Euroclear SA/NV

Consolidated financial statements
at 31 December 2017

Contents

Directors' report

The directors of Euroclear SA/NV are pleased to present their report, together with the audited consolidated financial statements of the company and its subsidiaries (the ‘group’) for the year ended 31 December 2017.

Group overview and principal activities

The Euroclear group is the world's leading provider of post-trade services. The group provides settlement, safekeeping and servicing of domestic and cross-border securities, with asset classes covered including bonds, equities and investment funds. The Euroclear group includes the International Central Securities Depository (ICSD), Euroclear Bank, based in Brussels, as well as the domestic Central Securities Depositories (CSDs) Euroclear Belgium, Euroclear Finland, Euroclear France, Euroclear Nederland, Euroclear Sweden and Euroclear UK & Ireland. Euroclear Bank is the only credit institution in the Euroclear group. Euroclear SA/NV provides system development and support services to the other companies of the group. Euroclear plc is the holding company which owns, directly or indirectly, the entire issued share capital of these companies.

Euroclear SA/NV is headquartered in Brussels and operates three branches in Amsterdam, London and Paris. The group’s domestic CSDs are headquartered in their local markets. Euroclear Bank is headquartered in Brussels and operates branches in Hong Kong, Krakow and Tokyo, established in 2017.

Euroclear Bank’s branch in Krakow, Euroclear Bank SA/NV (Spółka Akcyjna) - Oddział w Polsce, officially opened in January 2013. By the end of 2017, it had grown to 550 employees who serve our global client base. The Krakow branch provides a dual-office arrangement with Euroclear Bank’s existing operations in Belgium.

With 146 employees, the Hong Kong Branch of Euroclear Bank SA/NV is an important contributor to client servicing in Asia. Through the Hong Kong office, we are able to provide clients with a global service offering, despite the time zone difference with our headquarters in Europe.

In November 2017, Euroclear Bank was granted a licence from Japan's Financial Services Agency (FSA) to establish a foreign bank branch under the Japan Banking Act. This enabled Euroclear Bank to strengthen its capabilities in Japan so to provide a more convenient and comprehensive service to its clients and help them conduct their business more efficiently.

DTCC-Euroclear Global Collateral Ltd is a joint venture shared equally between Euroclear SA/NV and The Depository Trust & Clearing Corporation (DTCC), founded in September 2014. Through DTCC-Euroclear Global Collateral Ltd, we will enable the automatic transfer and segregation of collateral based on agreed margin calls relating to over-the-counter (OTC) derivatives and other collateralised contracts.

In June 2017, Euroclear SA/NV acquired 35% of Quantessence, a UK based company. This will reinforce the capacity of Euroclear SA/NV to establish an infrastructure to connect market participants (distributors, investment managers and investment banks) active in Individualised Constant Proportion Portfolio Insurance (iCPPI) services.

In November 2017, Euroclear Bank sold its equity stake in Calar Belgium SA/NV to Euroclear Investments SA. Calar Belgium SA/NV is a real estate company of the group which owns 51% of the Euroclear Head Office building in Brussels where one of the 3 Euroclear data centers is hosted.

In December 2017, Euroclear France sold its data center building to Euroclear Properties France, another group real estate entity a (100% subsidiary of Euroclear Investments SA), owning the group third data center building located near Paris. This transaction aimed at centralizing the management of Euroclear data center premises.

Finally, in December 2017, Euroclear SA/NV decided to liquidate Euroclear Market Solutions Limited and as a result, will gradually stop providing central infrastructure services enabling banks and their counterparties to manage operations payables and receivables claims.

Business review

Our strategy for evolving capital markets

Euroclear’s strategic vision is to remain a leading partner for the global capital markets, by connecting our traditional European core to the world’s financial markets and by providing services that improve efficiency and meet specific client needs.

In the context of evolving financial markets, participants seek to work with a trusted market infrastructure to benefit from operating stability and resilience, greater collateral mobility and access to liquidity, and higher levels of process automation.

The Euroclear group is committed to helping its clients navigate the rapidly changing operating environment and growing need for liquidity, including through new opportunities to develop innovative, value-add solutions that ensure our long-term relevance to clients.

In addition, we are also investing in initiatives to ensure compliance with regulatory frameworks. Our ambition goes beyond compliance to fully embrace the spirit of the regulations in making financial markets safer.

Investing to strengthen our European core

Europe has been moving towards a single regulated marketplace covering every facet of its financial markets. In line with the European Commission's plans for a Capital Markets Union (CMU), the new Central Securities Depositories Regulation (CSDR) brings a single, pan-European rulebook to the post-trade sector, while the European Central Bank's TARGET2-Securities (T2S) platform now provides a central settlement environment for the Eurozone.

Euroclear has a long-standing commitment to Europe, holding 60% of Eurobonds (principally through Euroclear Bank, the group's ICSD) and over 50% of European capital market securities across the group's seven (I)CSDs across the region. As the operating environment continues to evolve, we continue to intensify investment that supports clients in navigating these changes, while enhancing the safety and efficiency of Europe's capital markets.

- *CSDR*

CSDR is an important step in harmonising European financial markets, by providing a single, pan-European rulebook for CSDs, with an aim to improve the safety and efficiency of settlement systems and processes.

Overall, the effect of CSDR has been to further strengthen our approach to risk management, internal controls and governance. The changes required by CSDR further reinforce Euroclear's role as a provider of safe and efficient financial market infrastructure, while also cementing independent responsibility and accountability within the operating entities.

A significant development in meeting the new requirements has been to shift in the governance structures of the (I)CSDs. As well as increasing the number of independent directors on the CSD Boards, the transition to CSDR has reinforced the role played by the User Committees, bringing a more formal role to these client-led market advisory bodies.

Having submitted the initial applications for authorisation of the Euroclear (I)CSDs under CSDR in line with the official timelines, we continue dialogue with our regulators in each jurisdiction to complete the filings. We continue to implement CSDR programmes across the Euroclear group, working with clients and partners to meet compliance with the provisions of the regulation.

