



Northern Trust (Guernsey) Limited

Directors' Report and Financial Statements

For the year ended 31 December 2023

Company Information

Directors	D. Dyke N. Gilbert D. Johnson T. Parker D. Sauvarin R. Singleton A. Tautscher D. Usher
Company secretary	T. Le Couteur
Registered number	2651
Registered office	P.O. Box 71 Trafalgar Court Les Banques St Peter Port Guernsey GY1 3DA
Independent auditor	KPMG Channel Islands Limited Glategny Court Glategny Esplanade St Peter Port Guernsey GY1 1WR

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**Directors' Report
For the Year Ended 31 December 2023**

The Directors are pleased to present their report and the Financial Statements for the year ended 31 December 2023.

Principal activity

Northern Trust (Guernsey) Limited (the "Company") carries on the business of banking and related financial services (including custody and depositary activities). In the normal course of business, the Company holds assets in a fiduciary or agency capacity for its clients. In accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"), the assets are not those of the Company and are not included in its balance sheet.

Dividends paid

There were no dividends paid in the year under review (2022: £Nil).

Results

The Profit and Loss Account for the year is set out on page 7.

Directors

The Directors who served during the year were:

D. Dyke
N. Gilbert
D. Johnson
A. McColl (resigned 29 March 2023)
T. Parker
D. Sauvarin
R. Singleton
A. Tautscher
D. Usher

Strategic priorities

Northern Trust Corporation's (the "Group") corporate strategy, which is reviewed and approved annually, is to elevate our performance for all stakeholders. Our mission is to be our clients most trusted financial partner, guarding and growing their assets as if they were our own with the underlying principles of service, expertise and integrity. Our vision is to be a consistently high-performing company that produces measurable results for stakeholders rated;

Gold Standard by CLIENTS

Best place to work by PARTNERS

Resilient by REGULATORS & THE MARKET

Highly valued by SHAREHOLDERS

A pillar of the COMMUNITY

The focus is on three performance objectives: namely optimise growth; drive productivity; and strengthen resiliency. The Company's strategy is aligned to the Group with the aim of building on its leadership position in Guernsey across the Group's target client markets through the provision of high quality banking, credit, custody and depositary services drawing from local expertise supported by the Group's extensive global operating model.

Climate change

Climate risk continues to be an evolving strategic risk for the Company. Climate risk refers to the risk of loss arising from climate change and is comprised of physical risk, liability risk and transition risk. Physical risk refers to risks emanating from the increased severity of extreme weather events (e.g., cyclones, droughts, floods, and fires). It can also refer to longer-term shifts in precipitation and temperature and increased variability in weather patterns (e.g., sea level rise). Liability risk stems from the potential for litigation where institutions do not adequately consider or respond to the impacts of climate change. Transition risk reflects the risks to banks and financial systems of transitioning to a lower-carbon economy that may entail extensive policy, legal, technological, and market changes. Depending on the nature, speed, and focus of these changes, transition risks may pose varying levels of financial and reputational risk to the Company and the financial system.

**Directors' Report
For the Year Ended 31 December 2023 (continued)****Strategic priorities (continued)**

The Company is leveraging Northern Trust's corporate initiative on climate-related risk overseen by the Chief Climate and Sustainability Risk Officer. The Group's Risk Management function has created a dedicated climate and sustainability risk unit to monitor, oversee and take account of the increasing impact that climate change has, or may in the future have, on financial risk, non-financial risk, and regulatory compliance. The climate and sustainability risk unit works to evolve the risk management framework to ensure the Group including the Company, meets the expectations of all stakeholders as well as all climate-related commitments made to our clients, suppliers, counterparties and external agencies.

The Company has acknowledged climate change poses a potential systemic risk, which if not managed properly, could impact negatively, to the extent that it could lower asset prices, disrupt general economic activity as well as impacting our business and operations. Management is committed to increasing transparency on the management of sustainability risks, inclusive of climate-related risks and opportunities to enable clients to make considered choices.

Financial performance

The Company posted a profit for the year of £10.3m (2022: £11.9m) with net interest income £24.7m higher and fees and commission income £0.1m higher than the previous year. Administrative expenses were £69.6m (2022: £43.1m) for the year.

The customer deposits balance decreased to £1,927m (2022: £2,037m) and customer loans decreased to £196m (2022: £205m) at the end of the year. Total capital and reserves stood at £240m (2022: £231m).

Going concern

The Company's Board monitors capital and liquidity requirements for the Company and risk management framework in relation to risks faced by the Company including its going concern status on a regular basis.

The Company's business activities are set out in the Principal Activity section above and other factors likely to affect its future development and position are outlined within the Strategic Priorities. The Company has made a profit of £10.3m (2022: £11.9m) and is projected to continue to generate profits in the medium term. Consideration has been given to the financial position of the Company's ultimate parent Northern Trust Corporation, as reported in quarterly earnings releases and the annual ICAAP presented to the Directors.

On the basis of their assessment of the Company's financial position and assurance from the Northern Trust Corporation that it expects to support the Company's liquidity and funding needs, the Company's Directors have a reasonable expectation that the Company will be able to continue in operational existence for the foreseeable future. The Directors have therefore agreed to adopt the going concern basis of accounting in preparing the annual financial statements.

Disclosure of information to the 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 Directors in order to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

The auditor, KPMG Channel Islands Limited, will be proposed for reappointment in accordance with the Companies (Guernsey) Law, 2008. This report was approved by the board and signed on its behalf on 27 March 2024.



D. Sauvarin
Chairman



R. Singleton
Director

**Directors' Responsibilities Statement
For the Year Ended 31 December 2023**

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 UK accounting standards, including FRS 101 Reduced Disclosure Framework and applicable law.

The Financial Statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and 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 proper accounting records which disclose with reasonable accuracy, at any time, the financial position of the Company and enable them to ensure that the financial statements comply with the Companies (Guernsey) Law, 2008, The Banking Supervision (Bailiwick of Guernsey) Law, 2021 and the Protection of Investors (Bailiwick of Guernsey) Law, 2020. Further, they are responsible for ensuring that the Company complies with the applicable financial resources requirement under The Licensees (Capital Adequacy) Rules, 2022 and The Licensees (Conduct of Business) Rules 2021. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Independent Auditor's Report to the Members of Northern Trust (Guernsey) Limited**Our opinion is unmodified**

We have audited the financial statements of Northern Trust (Guernsey) Limited (the "Company"), which comprise the Balance Sheet as at 31 December 2023, the Profit and Loss Account, the Statement of Comprehensive Income and the Statement of Changes in Equity for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements:

- give a true and fair view of the financial position of the Company as at 31 December 2023, and of the Company's financial performance for the year then ended;
- are prepared in accordance with United Kingdom accounting standards, including FRS 101 Reduced Disclosure Framework;
- comply with the Companies (Guernsey) Law, 2008; and
- have been properly prepared in accordance with The Banking Supervision (Bailiwick of Guernsey) Law, 2020.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with, UK ethical requirements including FRC Ethical Standards. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

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").

In our evaluation of the directors' conclusions, we considered the inherent risks to the Company's business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the going concern period.

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 above conclusions are not a guarantee that the Company will continue in operation.

Fraud and breaches of laws and regulations - ability to detect***Identifying and responding to risks of material misstatement due to fraud***

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- enquiring of management as to the Company's policies and procedures to prevent and detect fraud as well as enquiring whether management have knowledge of any actual, suspected or alleged fraud;
- reading minutes of meetings of those charged with governance; and
- using analytical procedures to identify any unusual or unexpected relationships.

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a fraud risk related to revenue recognition because the Company's revenue streams are simple in nature with respect to accounting policy choice, and are easily verifiable to external data sources or agreements with little or no requirement for estimation from management. We did not identify any additional fraud risks.

We performed procedures including

- Identifying journal entries and other adjustments to test based on risk criteria and comparing any identified entries to supporting documentation; and
- incorporating an element of unpredictability in our audit procedures.

Independent Auditor's Report to the Members of Northern Trust (Guernsey) Limited

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our sector experience and through discussion with management (as required by auditing standards), and from inspection of the Company's regulatory and legal correspondence, if any, and discussed with management the policies and procedures regarding compliance with laws and regulations. As the Company is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

The Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

The Company is subject to other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or impacts on the Company's ability to operate. We identified financial services regulation as being the area most likely to have such an effect, recognising the regulated nature of the Company's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remains a higher risk of non-detection of fraud, as this may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Other information

The directors are responsible for the other information. The other information comprises the information included in the directors' report but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

We have nothing to report in respect of the following matters where the Companies (Guernsey) Law, 2008 requires us to report to you if, in our opinion:

- the Company has not kept proper accounting records; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations, which to the best of our knowledge and belief are necessary for the purpose of our audit.

Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 3, 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 (Guernsey) Limited

Auditor's responsibilities

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

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

The purpose of this report and restrictions on its use by persons other than the Company's members, as a body

This report is made solely to the Company's members, as a body, in accordance with section 262 of the Companies (Guernsey) Law, 2008. 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.

Report on Regulatory Requirements

We have examined the statement of financial resources set out on page 43 and in our opinion the financial resources requirement specified in Part 2 of the Licensees (Capital Adequacy) Rules and Guidance, 2021 was satisfied at 31 December 2023.

