held in a separate trust and are managed by third party investment managers ("the Trustee"). The Plan is established under trust and the Trustee is the Northern Trust Company UK Pension Plan Limited. 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 ever 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 has 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.

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 closed to new members.

Reconciliation of present value of plan liabilities:

	2017 **$000**	2016 $000
At the beginning of the year	**(43,823)**	(47,247)
Interest on obligation	**(1,156)**	(1,618)
Actuarial loss	**(1,354)**	(8,541)
Benefits paid	**3,382**	5,593
Foreign exchange (loss)/gain	**(4,107)**	7,990
At the end of the year	**(47,058)**	(43,823)

The weighted average duration of the liabilities of the scheme was 17 years at 31 December 2017.

	2017 **$000**	2016 $000
Reconciliation of present value of plan assets:		
At the beginning of the year	**49,810**	53,031
Interest income	**1,320**	1,834
Actuarial gain	**3,086**	9,146
Contributions	**-**	383
Benefits paid	**(3,382)**	(5,593)
Foreign exchange gain/(loss)	**4,747**	(8,991)
At the end of the year	**55,581**	49,810

23. Pension commitments (continued)

Composition of plan assets:

	2017 $000	2016 $000
Equity securities	17,008	16,587
Corporate bonds	-	2,392
Indexed linked gilts	7,614	6,475
Fixed interest gilts	30,792	24,306
Cash	167	50
Total plan assets	55,581	49,810

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.

	2017 $000	2016 $000
Fair value of plan assets		
Fair value of plan assets	55,581	49,810
Present value of plan liabilities	(47,058)	(43,823)
Net pension plan asset	8,523	5,987

The amounts recognised in profit or loss are as follows:

	2017 $000	2016 $000
Interest on obligation	(1,156)	(1,618)
Interest income on plan assets	1,320	1,834
Total	164	216

Reconciliation of fair value of plan liabilities were as follows:

	2017 $000	2016 $000
Opening defined benefit obligation	(43,823)	(47,247)
Interest on obligation	(1,156)	(1,618)
Actuarial loss - experience	(1,933)	(141)
Actuarial gain - demographic assumption	1,695	-
Actuarial loss - financial assumptions	(1,116)	(8,400)
Foreign exchange (loss)/gain	(4,107)	7,990
Benefits paid	3,382	5,593
Closing defined benefit obligation	(47,058)	(43,823)

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

23. Pension commitments (continued)

Reconciliation of fair value of plan assets were as follows:

	2017 $000	2016 $000
Opening fair value of plan assets	49,810	53,031
Interest income on plan assets	1,320	1,834
Actuarial gains	3,086	9,146
Contributions by employer	-	383
Foreign exchange gain/(loss)	4,747	(8,991)
Benefits paid	(3,382)	(5,593)
Closing fair value of plan assets	**55,581**	49,810

The Company expects to contribute $Nil to its defined benefit pension plan in 2018.

	2017 $000	2016 $000
Analysis of gain recognised in the Statement of Other Comprehensive Income		
Actuarial loss on defined benefit plan	(1,354)	(8,541)
Return on pension plan assets gains	3,086	9,146
Gain recognised in the Statement of Other Comprehensive Income	**1,732**	605

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

	2017 %	2016 %
Discount rate at end of year	2.40	2.60
Price inflation	3.40	3.50
Rate of salary increase	2.40	2.50
Rate of increase of pension payments	5.00	5.00
Rate of pension increases for deferred benefits	2.40	2.50
Annual increase in healthcare costs	7.00	7.00

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

23. Pension commitments (continued)

Sensitivity analysis

	Rate	Sensitivity Analysis	Effect on Defined Benefit Plan $000
Discount Rate	2.40%	0.1% increase	703
Price inflation (RPI)	3.40%	0.1% increase	104
Pension increases in-payment for service from 1 January 2002	2.40%	0.1% increase	65
Mortality - Long term trend	1.50%	2.0% increase	820

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 2.40% per annum per the independent actuary 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.

24. Post retirement medical benefits

	2017 $000	2016 $000
Reconciliation of present value of plan liabilities		
At the beginning of the year	(375)	(358)
Other finance charge	(10)	(12)
Actuarial gain/(loss)	69	(85)
Benefits paid	13	15
Foreign exchange (loss)/gain	(35)	65
At the end of the year	(338)	(375)

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.

	2017 $000	2016 $000
Analysis of post retirement medical benefit actuarial gains/(losses):		
Experience gains arising on the scheme liabilities	29	16
Changes in assumptions underlying the present value of the scheme liabilities	40	(101)
Actuarial gain/(loss) recognised in the Statement of Other Comprehensive Income	69	(85)

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

25. 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 USD 59.45 (2016: USD 56.26).

The options outstanding at the year end have an exercise price in the range of USD 43.65 to USD 88.06 and a weighted average contractual life of 5.46 years.

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

26. Risk management

At the Corporate level, Northern Trust defines risk appetite as the amount and types of risk that it is willing to assume in its exposures and business activities to achieve its strategic and financial objectives. Risk appetite is a methodology to measure Northern Trust's willingness to take risk and reflects Northern Trust's tolerance of certain levels of risk exposures as measured at the enterprise and business level, as applicable. Northern Trust's Corporate Risk Appetite Statement reflects expectation that risk is consciously considered as part of day-to-day activities and strategic decisions. Northern Trust manages its business activities consistent with the risk appetite statement, in which specific guidelines are detailed for credit, operational, fiduciary, compliance, market, liquidity, and strategic risk.

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

Both the Directors and the parent regularly review the credit risk within the Company's balance sheet and agree appropriate action if such credit risk exceed acceptable levels. 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. At 31 December 2017 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. 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.

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

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

26. 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 2017 the Company did not have any material exposure to exchange rate fluctuations impacting on Profit before Tax.

Operational risk (unaudited)

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. It represents the potential that inadequate information systems, operating problems, inappropriate product design and delivery difficulties, or catastrophes will result in unexpected losses. The main components are generally referred to as business continuity, product/process, technology, and transaction risks.

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.

27. Commitments under operating leases

At 31 December 2017 the Company had future minimum lease payments under non-cancellable operating leases for the office at 50 Bank Street, Canary Wharf, London, E14 5NT and its disaster recovery site, as follows:

	2017	2016
	$000	$000
Less than 1 year	**9,406**	8,674
Between 1 and 5 years	**30,808**	34,698
More than 5 years	**1,970**	4,215

$1,421,700 in sub-lease payments are expected to be received over the next 4 years under non-cancellable sub-leases.

28. Post balance sheet events

No events occurred post balance sheet that require disclosure in the financial statements.

29. Contingent liabilities/Capital commitments

The Company had no contingent liabilities/capital commitments at 31 December 2017 or 31 December 2016.

30. Holding company

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

The smallest group in which the results of the Company are consolidated is that headed by The Northern Trust Company, 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, Illnois.

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

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

31. 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 10.

32. 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.

33. 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.