- *Target2-Securities*

Having successfully connected Euroclear's ESES CSDs (Euroclear Belgium, Euroclear France and Euroclear Nederland) to the T2S platform in 2016, we have continued to invest in new opportunities to help clients access liquidity and finance their activity more effectively.

We are making headway in our ambition to become the gateway to European markets connected to T2S. Euroclear's ESES CSDs now offer direct access in central bank money to six major T2S markets (Belgium, France, Germany, Italy, Netherlands and Spain) as either issuer or investor CSD. Clients benefit from access across eligible asset classes including equities, fixed income securities, domestic funds and ETFs, supplemented by a range of value-add services.

We partnered closely with a pilot client to develop this solution which went live towards the end of 2017, and have already seen several large market participants subscribe to our solution in 2017 and early 2018.

- *Safe and stable domestic CSDs*

We continue to invest in our domestic CSDs to provide robust market infrastructures for the markets we service, namely the Belgium, Finland, France, Ireland, Netherlands, Sweden and the UK.

In preparation for the United Kingdom's departure from the European Union, we are working closely with Irish market participants to develop a sustainable, long-term solution to deal with changes required in the way the group settles Irish securities markets via TARGET2. As such, subject to regulatory approvals, we will establish a new CSD, based in Ireland, that will share the CREST settlement system that we currently operate by Euroclear UK & Ireland.

A key focus for us has been the work to replace Euroclear Finland's entire securities processing infrastructure with a new settlement system, known as Infinity. We continue preparations to launch the second phase in 2018 with an aim to make Infinity being one of the first CSD systems to reach the levels of European ISO standards for corporate action services. We are working with clients and the ECB on the future implementation schedules for Phase 3 to ensure the delivery of a safe and stable connection to T2S.

We have also been investing in the VPC system, Euroclear Sweden's existing IT platform as we extend its functionality to meet the demands of CSDR. Furthermore we have implemented ISO standards on the VPC system in the area of funds and corporate actions.

Growing relevance in global initiatives

As an open financial market infrastructure, we support the evolving requirements of our clients as they look to benefit from the opportunities created by an interconnected global economy.

- *Global collateral management*

Increasingly, financial market participants require collateral that can be mobilised across borders and time zones. The demand for collateral will only continue to accelerate, driven by the end of quantitative easing and the impact of new global regulations which require clients to post margin across transactions to reduce counterparty and systemic risk.

One area of regulatory change is the new regime for margin requirements for non-cleared derivatives. Following the successful processing of the large number of new contract pairs for Wave 1, in September 2016, we continued to work with market participants to smoothly and successfully on-board Wave 2 clients during 2017.

Through the Collateral Highway, we support the financial market's requirement for a neutral, interoperable utility to source, mobilise and segregate collateral. It provides a comprehensive solution for managing collateral, offering clients a complete view of exposures across the full spectrum of their asset classes.

In addition to more traditional collateral management functions (typically repos, securities lending, derivatives and access to central bank liquidity), our range of collateral management solutions includes dedicated services for corporate treasurers, and a specialised equities collateral management service.

By the end of 2017, the average daily collateralised outstanding on the Collateral Highway reached €1.2 trillion with growth across business lines.

During the course of 2017, we launched our new EasyWay contract management solution. This provides collateral management practitioners with a simple and intuitive online tool to negotiate, create and amend their collateral contracts, vastly speeding up what has traditionally been a long and arduous process.

Our joint venture with the Depository Trust & Clearing Corporation (DTCC), DTCC-Euroclear Global Collateral Ltd (DEGCL), is connecting two of the most important pools of collateral to provide a truly global, end-to-end collateral management solution. In 2017, DEGCL gained the necessary regulatory approvals and successfully completed pilot programmes, ahead of an expected ramp up in client on-boarding for its collateral processing services in 2018.

- *Servicing funds*

Asset managers are increasingly investing across a global marketplace, and as such are beneficiaries of our expanding international reach, including into growth economies (as outlined in International Markets). Moreover, their objectives as funds promoters are similar to that of debt management offices in enabling broad and efficient access to their issuances. Euroclear FundsPlace seeks to meet their distribution strategies by developing its range of funds-specific trade and post-trade services.

The funds industry is embarking on a period of significant evolution driven by pressures to increase transparency and efficiency throughout the investment chain, providing choice to investors with new and innovative solutions, and as new business models arise that meet the needs of an increasingly global and technologically savvy customer base. Through FundsPlace, we look to accompany the industry and meet its evolving requirements.

For example, we are actively engaged in developments to bring smarter transaction processing and DLT solutions that creates greater transparency to support clients meet Know Your Customer and Anti Money Laundering regulations.

Additionally, in line with our intentions to bring greater transparency to the marketplace, we implemented a number of changes to our FundsPlace pricing models. In doing so, we have provided a more competitive offer to a number of market segments, particularly in the UK and cross-border markets where we redeveloped our FundsPlace business model to be more scalable. These changes were supplemented by a strengthened risk and operational framework for both our mutual funds and alternative businesses.

Our platform includes account opening, order routing, settlement, transparency, data mining, underlying optimisation and asset servicing. It also provides access to a network of over 900 fund administrators, and we routed over 10.5 million funds orders through our platforms in 2017. We are continuing to deliver a more flexible service while allowing clients to leverage our fully automation to reduce cost, risks and complexity associated to processing fund trades.

A major trend in the fund management industry in recent years has been the rise of passive management. We have been at the centre of innovation in the Exchange-Traded Fund (ETF) market by developing the international ETF structure.

With its simplified issuance structure, the international model is attractive to both ETF issuers and the international investor community. Today approximately 40% of the European ETF industry is in the international form. Innovation in the ETF space continues, and we have begun to see traction in using the asset class for collateral management purposes.