KPMG Channel Islands Limited

KPMG Channel Islands Limited

Chartered Accountants

Guernsey

28 March 2024

Profit and Loss Account
For the Year Ended 31 December 2023

	Note	2023 £	2022 £
Interest income	3	111,355,593	49,638,960
Interest expense	4	(50,063,806)	(13,068,996)
Net interest income		61,291,787	36,569,964
Fees and commission income	5	18,913,535	18,842,387
Other operating income	6	667,136	677,348
Administrative expenses	7	(69,622,842)	(43,139,731)
Operating profit		11,249,616	12,949,968
Profit on ordinary activities before taxation		11,249,616	12,949,968
Tax on profit	9	(925,505)	(1,063,937)
Profit for the year		10,324,111	11,886,031

The notes on pages 11 to 42 form part of these financial statements.

Statement of Comprehensive Income
For the Year Ended 31 December 2023

	Note	2023 £	2022 £
Profit for the year		<u>10,324,111</u>	<u>11,886,031</u>
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Actuarial (loss) / gain on defined benefit schemes	27	(717,151)	16,200,199
Return on defined pension scheme assets	27	(713,907)	(18,930,235)
		<u>(1,431,058)</u>	<u>(2,730,036)</u>
Tax relating to components of other comprehensive income	9	<u>135,092</u>	<u>253,613</u>
Other comprehensive income net of tax		<u>(1,295,966)</u>	<u>(2,476,423)</u>
Total comprehensive income for the year		<u>9,028,145</u>	<u>9,409,608</u>

The notes on pages 11 to 42 form part of these financial statements.

Balance Sheet
As at 31 December 2023

	Note	2023 £	2022 £
Assets			
Cash and cash equivalents		19,995,163	16,251,332
Loans and advances to group banks	11	2,069,579,352	2,168,194,258
Loans and advances to customers	12	195,543,438	205,425,058
Derivative assets	13	103,713,257	186,650,461
Prepayments and accrued income	14	5,423,330	4,520,432
Other assets	15	22,659,889	19,357,915
Tangible fixed assets	16	8,853,070	10,744,466
Intangible fixed assets	17	545	860
Investment in subsidiary	18	100	100
Total assets		2,425,768,144	2,611,144,882
Liabilities			
Deposits by group affiliates		120,364,413	121,437,009
Deposits by customers	19	1,927,485,841	2,037,299,764
Other liabilities	20	30,392,489	30,862,256
Derivative liabilities	13	103,690,435	186,662,326
Provisions	21	2,299,311	1,997,911
Accruals	22	1,842,213	2,220,319
Total liabilities		2,186,074,702	2,380,479,585
Equity			
Called up share capital	23	10,000,000	10,000,000
Retained earnings		229,693,442	220,665,297
Total equity		239,693,442	230,665,297
Total liabilities and equity		2,425,768,144	2,611,144,882

The notes on pages 11 to 42 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 27 March 2024.



D. Sauvarin
Chairman



R. Singleton
Director

Statement of Changes in Equity
For the Year Ended 31 December 2023

	Called up share capital £	Profit and loss account £	Total equity £
At 1 January 2023	10,000,000	220,665,297	230,665,297
Comprehensive income for the year			
Profit for the year	-	10,324,111	10,324,111
Actuarial (loss) on defined benefit scheme	-	(717,151)	(717,151)
Return on defined pension scheme assets	-	(713,907)	(713,907)
Tax relating to components of other comprehensive income	-	135,092	135,092
Other comprehensive income for the year	-	(1,295,966)	(1,295,966)
Total comprehensive income for the year	-	9,028,145	9,028,145
At 31 December 2023	10,000,000	229,693,442	239,693,442

Statement of Changes in Equity
For the Year Ended 31 December 2022

	Called up share capital £	Profit and loss account £	Total equity £
At 1 January 2022	10,000,000	211,255,689	221,255,689
Comprehensive income for the year			
Profit for the year	-	11,886,031	11,886,031
Actuarial gain on defined benefit scheme	-	16,200,199	16,200,199
Return on defined pension scheme assets	-	(18,930,235)	(18,930,235)
Tax relating to components of other comprehensive income	-	253,613	253,613
Other comprehensive income for the year	-	(2,476,423)	(2,476,423)
Total comprehensive income for the year	-	9,409,608	9,409,608
At 31 December 2022	10,000,000	220,665,297	230,665,297

The notes on pages 11 to 42 form part of these financial statements.

**Notes to the Financial Statements
For the Year Ended 31 December 2023****1. Accounting policies****1.1 Basis of preparation of financial statements**

Northern Trust (Guernsey) Limited is a private limited company, limited by shares, incorporated and domiciled in Guernsey.

The Financial Statements give a true and fair view and have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"), The Banking Supervision (Bailiwick of Guernsey) Law, 2020, and comply with the Companies (Guernsey) Law, 2008.

The preparation of financial statements in compliance with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies (see Note 2).

1.2 Financial reporting standard 101 - reduced disclosure exemptions

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

- the requirements of paragraphs 45(b) and 46-52 of IFRS 2 Share-based Payment;
- the requirements of paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of :
 - paragraph 79(a)(iv) of IAS1;
 - paragraph 73(e) of IAS 16 Property, Plant and Equipment; and
 - paragraph 118(e) of IAS 38 Intangible Assets.
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D and 111 of IAS 1 Presentation of Financial Statements;
- the requirements of IAS 7 Statement of Cash Flows;
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- the requirements of paragraph 17 and 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 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets;
- the requirements of paragraphs 113(a), 114, 115, 118, 119(a), 119(b), 119(c), 120(a), 120(b), 121, 122, 123, 124, 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

The Company's Board monitors capital and liquidity requirements for the Company and risk management framework in relation to risks faced by the Company including its going concern status on a regular basis.

The Company's business activities are set out in the Principal Activity section of the Directors' Report and other factors likely to affect its future development and position are outlined within the Strategic Priorities section. The Company has made a profit of £10.3m (2022: £11.9m) and is projected to continue to generate profits in the medium term. Consideration has been given to the financial position of the Company's ultimate parent Northern Trust Corporation, as reported in quarterly earnings releases and the annual ICAAP presented to the Directors.

On the basis of their assessment of the Company's financial position and assurance from the Northern Trust Corporation that it expects to support the Company's liquidity and funding needs, the Company's Directors have a reasonable expectation that the Company will be able to continue in operational existence for the foreseeable future. The Directors have therefore agreed to adopt the going concern basis of accounting in preparing the annual financial statements.

1.4 Measurement convention

The financial statements are prepared on the historical cost basis except that derivative financial instruments, defined benefit pension scheme and cash settled share based payments are stated at their fair value. The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price (i.e. the fair value of the consideration given or received).

**Notes to the Financial Statements
For the Year Ended 31 December 2023****1. Accounting policies (continued)****1.5 Interest income and expense**

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

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

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

1.6 Fees and commission income

Fee and commission income from contracts with customers is measured based on the consideration specified in a contract with a customer. The Company recognises revenue when it transfers control over a service to a customer. Such revenue is recognised over time as the services are provided.

Once the Company determines that a performance obligation is satisfied over time, it measures its progress toward completion to determine the timing of revenue recognition. Revenue from each identified performance obligation is recognised over time using the output method. The output method recognises revenue on the basis of direct measurements of the value to the customer of the goods or services transferred to date, relative to the remaining goods or services promised under the contract.

1.7 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 initially 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. Subsequently, the lease liability is increased to reflect interest accretion and reduced by lease payments made over the lease term. 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.

The Company presents the interest expense on the lease liability and depreciation charge for the ROU asset separately in the Profit and Loss Account. The ROU asset is depreciated using the straight-line method from the commencement date.

The Company presents ROU assets in "Long-term leasehold property" within "Tangible Fixed Assets" and lease liabilities in "Lease liability" within "Other liabilities" on the Balance sheet.

Where the Company acts as an intermediate lessor, the sub lease is classified by reference to the ROU asset arising from the head lease rather than the underlying asset. The Company classifies a sublease as a finance lease if the term of the sub lease is for all or a major portion of the remaining term of the head lease.

The Company recognises a finance sub lease by recording a net investment in the lease, measured at the present value of the lease payments less any lease incentives that are not paid at that date. The discount rate used is the same discount rate used for the head lease. The ROU asset in relation to the head lease transferred under a finance sub lease arrangement is derecognised and any difference between the ROU asset and the net investment in the sublease is recognised in profit or loss. The net investment in sublease is presented in other assets.

During the term of the sublease the Company recognises both finance income on the sublease and interest expenses on the head lease.

**Notes to the Financial Statements
For the Year Ended 31 December 2023**

1. Accounting policies (continued)

1.8 Intangible fixed 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 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 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.

Depreciation is provided on the following basis:

Leasehold improvements	- 15 years (or remaining lease term if shorter)
Fixture and fittings	- 10 years
Plant and machinery	- 7 years
Computer hardware	- 5 years
Office equipment	- 5 years
Personal computers	- 4 years

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

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the Profit and Loss Account.

1.10 Investment in subsidiary

Investments in subsidiaries are measured at cost less accumulated impairment. These financial statements have been prepared on an unconsolidated basis as the information is required instead to be disclosed on a consolidated basis in the consolidated financial statements of the Company's ultimate parent, Northern Trust Corporation.

1.11 Foreign currency translation

Functional and presentational currency

The Company's functional and presentational currency is Sterling, the currency of the primary economic environment in which the Company operates.

Transactions and balances

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

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

**Notes to the Financial Statements
For the Year Ended 31 December 2023****1. Accounting policies (continued)****1.11 Foreign currency translation (continued)**

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.

Foreign exchange gains and losses are presented in the Profit and Loss Account within 'Other operating income'.

1.12 Financial instruments**Classification**

On initial recognition, a financial asset is classified and measured at amortised cost, fair value through other comprehensive income ("FVOCI"), or fair value through profit or loss ("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.

A financial asset is measured at FVOCI 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 both to hold assets to collect contractual cash flows and sell financial assets; and
- the contractual terms of the asset give rise to cash flows that are solely payments of principal and interest.

For equity instruments not held for trading, the Company has the option to elect to measure the instrument at FVOCI at the time of initial recognition. The Company made no such elections. All other financial assets are measured at FVTPL. The Company may also designate a financial asset as FVTPL if doing so eliminates or significantly reduces an accounting mismatch. The Company has made no such designations.

Financial liabilities are measured at amortised cost except for financial liabilities at FVTPL. Such liabilities include derivatives.

Business model assessment

The Company utilises the Group framework 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 Group's Asset and Liability Management Policy governs the management of different portfolios of financial assets. Per the Asset and Liability Management Policy, 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 Asset and Liability Management Policy 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. The Company determined the business model's objective is satisfied by holding investments to collect contractual cash flows. All financial instruments fall within this business model.

Solely payments of principal and interest 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.

**Notes to the Financial Statements
For the Year Ended 31 December 2023****1. Accounting policies (continued)****1.12 Financial instruments (continued)**

All of the Company's financial instruments have contractual terms that produce cash flows that are solely payments of principal and interest. The Company considered interest rates, call options, redemption prices, seniority rankings, etc. in this evaluation before concluding instruments pass the solely payments of principal and interest test.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

Loans and advances

Loans and advances to banks and customers include loans and advances and repurchase agreements originated by the Company which are not intended to be sold in the short term and have not been classified as held for trading or designated at fair value. Loans and advances are recognised when cash is advanced to borrowers and are derecognised when either borrowers repay their obligations, or the loans are written off. They are initially recorded at fair value and are subsequently measured at amortised cost using the effective interest rate method after receipt of any proceeds, less any impairment losses (refer to Note 1.13 Impairment excluding deferred tax assets).

Trade and other debtors

Trade and other debtors, included within prepayments and accrued income, 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 (refer to Note 1.13 Impairment excluding deferred tax assets).

Trade and other creditors

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

Interest-bearing borrowings

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

Deposits and subordinated loans

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

Derivatives

Derivatives are initially measured at fair value and any directly attributable transaction costs are recognised in profit or loss as incurred. These are carried in the balance sheet at fair value with changes in fair value recognised in the Profit and Loss Account.

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.

**Notes to the Financial Statements
For the Year Ended 31 December 2023****1. Accounting policies (continued)****1.13 Impairment excluding deferred tax assets****Financial assets (including trade and other debtors)**

The Company recognises loss allowances for Expected Credit Losses ("ECLs") on the following financial instruments that are not measured at FVTPL:

- Balances with banks (due from banks);
- Placements with banks (time deposits);
- Loans and advances (loans/general custody overdrafts);
- Trust and custody fees receivable; and
- Off balance sheet commitments.

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

- Loans and advances that have low credit risk at the reporting date; and
- Other financial instruments (except trust and custody fees receivable) 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 12 months of 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 effect. This includes historical experience and forward-looking information.

The Company assigns an internal borrower rating to each of its counterparties which reflects the creditworthiness of the counterparty. Borrower ratings are assigned according to the Credit Policy and account for quantitative and qualitative aspects of the counterparty's financial health. A borrower rating of one is the strongest and of nine is the weakest.

Borrower ratings are assigned at the time an obligor or obligation is approved and are reviewed and updated, if necessary, no less than annually for each counterparty and sooner if material information on a counterparty becomes available. The Company determines a significant increase in credit risk has occurred if a borrower rating that previously fell inside a generally understood definition of high credit quality is updated to fall outside that range.

**Notes to the Financial Statements
For the Year Ended 31 December 2023**

1. Accounting policies (continued)

1.13 Impairment excluding deferred tax assets (continued)

Debt securities with borrower ratings between one and three (inclusive) are mapped to external agencies investment grade and are determined to have low credit risk (Moody's rating of Baa3 or higher or S&P rating of BBB- or higher). Loans and general custody overdrafts with borrower ratings between one and five (inclusive) are mapped to Federal Deposit Insurance Corporation's loan classification ratings that are not adversely classified and are determined to have low credit risk.

For non-investment grade exposures that do not meet the investment grade low credit risk simplifications, indicators of a significant increase in credit risk may include an increase in a counterparty's borrower rating, whether the exposure is over 30 days past due, or if the counterparty is on the Company's watch list. Quantitative and qualitative criteria include a significant increase in the credit spread; significant adverse changes in the business, financial, or economic conditions in which the obligor operates; actual or expected forbearance or restructuring; significant change in the collateral value which is expected to increase the risk of default; or early signs of cash flow or liquidity issues.

There is a rebuttable presumption that exposures that are more than 30 days past due have experienced a significant increase in credit risk. For trust fee receivables, the Company does not believe that this would be an indicator of a significant increase in credit risk. For trust fee receivables, the Company has never experienced a credit loss and routinely receives payment on exposures that are 150 days or less past due. These aged items typically relate to customer questions regarding the invoice or intentional delay in payment to improve cash flows. Therefore, trust fee receivables aged 150 days or less are not deemed to have experienced a significant increase in credit risk. The simplified approach to recognising impairment is applied. Due to the simplistic nature of trust fee receivables, the Company uses a provision matrix approach through a high level calculation with flat reserve percentages and separate forward looking adjustments for individual client circumstances.

The Company considers a financial asset to be in default when one or more of the following events occur:

- The borrower is unlikely to pay any of its obligations to the Company in full;
- Any of the borrower's obligations is impaired or placed on non-accrual status;
- A credit loss event associated with any obligation occurs (e.g. charge-off, distressed restructuring involving forgiveness or postponement of principal, interest or fees);
- The obligor has filed for bankruptcy or similar protection;
- The obligor is more than 90 days past due on any exposure greater than USD\$1,000 (except trust fee receivables as noted above);
- The obligor's borrower rating is downgraded to eight or nine; or
- A debt obligation or portion thereof is sold for a material discount to carrying value due to credit deterioration (5% or more of the amortised carrying value).

Measuring ECLs

The key inputs into the measurement of the ECLs are the probability of default, loss given default, and exposure at default. Probability of default and loss given default vary by the type of exposure, asset class and geography of the financial instruments. Probability of default and loss given default are estimated based on historical data from external sources and internal subject matter expertise. These factors are derived by applying quarterly macroeconomic projections using models developed from historical data on macroeconomic factors and financial assets with similar factors. Exposure at default 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 probability of default 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 borrowing rating to 9 (default levels). These assets are considered credit-impaired and are measured at lifetime ECLs.

Presentation of ECL allowances

Loss allowances on financial assets measured at amortised cost are presented as a deduction from the gross carrying amount of the assets. Loss allowances on off-balance sheet financial liabilities are generally recognised as a liability. Loss allowances on financial instruments at FVOCI are disclosed and recognised in the Statement of Comprehensive Income.

**Notes to the Financial Statements
For the Year Ended 31 December 2023****1. Accounting policies (continued)****1.13 Impairment excluding deferred tax assets (continued)****Write-off of loans and advances**

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

Non-financial assets

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

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

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

1.14 Dividends

Equity dividends are recognised when they become legally payable.

1.15 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 within administrative expenses when they fall due. Amounts not paid are shown in accruals as a liability in the Balance Sheet (within Other Liabilities). 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 and former employees. A defined benefit plan defines the pension benefit that the member 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 asset recognised in the Balance Sheet (within Other Assets) in respect of the defined benefit plan is the fair value of plan assets at the balance sheet date less the present value of the defined benefit obligation at the balance sheet date.

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 sterling corporate bonds 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.

**Notes to the Financial Statements
For the Year Ended 31 December 2023****1. Accounting policies (continued)****1.15 Pensions (continued)**

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to 'Other comprehensive income'. Returns on pension scheme assets are charged or credited to 'Other comprehensive income'.

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 profit or loss as an 'Administrative expense'.

1.16 Provisions

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

1.17 Taxation

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

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

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax is not recognised for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss; or for temporary differences related to investments in subsidiaries to the extent that the Company is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future.

Legislation implementing the Pillar II Global Minimum Tax rules was implemented in the UK as part of Finance (No. 2) Act, 2023. The rules become effective for fiscal years commencing after 31 December 2023 i.e. from 1 January 2024 for the Group. The Company has determined that the Pillar II Global Minimum Tax is an income tax in the scope of IAS12. The Company accounts for the tax as a current tax when it is incurred. The Company has adopted International Tax Reform – Pillar Two Model Rules (Amendments to IAS 12) upon their release on 23 May 2023. The amendments provide a temporary mandatory exception from deferred tax accounting for the top-up tax, which is effective immediately, and require new disclosures about the Pillar Two exposure. The mandatory exception applies retrospectively. However, because no new legislation to implement the top-up tax was enacted or substantively enacted at 31 December 2022 in Guernsey or the UK and no related deferred tax was recognised at that date, the retrospective application has no impact on the Company's financial statements.