During 2017, we have continued to on-board major ETF issuers to the international model. Both JP Morgan Asset Management and Franklin Templeton chose to issue European ETFs through Euroclear for the first time last year, using the international model, benefitting from our multicurrency solution and large settlement window.

In early 2017, GF International Asset Management announced the launch of an international ETF, which would be the first fund product launched by a Europe-based Chinese asset manager that gives investors access to large and mid-cap equities on the Shanghai and Shenzhen stock exchanges in China via the Renminbi Qualified Foreign Institutional Investor (RQFII) scheme.

- *International markets*

Across the globe, growth economies are seeking to attract foreign investors to help fund long-term development needs. At the same time, international investors are seeking opportunities to diversify and increase the profitability of their investments around the world, particularly during a period of historically low yields in Europe and North America.

To this end, we made further progress in bringing benefits to domestic capital markets that might otherwise have more limited access to global participants, with the aim of bringing more efficient capital flows and providing stability to these financial markets. In 2017, we made particularly strong progress in connecting with Latin American markets.

At the start of 2017, the Chilean government announced a series of reforms to open access to the country's domestic financial markets to international investors. This was a result of close cooperation between the Chilean Ministry of Finance and Euroclear to align post-trade processes with international standards and to set up a link with Euroclear Bank.

In July, we reached a similarly historic milestone with Peru, as Euroclear Bank and the Peruvian Ministry of Economy and Finance launched a domestic link to enable international investors to invest more easily in Peruvian local government bonds. By becoming 'Euroclearable' Peru also aligned its capital market infrastructure to globally recognised standards.

We have also continued to collaborate closely with other domestic markets to support them in reaching an international investor base.

Exploring innovative value-add solutions

Our strategy extends to exploring opportunities to support our clients' evolving needs, through innovation in both in our existing core business lines and by entering new areas that reflect our ambitions to increase safety and efficiency in global capital markets.

We believe that data solutions and information services could play an important function in bringing greater transparency and liquidity in global fixed income markets. With our ambition of enabling greater efficiency and risk management to capital market participants, we have launched a new business line, Euroclear Information Solutions (EIS).

Through EIS we will provide clients with new solutions that increase transparency in the trading dynamics and government bonds, initially by measuring actual liquidity at an aggregated level, with further product launches planned for 2018. The EIS business line complements existing Euroclear services, including the Collateral Highway, in supporting client requirements for liquidity and collateral management solutions.

We regularly take a collaborative approach by partnering with specialised providers, particularly in financial technology, to develop solutions efficiently. For example, we are a founding shareholder in Liquidshare, a new FinTech venture that aims to develop post-trade infrastructure for European small and medium enterprises (SMEs) harnessing distributed ledger technology.

We have also continued exploring ways to make the post-trade sector work more smoothly. Launched during 2016, Euroclear Bank's partnership with Taskize, an innovative solution that helps people across financial operations to work together now has over 100 clients. We are now planning to begin offering the Taskize service via other group CSDs.

Key business parameters

Net fee and commission income stems mainly from the provision of settlement, asset servicing and other services.

- Settlement related fee and commission income is a function of the number of international and domestic transactions settled in the Euroclear group and is thus impacted by trading activities and investor confidence in the financial markets.
- Asset servicing related fee and commission income is mainly a function of the value of securities held for Euroclear clients in our (I)CSDs. The value of bonds is based on nominal value, whilst for equities, their market value is taken into consideration.
- Other services include global Collateral Highway services. The global Collateral Highway services generate income in relation to the daily value of collateral provision outstanding, which is impacted by the activity in the repo market as well as by other factors such as the ECB's liquidity programmes, including long-term refinancing operations.

Interest income stems principally from Euroclear Bank's clients' cash balances invested partially in short term deposits and in money market short term securities and from the investment of Euroclear Bank's capital, together with retained earnings. Interest income is dependent on the evolution of short-term interest rates.

Administrative expenses include staff costs, depreciation and amortisation as well as other operating expenses. Administrative expenses are impacted to a certain level by business volume levels as well as by inflation.

Operating highlights

The Euroclear group delivered robust business performance in 2017 driven by increased activity levels despite higher regulatory and Cyber Security cost pressures.

The value of securities held for Euroclear clients at the end of 2017 reached an all-time high of €28.6 trillion, a 3% increase compared to €27.7 trillion in 2016.

Turnover, or the value of securities transactions settled, increased by 12% to €732.8 trillion in 2017. The number of netted transactions settled in the Euroclear group achieved 214.8 million in 2017, a 10% increase compared to 195.9 million in 2016.

Euroclear's global Collateral Highway was a record of average daily outstandings at the end of 2017 of €1,149.6 billion, up by 7% compared to last year. The sustained volumes in the Euroclear's global collateral management infrastructure reflect strong needs from market participants to reduce settlement risk and maximise their asset protection, in line with regulatory requirements.

Average overnight cash deposits decreased by 5% in 2017 to €17.1 billion compared to €18.1 billion in 2016.

Financial performance highlights

The consolidated results for the year are set out on page 18 of the financial statements.

Net fee and commission income reached €1,005.8 million in 2017, an increase of 2% compared with last year.

Net interest income reached €151.8 million, compared to €123.1 million last year, due to higher interest rate margins despite lower average client's balances.

Net interest and fee income reached €1,157.6 million, an increase of 4% compared with last year.

Other income reached €103.6 million in 2017, compared to €56.2 million last year due to higher gains on financial assets and liabilities held for trading as well as to one-off capital gains realized on the sale of Calar Belgium's equity stake by Euroclear Bank SA/NV to Euroclear Investments SA together with the sale of the datacenter building by Euroclear France SA to Euroclear Properties France SA.

Operating income is composed of net fee and commission income, net interest income and other income and reached €1,261.1 million, an increase of 8% compared with 2016 or 5% after adjusting for the one gains realized on the real estate transactions mentioned above.

Administrative expenses reached €802.3 million in 2017, compared to €926.3 million in 2016. Excluding all one-off expenses in 2016 and 2017, the administrative expenses are up by close to 9% compared to last year.

Operating profit before taxation was €439.4 million, an increase of 91% compared with €227.6 million in 2016. After excluding one-off expenses in 2016 and 2017 and adjusting for one-off gains on real estate transactions and on deferred tax asset in DEGCL recognized in 2017, the operating profit before taxation decreased by 2% compared to last year.

Taxation: The effective tax rate is increased at 37%, compared to 26% in 2016. The increase is mainly linked to the reassessment of Deferred Tax Assets on Losses carried forward recognised In Euroclear SA/NV due to the change in the tax rates, which resulted in a decrease in those Deferred Tax Assets. Indeed the effective tax rate in 2017 reaches 31% when excluding such one-off item.

Profit for the year: The profit after tax for the year ended 31 December 2017 reached €275.7 million, compared with a profit of €167.9 million for the year ended 31 December 2016. When corrected for all the elements mentioned above, the profit of the year decreased by around 16% compared to last year, reflecting the adjusted operating income and administrative expenses trends in 2017.

Balance sheet: Total assets amounted to €21,639 million on 31 December 2017, down by €623 million compared to the previous year mainly driven by lower Deposits from central banks, banks and customers which are down together by about 6% at €17.1 billion in total. Total shareholders' equity is higher at €3,682 million in 2017 compared to €3,354 million in 2016 before ordinary dividend distribution, mainly driven by the profits of the year.

Share capital: The total number of issued shares of Euroclear SA/NV remained flat, amounting to 12,014,560 at the end of 2017.

Employee evolution

The average number of persons employed by Euroclear SA/NV during the year was 3,919 compared to 3,940 in 2016.

Post balance sheet events

There are no important post-balance events to report for the company and its subsidiaries except for the ordinary dividend proposed to group shareholders.

Information on circumstances that might materially influence the development of the consolidated perimeter

No circumstances occurred that might materially influence the development of the company.

Research and development

The Euroclear group has continued investing in research and development. These investments are linked to the performance and resilience of our systems as well as business developments, which are described in more detail in the 'Business review' section of this report. The group also continued investing in market research in line with its mission to provide increasingly commoditised market infrastructure services.

Risk management in Euroclear

Enterprise Risk management framework and governance

Euroclear operates within highly regulated market infrastructure regime, and is a user owned organisation with extensive client participation at Board-level. Euroclear intends to maintain its strong reputation in the financial industry for its safety and resilience, and for the quality of its products and post-trade services.

In this context, the Board considers that a comprehensive and effective risk governance framework, underpinned by a sound risk culture, is critical to the overall effectiveness of Euroclear's risk management arrangements. To ensure the organisation's risk arrangements continue to meet Board, market and regulatory expectations, the Euroclear group is progressing with its group-wide risk transformation programme across the three lines of defence. The programme aims to reinforce Euroclear's risk management framework in line with the increasing regulatory requirements including further clarification of the roles and responsibilities of the Board and its Committees, Senior Management, Line Management, and its independent Control Functions. Focus has also been placed on continuous integration of regulatory changes into the overall risk framework.

The Board oversees the effectiveness and independence of the control functions. In particular, it ensures that the Risk Management function provides robust, independent oversight of risk-taking activities to help Euroclear SA/NV achieve its goals and deliver its strategy within the Board's risk appetite. The Risk Management function does this by: aiming to deliver and maintain an appropriate Enterprise Risk Management (ERM) framework; providing the Board and Senior Management with high quality, independent risk advice and guidance; and helping foster a healthy risk culture throughout the organisation. As part of the risk transformation programme, the Risk Management function continues to reinforce its regulatory monitoring and risk management capabilities.

The ERM framework structures the way Euroclear SA/NV manages its risks, within the Board's risk appetite, whilst pursuing its strategy and corporate objectives. It also details the roles and responsibilities of the three lines of defense, in line with the Board's expectations and the governance arrangements.

The first line of defense is the primary source of (non-independent) assurance on the adequacy and effectiveness of the control environment to Senior Management and the Board. The first line of defense provides this assurance through, amongst others, regular risk and control self-assessments, positive assurance reports, semi-annual assurance maps and an annual internal control system report. The assurance maps are complemented by independent Risk Management (second line of defense) and Internal Audit (third line of defense) opinions. This regular reporting by the three lines of defense provides frequent, effective and comprehensive monitoring of the control environment. Moreover, it, contributes to the effective operation of Euroclear's three lines of defense model whereby the Risk Management function plays its role as an independent challenger to the first line of defense and where Internal Audit provides comprehensive assurance based on the highest level of independence.

Risks affecting the group

All of our entities face *operational* risk (the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events). Euroclear has an operational risk management framework embedded in each entity, which in the context of CSDR licensing is being refined further. Effective identification, monitoring, management and appropriate reporting are at the centre of our approach. Being a market infrastructure, the integrity, confidentiality and availability of our, and our clients', data and the continuous availability of our services is very important.

Members of the Euroclear group are designated as critical national infrastructure in seven countries. Therefore, as security and resilience is a key aspect of our approach to operational risk, we have developed and tested comprehensive processes in all entities to ensure the security and continuous availability of business-critical services, including effective management response to incidents and crises. All locations have appropriate security and contingency arrangements for recovery from workplace disruptions; supplemented by three geographically separate data centres to sustain operations in the event of a local and regional- scale disaster. Disaster recovery response capability is proven through regular switches of activity between the primary data centres. We also regularly exercise and test our operational and management response and provide adequate training at all levels of the organisation.

Financial risks are borne mainly by the ICSD, Euroclear Bank, in its role as single-purpose settlement bank. The CSDs of the group have a very low risk appetite. They offer only securities settlement services in central bank money and do not provide credit to clients. They do not engage in operations with counterparties, except for the investment of their own funds.