1.18 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 within Administrative expenses.

**Notes to the Financial Statements
For the Year Ended 31 December 2023****1. Accounting policies (continued)****1.18 Share based payments (continued)**

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.

2. Judgments in applying accounting policies and key sources of estimation uncertainty

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

The following judgements, assumptions and estimation uncertainties have had the most significant effect on amounts recognised:

Transfer pricing

The determination of transfer pricing is made using an "arm's-length" standard that tests what would have occurred in comparable circumstances between comparable, unrelated taxpayers. Judgement is required with regards to the appropriate methodology and verification of reasonableness. Further details are contained in Note 8.

Taxation

Management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies. Further details are provided in Note 9.

Defined benefit pension scheme

Management judgement is required to determine the value of assets and liabilities recognised within this scheme. Note 27 provides full details of this scheme.

Provision for dilapidations

Management judgement is required to determine the value of the provision for dilapidations. This represents management's obligation to remove, dismantle, and restore certain long term leasehold property. Further details are provided in Note 21.

Financial instruments***Classification of financial assets***

The assessment of the business model in which financial assets are held and the assessment of whether payments on the financial assets are solely payments of principal and interest are judgements that impact the classification of financial instruments.

Impairment of financial instruments

The assessment of whether financial assets have experienced significant increases in credit risk since initial recognition and determination of inputs including incorporating forward-looking information into the impairment assessment are judgements that impact the impairment estimate. Note 1.13 provides further details on classification and impairment of financial assets.

Functional and presentation currency

Judgment is applied in determining the functional and presentation currency of the Company, which is GBP, despite conducting operations in other currencies. GBP is considered to be the functional and presentational currency due to it being the principal currency in which the Company's activities are conducted and the currency in which shareholders' funds were received.

**Notes to the Financial Statements
For the Year Ended 31 December 2023**

3. Interest income

	2023	2022
	£	£
Loans and advances to group banks	100,429,488	38,618,950
Cash and cash equivalents	-	217
Loans and advances to customers	10,600,355	8,230,232
Interest income on liabilities	47,863	2,425,006
Finance income from subleasing right-of-use assets (Note 24)	277,887	364,555
	111,355,593	49,638,960

4. Interest expense

	2023	2022
	£	£
Deposits by customers	45,784,270	10,906,490
Deposits by group affiliates	3,759,744	503,310
Interest expense on assets	3,987	1,051,153
Interest on lease liabilities (Note 24)	515,805	608,043
	50,063,806	13,068,996

5. Fees and commission income

	2023	2022
	£	£
Custody and depositary fees	16,080,795	16,221,952
Banking fees	2,832,740	2,620,435
	18,913,535	18,842,387

Custody and depositary fees arise from trust and other fiduciary activities resulting in holding/investing of assets of others.

6. Other operating income

	2023	2022
	£	£
Rental income	200,168	147,308
Foreign exchange gains	466,968	530,040
	667,136	677,348

7. Administrative expenses

	2023	2022
	£	£
Staff costs	17,039,624	16,718,716
Operating lease rentals	104,062	143,065
Depreciation and amortisation	1,968,216	2,340,224
Transfer pricing (Note 8)	39,702,422	17,034,394
Defined contribution pension plan	1,666,666	1,550,721
Other	9,141,852	5,352,611
	69,622,842	43,139,731

**Notes to the Financial Statements
For the Year Ended 31 December 2023**

8. Transfer pricing

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

	2023	2022
	£	£
Profit and Loss Account		
Amounts transferred to global transfer pricing pool	80,911,136	56,159,663
Reimbursement of expenses, plus mark-up	(34,219,490)	(30,182,218)
Profit pool allocation	(6,989,224)	(8,943,051)
	39,702,422	17,034,394

9. Taxation

The Company is taxed at a combination of the company standard rate of 0% and the company intermediate rate of 10% under the Income Tax (Guernsey) Law, 1975.

	2023	2022
	£	£
Company income tax		
Current tax on profits for the year	933,675	1,072,615
Adjustments in respect of previous periods	(98,505)	(24,251)
Total current tax	835,170	1,048,364
Deferred tax		
Fixed assets	(23,803)	(26,703)
Defined benefit pension scheme	20,940	12,075
Other timing differences	116,776	30,201
Adjustments in respect of prior periods	(23,578)	-
Total deferred tax	90,335	15,573
Taxation on profit on ordinary activities	925,505	1,063,937

**Notes to the Financial Statements
For the Year Ended 31 December 2023**

9. Taxation (continued)

Factors affecting tax charge for the year

The tax assessed for the year is higher than (2022: higher than) the standard rate of company income tax of 0% (2022: 0%). The differences are explained below:

	2023	2022
	£	£
Profit on ordinary activities before taxation	<u>11,249,616</u>	<u>12,949,968</u>
Profit on ordinary activities multiplied by standard rate of corporation tax of 0% (2022: 0%)	-	-
Profit on ordinary activities multiplied by standard rate of corporation tax of 10% (2022: 10%)	1,124,962	1,294,997
Effects of:		
Profits taxable at 0%	(65,688)	(57,089)
Permanent differences	16,944	9,150
Timing differences	(28,630)	(158,870)
Adjustment in respect of previous periods	(122,083)	(24,251)
Total tax charge for the year	<u>925,505</u>	<u>1,063,937</u>

Factors that may affect future tax charges

Deferred tax charged to other comprehensive income:	
Pension scheme	(135,092)
Total deferred tax charged to OCI	<u>(135,092)</u>

OECD Pillar II - Global Minimum Tax

The Group operates in Guernsey, which has not yet enacted new legislation to implement the global minimum top-up tax applicable under OECD Pillar II, but is expected to do so effective from 1 January 2025. The Group is expected to be subject to a domestic top-up tax in relation to its operations in Guernsey, where the statutory rate is 10 percent for banking activity and 0 percent for other activity. This is below the Pillar II minimum tax rate of 15 percent.

The Company's Ultimate Parent Entity is located in the United States of America, which is not expected to implement Pillar II legislation prior to 2025. However, other entities located in Guernsey within the Group have an intermediate holding company in the UK, which has implemented Pillar II rules. Therefore, the impact of Pillar II rules on the Company must be considered.

Since no legislation has been enacted or substantively enacted in Guernsey, there is no current tax impact for the year ended 31 December 2023.

The Company has applied a temporary mandatory relief from deferred tax accounting for the impacts of the top-up tax and accounts for it as a current tax when it is incurred.

If the top-up tax had applied for 2023, the top-up tax referable to the Group's operations in Guernsey for the year ended 31 December 2023 is, based on the Group's understanding of the regulation currently effective in the UK, estimated to amount to £885k, of which £645k is estimated to relate to the Company.

**Notes to the Financial Statements
For the Year Ended 31 December 2023**

10. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities.

	Assets	Liabilities	Net 2023	Assets	Liabilities	Net 2022
	2023	2023			£	
	£	£	£	£	£	£
Tangible fixed assets	-	13,255	13,255	-	37,058	37,058
Right of use and sub-lease assets	-	1,387,128	1,387,128	-	-	-
Lease liabilities	(1,324,132)	-	(1,324,132)	-	-	-
Defined benefit pension plan	-	266,951	266,951	-	381,103	381,103
Other timing differences	(41,930)	-	(41,930)	(72,132)	-	(72,132)
	(1,366,062)	1,667,334	301,272	(72,132)	418,161	346,029

Movement in deferred tax during the year	1 January 2023	Recognised in income	Recognised in OCI	31 December 2023
	£	£	£	£
Tangible fixed assets	37,058	(23,803)	-	13,255
Right of use and sub-lease assets	-	1,387,128	-	1,387,128
Lease liabilities	-	(1,324,132)	-	(1,324,132)
Defined benefit pension plan	381,103	20,940	(135,092)	266,951
Other timing differences	(72,132)	30,202	-	(41,930)
	346,029	90,335	(135,092)	301,272

Movement in deferred tax during the year	1 January 2022	Recognised in income	Recognised in OCI	31 December 2022
	£	£	£	£
Tangible fixed assets	63,761	(26,703)	-	37,058
Defined benefit pension plan	622,641	12,075	(253,613)	381,103
Other timing differences	(102,333)	30,201	-	(72,132)
	584,069	15,573	(253,613)	346,029

11. Loans and advances to group banks

	2023	2022
	£	£
Within 3 months	2,069,579,352	2,168,194,258

Loans and advances to group banks were 95% collateralised at 31 December 2023. See Note 26 (c) for details.

12. Loans and advances to customers

	2023	2022
	£	£
Due from customers	195,543,438	205,425,058

The Company has not had any defaults of principal or interest or other breaches with respect to its loans and advances to customers.

**Notes to the Financial Statements
For the Year Ended 31 December 2023**

13. Derivatives

	2023	2022
	£	£
Forward foreign exchange contract assets		
Under 1 year	<u>103,713,257</u>	186,650,461
Forward foreign exchange contract liabilities		
Under 1 year	<u>(103,690,435)</u>	(186,662,326)

14. Prepayments and accrued income

	2023	2022
	£	£
Prepayments	829,043	636,411
Accrued income	<u>4,594,287</u>	3,884,021
	<u>5,423,330</u>	4,520,432

Balances included within prepayments and accrued income are all defined as current assets.