As a settlement bank, Euroclear Bank mainly faces collateralised intra-day *credit* exposures on its clients. In addition, it runs credit risk resulting from the intra-day use of a high-quality correspondent network and from short-term placements, mainly by using reverse repos, of clients' end-of-day cash positions in the market with high-quality counterparties.

Because *liquidity* is key for the efficient functioning of Euroclear Bank, it has built a robust liquidity management framework to ensure smooth day-to-day operations and maintain a high level of preparedness to cope with unexpected and significant liquidity shocks.

A very low level of *market* risk (interest rate and foreign exchange rate risks only) arises as a by-product of the investment of Euroclear Bank's capital (interest rate risk) and future earnings (interest rate and foreign exchange rate risks). There is no trading activity. A hedging strategy is in place to mitigate Euroclear Bank's interest rate risk and foreign exchange risk.

Euroclear SA/NV also faces *conduct & culture* and *legal & compliance* risks given its position as a leading financial market infrastructure operating in a highly regulated environment. These risks are managed through robust application of Euroclear's compliance risk management framework.

The ability to anticipate and integrate change in an evolving market is essential for the longer term strategy of the group. Therefore, Euroclear has established a framework to increase the robustness of our project and programme management capabilities.

Compliance

The group-wide ethical and compliance risk management framework enables Euroclear to adequately identify, monitor and manage the full spectrum of legal and compliance risks (including conduct risk). These include, amongst others, fraud, market abuse and money laundering. In addition, a specific focus is devoted to controls linked to economic sanctions taken by authorities. This framework is supported by a major communication effort (e-learning, case-based compliance tests, etc.) that helps maintain high levels of staff awareness.

In 2017, to further enhance its compliance framework, Euroclear appointed a new head of Compliance and Ethics, Regulatory Affairs, Government Relations and Public Affairs who joined from Autorité des Marchés Financiers (AMF) where he headed up Regulation Policy and International Affairs as Deputy General Secretary since 2014.

Supervision and regulation

The National Bank of Belgium and the Financial Services and Markets Authority are the supervisors of Euroclear Bank. The National Bank of Belgium is the lead regulator of Euroclear SA/NV. In addition, individual CSDs are supervised by their respective local regulator and central bank, which set and monitor, among others, their capital adequacy, liquidity requirements, governance and internal control systems.

Recovery plan

In line with regulatory rules and guidance, recovery plans are in place for each of the group entities as well as for the group itself. These plans are actively reviewed and approved by the Board of Directors, upon recommendation of the Risk and Audit Committees on a yearly basis. These recovery plans are designed to allow Euroclear entities to recover their financial health in the face of extreme but plausible stress scenarios and thereby avoid going into resolution. To that aim, they identify and analyse a number of recovery options that the entity could take in order to restore its capital base, liquidity position or profitability, over a short- to- medium timeframe.

Detailed information on the risks faced by Euroclear, as well as its risk management strategies, policies and processes can be found in Euroclear's yearly Pillar 3 report on www.euroclear.com as well as in Note IV to the consolidated financial statements.

Non-financial information

Our responsibility

Serving the public good is a fundamental part of our business model. By ensuring the efficiency and safety of the markets and actively enabling risk reduction, we are a driving force in maintaining market stability.

We run our Corporate Responsibility programme in alignment with our business strategy, by conducting business in an ethical, responsible and sustainable way, while giving back to the wider community.

In 2017, we kicked off a stakeholder consultation process to ensure that we address the most relevant and material topics for our business, identifying opportunities where we can make the most impact. We have also aligned our programme around the relevant United Nations' Sustainable Development Goals (SDGs), specifically SGDs 1, 5, 8, 10, 11 and 13. In 2018, we will be creating a full Sustainability report using the Global Reporting Initiative (GRI) framework.

Having assessed what is material for Euroclear, our Corporate Responsibility framework is organised around four streams:

- Workplace
- Marketplace
- Environment
- Community

Workplace

In line with SDG 5 Gender Diversity and SDG 10 Reduced inequalities, we aim to create a workplace where respect for human rights, diversity and equality are key strengths in helping us achieve our business goals.

Our people are critical to our success. Ensuring a well-trained, diverse mix of people of all ages, nationalities and backgrounds with a wide range of skills is key to delivering our business strategy in an increasingly complex environment.

Our ability as a company to face future challenges depends largely on our employees' capacity to grow and develop. Development is a key part of our people strategy.

We actively promote internal mobility, with 373 colleagues changing function this year through our internal mobility opportunities. We have continued to build on the success of our Leadership Development Programme by coaching 275 employees in leadership skills in 2017. We also launched our Euroclear Career Development Centre, where a team of dedicated Career Advisors are available to support employees who need advice on their career path.

Our internal coaching service has become an important aspect of both individual and team development, engaging around 450 employees in 2017. We are also very pleased that our internal coaching training programme has been accredited by the Institute of Leadership and Management (ILM). This means we are now able to train members of staff in an internationally recognised coaching qualification.

Our annual staff engagement survey allows us to obtain a highly representative picture of the organisation and to take appropriate action, based on the results. In 2017, 86% of our staff participated in the survey, with an overall satisfaction rating of 69%, which is broadly in line with 2016. In 2017, we continued to strengthen our expertise in critical domains with the hiring of 384 new employees across locations.

Ensuring employee well-being

We are committed to providing our people with a balanced approach to work/life integration, offering opportunities for teleworking and flexible work arrangements. Our staff can also take advantage of an independent Employee Assistance Programme across all locations, offering confidential advice on a wide range of topics.

We take our people's well-being seriously, understanding that a healthy workforce is vital to delivering on our goals. We realise that the working environment can be demanding and, to this end, we provide a range of well-being initiatives, depending on the location. Examples of such are:

- Comprehensive health insurance coverage
- Regular check-ups for employees over 45
- Mindfulness sessions
- Sporting activities
- Stress management
- Healthy eating options
- Quiet rooms where staff can relax during the day

Building on our unique corporate culture

We realise that, to meet the challenges and opportunities of the future, we need to encourage a flexible and entrepreneurial mindset, with a strong focus on risk and compliance.

We have a solid foundation with a unique company culture built on strong values, a pioneering spirit and a naturally cautious approach to risk. Over the past year, we have sought to build on this through company-wide dialogue sessions that actively involve staff in our future direction and corporate commitments.

Our social intranet encourages staff to share comments, make suggestions and join in conversations with senior management. In addition, we regularly hold open door sessions for all staff where people are encouraged to ask questions and raise concerns.

In our approach to employee relations, we ensure that all mandatory Social Relations bodies and committees - and related negotiations - are organised and conducted in a timely manner, and take place in each of our group entities, as well as on a pan-European level, thereby complying with the Information and Consultation processes on recurrent topics and special projects.

Diversity is one of the main pillars of our corporate culture. We firmly believe that better decisions are made and more creative solutions found when teams are made up of colleagues with different perspectives.

Our long-term business success depends on the ability to forge strong, trusted relationships with our stakeholders and diversity is a proven enabler for such relationships.

To this end, we have implemented a Diversity & Inclusion strategy and action plan, which seeks to promote equality of opportunity for all our people, regardless of gender, ethnicity, sexual orientation, religion or disability. Our Diversity & Inclusion commitments centre on four key pillars:

- Compliance: respect for both the letter and the spirit of the law
- Equal opportunities: remove any direct or indirect discrimination of employees and ensure corporate processes and policies are fair and transparent so that anyone can succeed, based on their merit
- Inclusive culture: build an inclusive culture in which employees feel they can be themselves at work and in which new ways of doing things are valued
- Work-life balance: implement and encourage new ways of working (e.g. teleworking) to allow employees to better blend their personal and professional lives.

If any member of staff feels that they are being discriminated against, there are clear procedures to follow to ensure that their complaint is dealt with fairly and according to the law. If someone feels that they cannot escalate internally, we have an external hotline, where complaints can be dealt with in the strictest confidence and handled accordingly. In 2017, there were no discrimination incidents reported through our official procedures.

In the 2017 Employee engagement survey, 88% of our people say that they feel that they can be themselves at Euroclear and that Euroclear is a place that respects diversity and makes its staff feel included. This was up 8% from 2016.

Despite making good progress, we know that we still have some way to go to achieving gender balance at senior levels and in some divisions, such as IT, which to some extent is due to the lack of female talent in the recruitment pipeline. In 2017, we have been working with the NGO Greenlight for Girls who attended our Community, Diversity and Environment celebration day in September, to encourage young women to take up STEM subjects, thereby encouraging a higher number of women to apply for IT functions.

We have also trained recruiters to be aware of unconscious bias when recruiting staff, in a pro-active effort to ensure a fairer non-discriminatory recruitment process.

We have had some success in getting more women into positions in junior management, with an increase of 1% at level 4 and 2% at level 5 in 2017. Now we are encouraging more women into middle management positions by focusing on increasing the female talent pipeline at levels 6 and 7 to feed our future senior management pipeline.

2017 achievements:

- 80 different nationalities
- Split men/women: In 2017 we reached a workforce of 3,941, of which 1,928 male and 2,013 female at year end
- Number of discrimination complaints: zero
- Average number of hours of training per employee: 10.4
- Climate survey results: 86% participation - 69% satisfaction rate
- Number of participants taking part in coaching sessions: 450

Marketplace

In line with SDG 8 Delivering towards economic growth, our commitment to serving capital markets responsibly is encapsulated in our ability to ensure continuous, secure and efficient transaction flows.

Our risk-aware business practices, highest ethical standards and robust processing infrastructure, have played a key part in ensuring market stability during times of turbulence. Our global client franchise rely on us as a trusted and stable Financial Market Infrastructure (FMI) provider.

There are three pillars to our Marketplace strategy, as set out in the Corporate Responsibility Policy handbook.

- Know and trust your suppliers
- Risk-aware culture
- Staff awareness

Know and trust your suppliers

Ensuring that our suppliers adhere to our high standards of ethical conduct is important to us. To this end, we have drawn up a Supplier Code of Business Conduct which outlines the behaviors that we expect from our suppliers in the areas of ethics, social policies, environmental approach and human rights. The Code will be legally referenced in existing and new contracts that we sign with new suppliers.

We are committed to ensuring that there is no modern slavery, nor human trafficking in our supply chains or in any part of Euroclear's businesses. Our modern slavery and human trafficking statement, published on our website, reflects our commitment to acting ethically and with integrity in all our business relationships.

Creating a risk-aware culture

Our staff and contractors are critical to keeping our company safe. All staff and contractors follow a series of training sessions on topics such as bribery, fraud, anti-competitive behavior, anti-money laundering, modern slavery and phishing and other potentially malicious behavior. Every two years we run a mandatory Compliance and Ethics test in the form of an e-learning experience. At the end of 2017, 98% of all staff took the test, of which 99% achieved the required pass-mark of 70%.

To encourage our staff to report any area for concern, in early 2017, we complemented our internal Speak Up framework (previously Whistleblowing) by launching an external, independent ethics hotline. These services allow staff, consultants, contractors and our suppliers to raise concerns in the strictest confidence.

We have a stringent approach towards corruption. All cases of possible corruption are tackled rigorously and in complete compliance with all local laws. Last year, 100% of all staff, including senior management, received a mandatory Compliance and Ethics e-learning which included specific questions and scenarios on corruption. In addition to the e-learning, over 700 people attended the in-person training sessions around our new Speak up framework (formerly Whistleblowing). The aim of this is to make staff aware of how to flag violations (safely and without retribution), including cases of actual or alleged corruption.