15. Other assets

	2023	2022
	£	£
Net investment in sublease	7,136,621	8,942,291
Pension asset (Note 27)	3,412,109	4,621,343
Other debtors	8,207,140	4,099,553
Corporation tax recoverable	2,818,163	1,694,728
Deferred tax asset	<u>1,085,856</u>	–
	<u>22,659,889</u>	19,357,915

Balances included within other debtors are current assets and the pension asset is non-current.

**Notes to the Financial Statements
For the Year Ended 31 December 2023**

16. Tangible fixed assets

	Long-term leasehold property* £	Plant and machinery £	Fixtures and fittings £	Office equipment £	Computer equipment £	Total £
Cost or valuation						
At 1 January 2023	18,311,367	177,344	602,306	111,006	732,076	19,934,099
Additions	187,865	-	10,538	124,926	79,486	402,815
Disposals	(160,885)	-	-	-	(239,550)	(400,435)
At 31 December 2023	18,338,347	177,344	612,844	235,932	572,012	19,936,479
Depreciation and impairment						
At 1 January 2023	8,253,162	116,574	253,503	48,943	517,451	9,189,633
Depreciation charge for the year	1,723,582	25,335	60,128	31,729	127,127	1,967,901
Impairment	180,494	-	-	-	-	180,494
Disposals	(15,069)	-	-	-	(239,550)	(254,619)
At 31 December 2023	10,142,169	141,909	313,631	80,672	405,028	11,083,409
Net book value						
At 31 December 2023	8,196,178	35,435	299,213	155,260	166,984	8,853,070
At 31 December 2022	10,058,205	60,770	348,803	62,063	214,625	10,744,466

*Long-term leasehold property includes "right-of-use" assets amounting to a carrying value of £6,734,663. Refer to Note 24 for details of "right-of-use" assets held under lease agreements.

17. Intangible fixed assets

	Software £
Cost	
At 1 January 2023	5,893
Disposals	-
At 31 December 2023	5,893
Amortisation	
At 1 January 2023	5,033
Charge for the year	315
On disposals	-
At 31 December 2023	5,348
Net book value	
At 31 December 2023	545
At 31 December 2022	860

**Notes to the Financial Statements
For the Year Ended 31 December 2023**

18. Investment in subsidiary

	2023 £	2022 £
Barfield Nominees Limited	<u>100</u>	<u>100</u>

The Company holds an investment of £100 (2022: £100) in Barfield Nominees Limited, a company incorporated in Guernsey and whose principal activity is that of a nominee. Barfield Nominees Limited is beneficially wholly owned and in the opinion of the Directors the net asset value is not less than cost.

19. Deposits by customers

	2023 £	2022 £
Due to customers	<u>1,927,485,841</u>	<u>2,037,299,764</u>

Balances included within deposits by customers are all defined as current liabilities.

20. Other liabilities

	2023 £	2022 £
Lease liability	13,241,323	15,910,836
Other	12,439,592	12,839,752
Deferred tax liability (Note 10)	1,387,128	346,029
Interest payable	3,324,446	1,765,639
	<u>30,392,489</u>	<u>30,862,256</u>

Balances included within other and interest payable are all defined as current liabilities.

21. Provisions

	2023 Dilapidation £	2023 Total £	2022 Dilapidation £	2022 Total £
Balance at 1 January	1,997,911	1,997,911	2,181,424	2,181,424
Provisions made during the year	354,533	354,533	-	-
Provisions used during the year	(32,248)	(32,248)	(366,577)	(366,577)
Provisions reversed during the year	(103,711)	(103,711)	(67,383)	(67,383)
Unwinding of discounted amount	82,826	82,826	250,447	250,447
	<u>2,299,311</u>	<u>2,299,311</u>	<u>1,997,911</u>	<u>1,997,911</u>

Dilapidations - The estimated present value of the obligation arising from the contractual requirement to yield up in repair at the end of the term is recognised at the lease's 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 2023**

22. Accruals

	2023	2022
	£	£
Wages and salaries	1,331,347	1,539,199
Other	510,866	681,120
	<hr/> <u>1,842,213</u>	<hr/> <u>2,220,319</u>

23. Share capital

	2023	2022
	£	£
Allotted, called up and fully paid		
10,000,000 Ordinary shares of £1.00 each	<hr/> <u>10,000,000</u>	<hr/> <u>10,000,000</u>

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.

24. Leases

The Company leases floor space at the office building at Trafalgar Court, St. Peter Port, GY1 3DA, Guernsey. It entered into the lease agreement on 1 July 2002.

	2023	2022
	£	£
Right of Use assets		
Balance as at 1 January	8,341,174	9,342,114
Additions during the year	-	2,089,404
Disposals during the year	-	(1,343,628)
Impairment charged on assets	(180,494)	(188,794)
Depreciation charge for the year	(1,426,017)	(1,557,922)
	<hr/> <u>6,734,663</u>	<hr/> <u>8,341,174</u>

	2023	2022
	£	£
Maturity analysis of lease liabilities		
Less than 1 year	3,185,318	3,185,318
1 to 5 years	11,148,613	12,741,272
More than 5 years	-	1,592,659
	<hr/> <u>14,333,931</u>	<hr/> <u>17,519,249</u>

	2023	2022
	£	£
Amounts recognised in profit and loss		
Interest on lease liabilities	515,805	608,043
Finance income from subleasing right-of-use assets	(277,887)	(364,555)
Depreciation charge for right-of-use assets	1,426,017	1,369,128
Impairment charged on leases	537,572	188,794
	<hr/> <u>2,201,507</u>	<hr/> <u>1,801,410</u>

**Notes to the Financial Statements
For the Year Ended 31 December 2023**

24. Leases (continued)

The Company had cash outflows for leases of £3,185,318 in 2023 (2022: £4,068,398).

The Company also subleases certain floors of office space, classified as finance leases. The following table sets out the maturity analysis of lease receivables, showing the undiscounted lease payments to be received after the reporting date.

Maturity analysis of sublease payment receivable	2023	2022
	£	£
Less than 1 year	1,637,012	1,726,210
1 to 5 years	5,137,604	7,224,548
More than 5 years	-	903,069
Total undiscounted lease payments receivable	6,774,616	9,853,827
Unearned finance income	(525,726)	(911,536)
Unguaranteed residual value	887,731	-
Net investment in the lease	7,136,621	8,942,291

25. Financial instruments

The following table provides a reconciliation between line items in the balance sheet and categories of financial statements;

For the year ended 31 December 2023	Amortised cost £'000	FVTPL £'000	Total carrying amount £'000
Financial assets			
Loans and advances to group banks	2,069,579	-	2,069,579
Loans and advances to customers	195,543	-	195,543
Derivative assets	-	103,713	103,713
Total financial assets	2,265,122	103,713	2,368,835
Financial liabilities			
Deposits by group affiliates	120,364	-	120,364
Deposits by customers	1,927,486	-	1,927,486
Derivative liabilities	-	103,690	103,690
Total financial liabilities	2,047,850	103,690	2,151,540

**Notes to the Financial Statements
For the Year Ended 31 December 2023**

25. Financial instruments (continued)

For the year ended 31 December 2022

	Amortised cost £'000	FVTPL £'000	Total carrying amount £'000
Financial assets			
Loans and advances to group banks	2,168,194	-	2,168,194
Loans and advances to customers	205,425	-	205,425
Derivative assets	-	186,650	186,650
Total financial assets	2,373,619	186,650	2,560,269
Financial liabilities			
Deposits by group affiliates	121,437	-	121,437
Deposits by customers	2,037,300	-	2,037,300
Derivative liabilities	-	186,662	186,662
Total financial liabilities	2,158,737	186,662	2,345,399

All financial assets are classified as amortised cost under IFRS 9 except for derivative assets which are classified as fair value through profit or loss.

All financial liabilities are classified as amortised cost under IFRS 9 except for derivative liabilities which are classified as fair value through profit or loss.

The carrying amounts of the financial assets and liabilities at amortised cost approximate the fair values.

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

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

Classes of financial assets and liabilities:

	2023				
	Carrying amount £'000	Fair value £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Financial assets					
Measured at FVTPL					
Forward exchange contracts	103,713	103,713	-	103,713	-
Total measured at FVTPL	103,713	103,713	-	103,713	-
Total	103,713	103,713	-	103,713	-
Financial liabilities					
Measured at FVTPL					
Forward exchange contracts	103,690	103,690	-	103,690	-
Total measured at FVTPL	103,690	103,690	-	103,690	-
Total	103,690	103,690	-	103,690	-

**Notes to the Financial Statements
For the Year Ended 31 December 2023**

25. Financial instruments (continued)

Classes of financial assets and liabilities:

	2022				
	Carrying amount £'000	Fair value £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Financial assets					
Measured at FVTPL					
Forward exchange contracts	186,650	186,650	-	186,650	-
Total measured at FVTPL	<u>186,650</u>	<u>186,650</u>	<u>-</u>	<u>186,650</u>	<u>-</u>
Total	<u>186,650</u>	<u>186,650</u>	<u>-</u>	<u>186,650</u>	<u>-</u>
Financial liabilities					
Measured at FVTPL					
Forward exchange contracts	186,662	186,662	-	186,662	-
Total measured at FVTPL	<u>186,662</u>	<u>186,662</u>	<u>-</u>	<u>186,662</u>	<u>-</u>
Total	<u>186,662</u>	<u>186,662</u>	<u>-</u>	<u>186,662</u>	<u>-</u>

26. Financial risk management

(a). Introduction and overview

The Company has a conservative attitude towards financial risk with a long-term objective of stability. Credit, liquidity and market risk are key components of the financial risk profile of the Company.

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

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

Risk management framework

The Group has established a risk management framework to define, measure, monitor and control risk. It provides a comprehensive overview of how risk is managed across Northern Trust and the risk expectations for all partners. Risk management, as appointed by the Company's Board and local risk oversight committees, implements the Corporation's risk management framework. Policies are validated and approved locally and the local risk organisation is structured to provide the Board with the necessary risk reporting and oversight to satisfy their responsibilities. The Board has executive members who report on their activities.

There are six risk management policy level committees with a variety of responsibilities while business units also have their own risk committees to focus on the risks inherent in their respective business activities. The six committees which report into the Global Enterprise Risk Management Committee include: the Market & Liquidity Risk Committee; Credit Risk Committee; Fiduciary Risk Committee; Operational Risk Committee; Compliance and Ethics Oversight Committee; and Model Risk Oversight Committee.

The risk management policy level committees set out detailed policies which are reviewed regularly to reflect changes in market conditions, products and services offered. The committees and Northern Trust Corporation's Board, through training, management standards and procedures, aim to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

In addition to the above, there is an EMEA Executive Management Committee which is responsible for the daily management of the EMEA Entities' businesses (including the Company) and execution of the agreed strategies. The EMC has appointed the EMEA Risk Committee to assist it in managing all risks.

**Notes to the Financial Statements
For the Year Ended 31 December 2023**

26. Financial risk management (continued)

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

The Company has an approved and established Risk Appetite Statement which identifies the types of risk the Company's Board of Directors and management are willing to assume to achieve its strategic objectives and business plan, consistent with the prudent management of risk and applicable capital, liquidity and regulatory requirements. The Risk Appetite Statement complies with the Northern Trust Risk Management Framework and is adjusted as required to meet characteristics of the Company's specific locale or business activities.

(b). Credit risk

Northern Trust defines credit risk as the risk to interest income and principal from the failure of a borrower or counterparty to perform an obligation.

Credit risk management

The Company has a conservative and prudent approach to credit risk. The Company has adopted the Corporate Credit Policy, Corporate Credit Risk Frameworks and Programs, and Corporate Credit Risk Standards of the Group. The Company's Board has approved the Northern Trust (Guernsey) Limited Credit Policy which details the Company's implementation of the Corporate Credit Policy. The Company's business activities give rise to both counterparty credit risk and client credit risk.

The Company is subject to the Guernsey Financial Services Commission's ("GFSC") Banking Supervision (Large Exposure) Rules and Guidance, 2021.

Counterparty credit risk

Counterparty exposures are primarily intercompany, the most material of which is with The Northern Trust Company, London Branch, with limited exposure to third party banks and counterparties via money market activities, nostro balances and the purchase of securities. Funds are upstreamed to The Northern Trust Company, London Branch, pursuant to the NTGL Upstreaming Policy. Third party bank and counterparty limits are approved by the Capital Markets Credit Committee. While leveraging the corporate credit and sub-committee structure, any credit limit for the Company has to be approved by the Company's Credit Officer in attendance at the relevant committee.

Client credit risk

The Company's client credit risk is primarily derived from short-term 'incidental' overdrafts on client custody accounts or from a very limited number of formal but still uncommitted overdraft facilities with custody clients. Typically the Company has a contractual lien on client assets as an ultimate form of remedy for unapproved overdrafts but such liens are not formally recorded as credit risk mitigation and as such, any exposures are recorded on a 'gross' basis. Formal client facilities are approved in accordance with Corporate Credit governance documents. Any client facility would be reviewed and approved at the relevant Credit Risk Committee.

Geographical sector

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

	UK & CI £'000	Europe £'000	North America £'000	Asia Pacific £'000	Other Regions £'000	Total £'000
Cash and cash equivalents	19,046	544	14	382	9	19,995
Loans and advances to group banks	1,581,302	-	488,277	-	-	2,069,579
Loans and advances to customers	181,839	7	13,697	-	-	195,543
As at 31 December 2023	1,782,187	551	501,988	382	9	2,285,117

**Notes to the Financial Statements
For the Year Ended 31 December 2023**

26. Financial risk management (continued)

	UK & CI £'000	Europe £'000	North America £'000	Asia Pacific £'000	Other Regions £'000	Total £'000
Cash and cash equivalents	14,469	1,412	76	274	20	16,251
Loans and advances to group banks	1,716,526	-	451,668	-	-	2,168,194
Loans and advances to customers	184,180	3,355	17,890	-	-	205,425
As at 31 December 2022	1,915,175	4,767	469,634	274	20	2,389,870

Industry sector

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

	Corporate £'000	Individuals £'000	Total £'000
Cash and cash equivalents	19,995	-	19,995
Loans and advances to group banks	2,069,579	-	2,069,579
Loans and advances to customers	195,543	-	195,543
As at 31 December 2023	2,285,117	-	2,285,117

	Corporate £'000	Individuals £'000	Total £'000
Cash and cash equivalents	16,251	-	16,251
Loans and advances to group banks	2,168,194	-	2,168,194
Loans and advances to customers	205,425	-	205,425
As at 31 December 2022	2,389,870	-	2,389,870

Offsetting financial assets and financial liabilities

There were no financial assets and financial liabilities offset in the Company's balance sheet.

Impairment allowance

The following table breaks down the closing balances of impairment allowances by class of financial instrument:

	2023 £	2022 £
Cash and cash equivalents	20	42
Loans and advances to group banks	108	72
Loans and advances to customers	129,020	279,752
Trust fee receivables	6,016	19
As at 31 December 2022	135,164	279,885

Collateral and credit enhancements

The amounts that best represent the maximum exposure to credit risk without taking account of any collateral or other credit enhancements are the gross amounts of financial assets and maximum exposure amounts of off-balance sheet liabilities.

The Company holds collateral and other credit enhancements against general custody overdrafts and reverse repurchase agreements. In most cases, cash or marketable securities (typically investment grade) fully collateralise the credit exposure. The Company has not recognised a loss allowance on any collateralised credit exposure because of the collateral. Nearly all of the Company's counterparties have strong credit ratings, but the Company still collateralises these credit exposures to further reduce credit risk.

No financial assets were credit-impaired at the reporting date.

**Notes to the Financial Statements
For the Year Ended 31 December 2023**

26. Financial risk management (continued)

Credit risk exposure

Cash and cash equivalents are of very short duration, therefore determining whether there is a significant increase in credit risk is not necessary for these exposures. They are therefore measured at 12 month ECLs. Loans and advances to group banks, loans and advances to other banks, and loans and advance to customers all fall within the low to fair counterparty credit risk when internal borrower ratings are assigned by the Company. They are all measured at 12 month ECLs. For trust fee receivables the simplified approach to recognising impairment is applied. The trust fee receivables ageing is laid out in the following table.

	2023		2023		2023	2022
	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total	Total		
Trust fee receivables						
Ageing	£	£	£	£		
0-149 days	4,315,148	-	4,315,148	3,684,917		
150-364 days	184,045	-	184,045	4,046		
365+ days	-	-	-	-		
	4,499,193	-	4,499,193	3,688,963		
Impairment allowance	(6,016)	-	(6,016)	(19)		
Carrying amount	4,493,177	-	4,493,177	3,688,944		

(c). Liquidity risk

Liquidity risk management and monitoring

Under Northern Trust's risk framework, liquidity risk is governed from a first line of defence perspective by the Asset and Liability Management Policy Committee and from a second line of defence perspective by the Market and Liquidity Risk Committee. The Chief Financial Officer (International) is a member of the Asset and Liability Management Policy Committee.

On an operating basis, the Company's activities are managed by the International Treasury function with independent oversight from the Market and Liquidity Risk group within Corporate Risk Management.

The Company's liquidity risk is managed according to the Company's 'Liquidity and Investment Policy'. This sets out the governance, risk appetite, monitoring and reporting framework, including stress testing and contingency funding plans. The Directors believe this policy satisfies the liquidity risk system and control requirements of the GFSC and complies with their requirements for liquidity stress testing and contingency funding planning. The Company has received approval from the GFSC to operate under its Liquidity Management Ratio regime. The Company monitors this ratio each business day.

Overall, Northern Trust manages liquidity on a consolidated basis with scenario analysis and stress testing used to assess vulnerability to liquidity runs caused by a host of different scenarios. These include short-term and protracted scenarios for institution specific and market-wide shocks, as well as a combination of these.

The Company primarily invests excess funds with The Northern Trust Company, London Branch. The source of funding for the Company is diversified across its client base.