In 2017, there were two reported cases of bribery or corruption, one concerning a member of staff and one a contractor. After investigation, one case led to a strengthened approach and controls to the topic, while the other led to the termination of the contractor's contract. There were no cases of corruption charges brought against Euroclear in 2017.

Staff Awareness

Given our status as a trusted provider of financial services, security is the basis of Euroclear's licence to operate. In addition to monitoring possible external security threats, we know that our people have a vital role in keeping Euroclear safe. Awareness is key for our people and our future business viability. Therefore, we provide mandatory security training to all staff, consultants and contractors to ensure that they are equipped to protect Euroclear from possible attacks.

Given our role in ensuring securities transactions and data are processed safely and efficiently, we welcome the EU's move to strengthen and unify data protection for all individuals within the union under the General Data Protection Regulation. We are engaging with both internal and external stakeholders as part of our preparedness for this binding piece of legislation, which comes into effect in May 2018. To strengthen employees' knowledge of data principles and of their own rights, we have created a dedicated internal forum, with mandatory e-learning and bespoke in-person training sessions being rolled out in early 2018.

Sustainable finance

In addition to established activities, we are also monitoring current developments around Green finance to investigate how we can support such initiatives. Our Global Reach programme supports financial growth in developing countries by connecting smaller markets to investors. For details on our Global Reach approach.

2017 achievements

- 98% of all staff took Compliance & Ethics test of which 99% obtained the pass rate
- Zero calls to our external Speak Up ethics hotline

Key Performance Indicators

- Number of staff participating in security and compliance trainings
- Number of calls to hotline

Environment

In line with SDGs 11 and 13, Sustainable cities and Climate action, Euroclear takes its impact on the environment seriously. As a technology based company, we require significant amounts of energy to power our offices and data centres. Our focus is therefore primarily on making our energy use as efficient and clean as possible. At the same time, we have recently extended our focus to concentrate on our environmental impact, especially our office waste management, given the impact that plastic waste is having on the oceans and wildlife.

Our strategy centers around four pillars:

- Emissions
- Resource use
- Supply Chain
- Compliance

Emissions

We have been carbon neutral since 2012, third party certified by CarbonClear to PAS 2060 standards. By the end of December 2017, we had reduced our emissions based on a 2010 baseline. In 2017, we announced new Science-Based Targets to ensure that our operations and influence actively contribute to the long-term goals set at COP21. We intend to reduce our emissions by 36% by 2024 based on a 2014 baseline.

We invest annually in Gold Standard carbon credits, specifically choosing projects which have long term social and health benefits as well as environmental benefits.

Resource use

In 2017, we defined a baseline for measuring waste and recycling in our main offices. In 2018, we will be working towards aligning to external standards, while rolling-out our best practice recycling programme across all our main office locations.

Supply Chain

We have included compliance around environmental aspects in our Supplier Code of Conduct and in 2018, we will include environmental questions in our Supplier questionnaire.

Compliance

We respect both the letter and the spirit of environmental laws across all locations where we have staff. Third party verification of our energy data collection for carbon footprinting is in line with ISO 14064. We are an endorser of the EU Datacentre Code of Conduct.

Staff engagement

We believe that it’s important for all staff to become involved in helping to reduce our impact on the environment, which is why we set up our Environmental Champions group, encouraging staff to put forward and implement proposals. In 2017, we implemented proposals to remove all plastic cups from our main Euroclear offices. We also encourage our staff to use environmentally friendly transport whenever possible and we run a regular ‘mobility survey’ to help us identify commuting habits.

2017 achievements

- Gold in Clean City award London with commendation

Key Performance Indicators

- Reduction in carbon emissions, using science-based methodology, targeting 36% decrease by 2024 against our 2014 baseline
- Compliance with relevant environmental legislation, with a target of zero breaches

Community

In line with SGD 1 No poverty and SDG 10, Reduced inequalities, we are conscious of the responsibility that we have towards our local and global communities and the impacts which we may have upon them.

We have been partnering with NGOs, Build Africa and Junior Achievement Europe, for over three years, focusing on education, financial inclusion and entrepreneurship - areas which speak strongly to our core business.

We are also keen to offer skills-based volunteering opportunities to our staff, wherever they are based, and to encourage staff to put forward projects for sponsorship.

Reducing poverty in rural Uganda

This year, we expanded the work we have been doing with Build Africa to a wider group of communities in rural Uganda. Together with Build Africa, we aim to help reduce poverty in rural areas, through a combination of education, financial inclusion and the setting up of small businesses.

2017 also saw two field trips out to Uganda, enabling 18 colleagues to spend a week out in the communities which we are supporting, working with the teachers, community members, parents and Build Africa staff to ensure a more stable future for these remote areas. This year we focused on the setting up of ten new Savings & Loans schemes which are critical to helping the families to rise above the poverty level. In 2017, for every client that completed our client survey, we donated funds towards a borehole providing clean water at one of the schools we are supporting. This was officially opened in November.

Supporting young entrepreneurs

We believe that it is important to support young people as they start to make career choices. We have been working with Junior Achievement Europe since 2014, offering volunteering opportunities across all our main locations. Staff take part in coaching workshops, support young people as they set up their own companies, provide expert advice and take part in job shadowing sessions.

In 2017, 210 volunteers from Euroclear supported 5,398 students with their projects and in July, our CEO, Lieve Mostrey, was proud to present the Euroclear award for Social Entrepreneurship at the Junior Achievement Company of the Year award in Brussels.

Local communities

As well as supporting global initiatives, we also feel that it is important to support the less privileged in the communities in which we are located. In our main locations, we have local charity committees which allow staff to put forward proposals for community projects to be supported. In 2017, we also launched a payroll donation scheme in Belgium where staff can donate one euro from their monthly payroll to support the staff-selected 'street nurses' charity, which focuses on getting the homeless in Belgium back into society. In January 2018, we launched a similar scheme in the UK.

We have a Matching Gift scheme in our main locations where Euroclear matches the donations to charity made by staff, and plan to roll this programme out to representative offices in 2018.