Residual contractual maturities of financial assets

	Carrying amount £'000	Gross nominal outflow	Less than one month £'000	One to three months £'000	Three months to one year	Greater than one year £'000
		£'000			£'000	
Cash and cash equivalents	19,995	19,995	19,995	-	-	-
Loans and advances to group banks	2,069,579	2,069,579	2,069,579	-	-	-
Loans and advances to customers	195,543	195,543	50,187	98,428	6,009	40,919
As at 31 December 2023	2,285,117	2,285,117	2,139,761	98,428	6,009	40,919

**Notes to the Financial Statements
For the Year Ended 31 December 2023**

26. Financial risk management (continued)

	Carrying amount	Gross nominal outflow	Less than one month	One to three months	Three months to one year	Greater than one year
	£'000	£'000	£'000	£'000	£'000	£'000
Cash and cash equivalents	16,251	16,251	16,251	-	-	-
Loans and advances to group banks	2,168,194	2,168,194	2,168,194	-	-	-
Loans and advances to customers	205,425	205,425	4,089	117,312	15,258	68,766
As at 31 December 2022	2,389,870	2,389,870	2,188,534	117,312	15,258	68,766

Residual contractual maturities of financial liabilities

	Carrying amount	Gross nominal outflow	Less than one month	One to three months	Three months to one year	Greater than one year
	£'000	£'000	£'000	£'000	£'000	£'000
Deposits by group affiliates	120,364	120,364	120,364	-	-	-
Deposits by customers	1,927,486	1,927,486	1,927,486	-	-	-
As at 31 December 2023	2,047,850	2,047,850	2,047,850	-	-	-

	Carrying amount	Gross nominal outflow	Less than one month	One to three months	Three months to one year	Greater than one year
	£'000	£'000	£'000	£'000	£'000	£'000
Deposits by group affiliates	121,437	121,437	121,437	-	-	-
Deposits by customers	2,037,300	2,037,300	2,030,619	6,681	-	-
As at 31 December 2022	2,158,737	2,158,737	2,152,056	6,681	-	-

Collateral

The Company has not pledged any financial assets as collateral for liabilities or contingent liabilities.

The Company holds collateral that it is permitted to sell or repledge upon default by the owner. This collateral has fair value of £1,963,889,465 (2022: £2,583,520,338) and no assets have been sold or repledged. All collateral held at 31 December 2023 is against Loans and advances to group banks split between market loans (92% collateralised by marketable securities) and reverse sale-and-repurchase agreements (99.7% collateralised by marketable securities). At 31 December 2022, all collateral held was against Loans and advances to group banks split between market loans (100% collateralised by marketable securities) and reverse sale-and-repurchase agreements (100% collateralised by marketable securities).

(d). Market risk

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

Market risk has two risk sub-categories:

i. Interest Rate Risk in the Banking Book ("IRRBB")

IRRBB is the potential for movements in interest rates to cause changes in earnings and to the Market Value of Equity.

NTGL's interest rate risk is currently measured using the Cumulative Net GAP limits. Regular reporting is produced and distributed to key stakeholders. Limits and thresholds are specified in the "Liquidity and Investment Policy".

**Notes to the Financial Statements
For the Year Ended 31 December 2023**

26. Financial risk management (continued)

ii. Trading Risk

Trading risk is the potential for movements in market variables such as foreign exchange and interest rates to cause changes in the value of trading positions. Northern Trust considers the full universe of trading risk types in assessing the presence and magnitude of trading risks.

Clients of NTGL can trade FX directly with the Company. The majority of FX positions taken by clients are covered directly with The Northern Trust Company, London Branch on a fully matched basis. NTGL does not undertake any trading activities other than Foreign Exchange activities.

Trading market risk is measured using the following metrics; FX Net Overnight Positions and FX Value at Risk. These limits are specified in the Company's "FX and Trading Book Policy".

Interest rate gap analysis As at 31 December 2023	Less than three months	Three to six months	More than six months	Non- interest bearing	Total
	£'000	£'000	£'000	£'000	£'000
Cash and cash equivalents	19,995	-	-	-	19,995
Loans and advances to group banks	2,069,579	-	-	-	2,069,579
Loans and advances to customers	195,543	-	-	-	195,543
Derivative assets	-	-	-	103,713	103,713
Prepayments and accrued income	-	-	-	5,423	5,423
Other assets	-	-	-	22,660	22,660
Fixed assets	-	-	-	8,853	8,853
Total assets	2,285,117	-	-	140,649	2,425,766
Deposits by group affiliates	120,364	-	-	-	120,364
Deposits by Customers	1,871,451	-	-	56,035	1,927,486
Other liabilities	-	-	-	30,392	30,392
Derivative liabilities	-	-	-	103,690	103,690
Provisions and accruals	-	-	-	4,142	4,142
Total liabilities	1,991,815	-	-	194,259	2,186,074
Overall interest rate gaps	293,302	-	-	(53,610)	239,692
As at 31 December 2022	Less than three months	Three to six months	More than six months	Non- interest bearing	Total
	£'000	£'000	£'000	£'000	£'000
Cash and cash equivalents	16,251	-	-	-	16,251
Loans and advances to group banks	2,168,194	-	-	-	2,168,194
Loans and advances to customers	205,425	-	-	-	205,425
Derivative assets	-	-	-	186,650	186,650
Prepayments and accrued income	-	-	-	4,520	4,520
Other assets	-	-	-	19,358	19,358
Fixed assets	-	-	-	10,746	10,746
Total assets	2,389,870	-	-	221,274	2,611,144
Deposits by group affiliates	121,437	-	-	-	121,437
Deposits by Customers	1,991,021	-	-	46,279	2,037,300
Other liabilities	-	-	-	30,862	30,862
Derivative liabilities	-	-	-	186,662	186,662
Provisions and accruals	-	-	-	4,218	4,218
Total liabilities	2,112,458	-	-	268,021	2,380,479
Overall interest rate gaps	277,412	-	-	(46,747)	230,665

**Notes to the Financial Statements
For the Year Ended 31 December 2023**

26. Financial risk management (continued)

Sensitivity analysis

A unilateral 100 basis points (2022: 100 basis points) increase in all interest rates worldwide would increase projected net interest income by the amounts shown below. This calculation assumes that the change occurred on 31 December 2023 and had been applied to all interest bearing assets and liabilities at that date. This analysis assumes that all other variables, in particular exchange rates and the balance sheet position, remain constant. The analysis was performed on the same basis for 31 December 2022.

	2023	2022
	£	£
Increase in projected net interest income	<u>3,843,474</u>	3,806,868

A unilateral 100 basis points (2022: 100 basis points) decrease in all interest rates worldwide at 31 December 2023 would have had the equal but opposite effect on the projected net interest income shown above, on the basis that all other variables remain constant.

Net currency position analysis

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

	EUR	GBP	USD	Other
	£'000	£'000	£'000	£'000
As at 31 December 2023				
Cash at bank and in hand	2,501	7,366	2	10,126
Loans and advances to group banks	212,705	736,253	1,087,977	32,644
Loans and advances to customers	14,611	8,410	172,325	197
Derivative assets	-	103,713	-	-
Prepayments and accrued income	404	1,018	3,978	23
Other assets	3,572	16,973	2,013	102
Tangible Fixed assets	-	8,852	1	-
Intangible Fixed assets	-	1	1	(1)
Total assets	<u>233,793</u>	<u>882,586</u>	<u>1,266,297</u>	<u>43,091</u>
Deposits by group affiliates	21,556	69,205	29,496	107
Deposits by customers	211,761	446,698	1,228,934	40,093
Other liabilities	457	19,665	7,379	2,891
Derivative liabilities	-	103,690	-	-
Provisions	-	2,299	-	-
Accruals	-	1,581	261	-
Total liabilities	<u>233,774</u>	<u>643,138</u>	<u>1,266,070</u>	<u>43,091</u>
Net statement of financial position exposure	19	239,448	227	-
Total forward exposure	-	-	-	-
Net currency position	19	239,448	227	-

**Notes to the Financial Statements
For the Year Ended 31 December 2023**

26. Financial risk management (continued)

	EUR £'000	GBP £'000	USD £'000	Other £'000
As at 31 December 2022				
Cash at bank and in hand	3,755	2,901	7	9,589
Loans and advances to group banks	266,240	686,236	1,121,176	94,542
Loans and advances to customers	18,155	23,704	159,688	3,878
Derivative assets	-	186,650	-	-
Prepayments and accrued income	341	1,027	3,138	14
Other assets	457	18,402	473	37
Tangible Fixed assets	-	10,744	-	-
Intangible Fixed assets	-	1	-	-
Total assets	288,948	929,665	1,284,482	108,060
Deposits by group affiliates	18,300	69,612	33,511	14
Deposits by customers	269,760	416,387	1,244,507	106,646
Other liabilities	442	23,534	5,981	905
Derivative liabilities	-	186,662	-	-
Provisions	-	1,998	-	-
Accruals	65	1,901	254	-
Total liabilities	288,567	700,094	1,284,253	107,565
Net statement of financial position exposure	381	229,571	229	495
Total forward exposure	-	-	-	-
Net currency position	381	229,571	229	495

Sensitivity analysis

A 20 percent weakening of the following currencies against the pound sterling at 31 December 2023 would have increased profit or loss by the amounts shown below. This calculation assumes that the change occurred at the balance sheet date and had been applied to risk exposures existing at that date. This analysis assumes that all other variables, in particular other exchange rates and interest rates, remain constant. The analysis was performed on the same basis for 31 December 2022.

	2023 £	2022 £
Foreign exchange gain		
EUR	20,474	93,267
USD	33,725	35,026

A 20 percent strengthening of the above currencies against the pound sterling at 31 December would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(e). Capital management

The Company's lead regulator, the GFSC, sets and monitors capital requirements for the Company as a whole. The ultimate parent company is directly supervised by its local regulator.

The Company's regulatory capital is comprised entirely of Tier 1 capital, which includes ordinary share capital and retained earnings less net pension scheme asset.

	2023 £	2022 £
Tier 1 capital	236,281,333	226,055,681

**Notes to the Financial Statements
For the Year Ended 31 December 2023****26. Financial risk management (continued)****Total capital**

The Company's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Company has complied with all externally imposed capital requirements throughout 2023.

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

27. Pension commitments**Nature of the scheme**

The Northern Trust (Guernsey) Limited Pension Scheme ("the Scheme") operated by the Company is a funded defined benefit arrangement which provides retirement benefits based on Final Pensionable Salary. The scheme closed to the future accrual of benefits with effect from 31 July 2010. All remaining active members were treated as having left Pensionable Service with effect from that date but with special benefit provisions.

The Scheme is an approved scheme in both Guernsey and Jersey. Approval in Guernsey is under Article 150 of the Income Tax (Guernsey) Law, 1975, as amended, and approval in Jersey is under Article 131 of the Income Tax (Jersey) Law, 1961 as amended. The Scheme must comply with the relevant legislation in Guernsey and Jersey. There is no pensions regulator or minimum funding requirement in these jurisdictions and no requirement for an independent trustee.

The Scheme is approved in the Isle of Man by the Assessor of Income Tax under the Income Tax (Retirement Benefit Schemes) Act, 1978 and is an authorised scheme with the Isle of Man Financial Services Authority under the Retirement Benefits Scheme Act, 2000. The Scheme is subject to regulation by the Insurance and Pensions Authority and by the Income Tax Department.

The Trustee, Northern Trust Pension Plan (Guernsey) Limited, is responsible for the Scheme's investment policy and for the exercise of discretionary powers in respect of the Scheme's benefits. The Trustee determines the level of contributions payable to the Scheme following agreement from the Company and advice of the Scheme's Actuary in accordance with the Funding Agreement from the Company and Guarantee from The Northern Trust Company.

Exposure to risk

The Company is exposed to the risk that additional contributions will be required in order to fund the Scheme as a result of poor experience. Some of the key factors that could lead to shortfalls are:

- investment performance - the return achieved on the Scheme's assets may be lower than expected;
- mortality - members could live longer than foreseen. This would mean that benefits are paid for longer than expected, increasing the value of the related liabilities; and
- options for members - members may exercise options resulting in unanticipated extra costs.

The Scheme currently holds a modest level of its investments in equities. This exposes the Company to the risk of a general downturn in equity markets.

In order to assess the sensitivity of the Scheme's pension asset to these risks, sensitivity analyses have been carried out. Each sensitivity analysis is based on changing one of the assumptions used in the calculations, with no change in the other assumptions. The same method has been applied as was used to calculate the original pension liability and the results are presented in comparison to that liability. It should be noted that in practice it is unlikely that one assumption will change without a movement in the other assumptions; there may also be some correlation between some of these assumptions. It should also be noted that the value placed on the liabilities does not change on a straight line basis when one of the assumptions is changed. For example, a 2% change in an assumption will not necessarily produce twice the effect on the liabilities of a 1% change.

The Scheme currently operates a dynamic asset management strategy, including automatic strategic de-risking from growth to matching assets, in order to reduce investment risk.

Restriction of Assets

The Company's interpretation of the Scheme's Rules is that the Company would have an unconditional right to a refund if there were any surplus assets on wind-up. Therefore, no IFRIC 14 adjustments are made to the balance sheet items and any balance sheet assets which may arise are recognised in full.

**Notes to the Financial Statements
For the Year Ended 31 December 2023**

27. Pension commitments (continued)

Scheme Amendments

There have been no past service costs or settlements in the financial year ending 31 December 2023 (2022: Nil).

Funding policy

Following the cessation of accrual of benefits with effect from 31 July 2010, regular contributions to the Scheme are no longer required. However, additional contributions are still made to cover any shortfalls that arise following each valuation. The funding method employed to calculate the value of previously accrued benefits is the Projected Unit Method. The Trustee determines the level of contributions payable to the Scheme following agreement from the Company and advice of the Scheme's Actuary in accordance with the Funding Agreement from the Company, and Guarantee from The Northern Trust Company. All of the Scheme's assets have a quoted market price in an active market. The Scheme holds no financial instruments issued by the Company or by Northern Trust group (other than incidentally through investment in pooled funds), nor does it hold any property or other assets used by the Company or by the Northern Trust group.

Composition of plan assets:

The assets of the Scheme can be categorised as follows:

	2023	2022
	£	£
Equities	2,300,910	2,808,731
Gilts	22,307,599	21,612,261
Corporate Bonds	687,849	1,239,119
Property	356,822	549,053
Cash and net current assets	445,559	826,950
Total plan assets	26,098,739	27,036,114

	2023	2022
	£	£
Fair value of plan assets	26,098,739	27,036,114
Present value of plan liabilities	(22,686,630)	(22,414,771)
Net pension scheme asset	3,412,109	4,621,343

The amounts recognised in profit or loss are as follows:

	2023	2022
	£	£
Interest on obligation	1,040,256	692,596
Interest on assets	(1,262,080)	(822,581)
Total	(221,824)	(129,985)
 Actual return on scheme assets	 548,173	 (18,107,654)

**Notes to the Financial Statements
For the Year Ended 31 December 2023**

27. Pension commitments (continued)

Reconciliation of fair value of plan liabilities were as follows:

	2023	2022
	£	£
Opening defined benefit obligation	22,414,771	39,032,686
Interest on obligation	1,040,256	692,596
Experience losses/(gains)	355,857	(475,934)
Losses/(gains) from changes in financial assumptions	675,848	(15,694,429)
(Gains) from changes in demographic assumptions	(314,554)	(29,836)
Benefits paid (pensions in payment and withdrawals)	(1,485,548)	(1,110,312)
Closing defined benefit obligation	22,686,630	22,414,771

Reconciliation of fair value of plan assets were as follows:

	2023	2022
	£	£
Opening fair value of scheme assets	27,036,114	46,254,080
Interest on assets	1,262,080	822,581
Return on assets (not included in interest)	(713,907)	(18,930,235)
Benefits paid (pensions in payment and withdrawals)	(1,485,548)	(1,110,312)
	26,098,739	27,036,114

The cumulative amount of actuarial gains and losses recognised in the Statement of Comprehensive Income is £5,558,748 loss (2022: £4,127,690 loss).

The Company does not expect to contribute to the Scheme in 2024.

	2023	2022
	£	£
Analysis of actuarial gain/(loss) in Other Comprehensive Income		
Actuarial (loss) / gain on defined benefit schemes	(717,151)	16,200,199
Return on defined pension scheme assets (not included in interest)	(713,907)	(18,930,235)
	(1,431,058)	(2,730,036)

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

	2023	2022
	%	%
Discount rate at the end of the year	4.5	4.8
Discount rate at the start of the year	4.8	1.8
Inflation	3.2	3.2
Rate of Increase in Baring Asset Management (CI) Limited individuals and former active members as at 31 July 2010 Deferred Pensions	3.2	3.2
Rate of Increase in Manx Deferred Pensions (in excess of GMPs)	2.7	2.7
Rate of increase in Guernsey, Jersey and Baring Asset Management (CI) Limited Pensions in Payment	2.5	2.5
Rate of Increase in Manx Pensions in Payment - pre 6 April 1997 Service	2.5	2.5
Rate of Increase in Manx Pensions in Payment - post 6 April 1997 Service	2.7	2.7

The mortality assumptions are based on standard mortality tables which allow for future mortality improvements. The assumptions are that a member aged 60 will live on average until age 88 if they are male and until age 89 if they are female. For a member currently aged 50 the assumptions are that if they attain age 60 they will live on average until 88 if they are male and until age 90 if female.

**Notes to the Financial Statements
For the Year Ended 31 December 2023****27. Pension commitments (continued)**

The following table illustrates the sensitivity of the Defined Benefit Obligation at 31 December 2023 to changes in the significant actuarial assumptions.

	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.5 %	Decrease by 7.4%	Increase by 8.3%
Inflation	0.5 %	Increase by 3.6%	Decrease by 4.1%
Scaling factor applied to base mortality table		Change to 105% Decrease by 1.0%	Change to 95% Increase by 1.1%

28. Controlling party

The Company is a wholly owned subsidiary of Northern Trust Guernsey Holdings Limited, which is registered in Guernsey. The ultimate holding company is Northern Trust Corporation, incorporated in The United States of America. The results of the Company are consolidated within the ultimate holding company. The consolidated financial statements can be obtained through the Corporation's website at www.northerntrust.com.

29. Financial guarantees

The Company has provided credit guarantees to certain third parties with respect to default on behalf of a number of clients. These guarantees amount to £2,084,800 (2022: £2,580,843).

30. Post balance sheet events

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

Statement of Financial Resources
As at 31 December 2023

	2023
	£
Net assets:	
Gross capital per the balance sheet	239,693,442
less:	
Investments in subsidiaries	(100)
Intercompany debtors	(6,718,467)
Pension asset	(3,412,109)
Tangible fixed assets	(8,853,070)
Intangible fixed assets	(545)
	<hr/>
Net assets after adjustments	220,709,151
less:	
Contingent liabilities	(2,084,800)
	<hr/>
Net assets after adjustments, contingent liabilities and risks	218,624,351
Financial resources requirement (The Licensees (Capital Adequacy) Rules, 2023)	4,000,000
	<hr/>
Excess financial resources	214,624,351
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