For three years now, we have taken part in City Giving Day, sponsored by the Lord Mayor of London. We were the first company to take this initiative global, giving our staff in six locations the opportunity to celebrate our community, diversity and environment achievements while at the same time raising funds for our corporate charities.

Non-audit services

The amount of fees charged to Euroclear SA/NV for non-audit services amounted to €849,000 relating to the ISAE 3402 report. Further details of fees for audit and non-audit services are provided in Note X of the financial statements.

Publicity of external mandates

Details of the reportable directorship mandates and managerial functions exercised in companies outside the Euroclear group by the members of the Board and the management of Euroclear SA/NV are available on Euroclear's public website (www.euroclear.com).

Individual and collective Committee member skills

All members of the Audit Committee, the Risk Committee, the Nominations and Governance Committee and the Remuneration Committee are non-executive directors of the Company and at least one member of the Audit Committee, the Risk Committee, the Nominations and Governance Committee and the Remuneration Committee is independent within the meaning of Article 526ter of the Belgian Companies Code. The committees have the correct knowledge base and skills among their members and each member has the adequate personal attributes in order for the committee to fulfil its role efficiently.

Board advisory committees

Audit Committee (AC)

The AC is comprised of at least three non-executive directors of the Company. All members of the AC collectively have in-depth knowledge of the financial markets and services and they have an understanding of the company's business, accounting and audit matters. At least one member is competent in accounting and/or audit matters.

Risk Committee (RC)

The RC is comprised of at least three non-executive directors of the Company, supported by an advisor. The RC is composed in such a way to assist and advise the Board of Directors in its oversight of the Group's risk management governance structure, risk tolerance, appetite and strategy and key risks as well as the processes for monitoring and mitigating such risks. The members individually have the skills and experience to be able to understand the Company's business and oversee such risk strategy, risk tolerance, risk capacity and risk profile of the Company.

Nominations and Governance Committee (NGC)

The NGC is comprised of at least three non-executive directors of the Company. The NGC is composed in such a way to be able to properly and independently assist and advise the Board of Directors on all matters in relation to the nomination of Board and Management Committee members, Head of Internal Control Functions, Board and Committee composition, succession planning as well as corporate governance matters, as they apply to both the Company and the Group. The Committee members should possess individual and collective appropriate knowledge, skills, expertise and professional experience regarding governance and selection process, suitability and control practices.

Remuneration Committee (RemCom)

The RemCom is comprised of at least three non-executive directors of the Company The RemCom is composed in such a way so as to properly and independently assist and advise the Board of Directors in defining a global compensation policy for the Group, ensuring that the members of the Management Committee, identified staff and the non-executive Board members are compensated as per the principles described in the Euroclear compensation policy and overseeing management's implementation of the compensation policy. The Committee members collectively have the knowledge, expertise and experience concerning remuneration policies and practices, risk management and control activities, namely with regard to the mechanism for aligning the remuneration structure to the Company's risk and capital profiles. The Committee members collectively also have an understanding of the Company's business and shall have competence relevant to the sector in which the Company operates.

On behalf of the Board

Marc Antoine Autheman
Chairman of the Board
22 February 2018

Board and Committees - composition

as at 31 December 2017

NAME	Board	Audit Committee	Risk Committee	Remuneration Committee	Nominations & Governance Committee	Management Committee
Marc Antoine Autheman (Chairman) Independent	•			• (chair)	•	
Eddy Wymeersch (Deputy Chairman) Independent (resigned 18/07/2017)	•			•	•	
Nils-Fredrik Nyblaeus (Deputy Chairman) SEB AB	•			•	•	
Michel Berthezène (resigned 27/04/2017)	•			•	•	
Ingeborg Boets Independent	•	• (chair)				
Cian Burke HSBC	•	•				
Andrew Butcher Bank of America Merrill Lynch International Limited (appointed 26/07/2017)	•	•				
Anthony Carey State Street International Ireland Ltd.	•		•			
Patrick Colle BNP Paribas Securities Services	•	•				
John Devine Independent (resigned 13/10/2017)	•	•				
Xiaomei Fan Kuri Atyak Investment Ltd.	•	•				
Harold Finders Independent (appointed 21/11/2017)	•		•			
Mark S. Garvin JP Morgan plc	•			•	• (chair)	
Isabelle Hennebelle Goldman Sachs (resigned 14/04/2017)	•		•			
Thomas Isaac Citigroup	•		•			

NAME	Board	Audit Committee	Risk Committee	Remuneration Committee	Nominations & Governance Committee	Management Committee
Masashi Kurabe Mitsubishi UFJ Investor Services & Banking (resigned 23/07/2017)	•			•	•	
Francis La Salla Bank of New York Mellon	•			•	•	
Catherine Langlais Euronext Group (appointed 25/04/2017)	•			•	•	
Francois Marion Crédit Agricole CIB	•	•				
Franco Passacantando Independent	•		• (chair*)			
Bruno Prigent Société Générale	•		•			
Satvinder Singh Deutsche Bank (resigned 14/12/2017)	•		•			
Sota Suzuki Mitsubishi UFJ Investor Services & Banking (Luxembourg) S.A. (appointed 21/11/2017)	•			•	•	
Tsutomu Suzuki Mizuho Trust & Banking (Luxembourg) S.A.	•	•				
Clare Woodman Morgan Stanley EMEA	•			•	•	
Godelieve Mostrey Executive Director CEO Euroclear SA/NV	•					• (chair)
Bernard Frenay Executive Director (appointed as Executive Director 25/04/2017)	•					•
Frédéric Hannequart Executive Director	•					•
Yves Dupuy*						•
Yves Poullet (resigned 10/05/2017)						•
Peter Sneyers						•
Valérie Urbain (resigned 10/05/2017)						•
Jo Van de Velde (resigned 10/05/2017)						•
Advisor						
Andrew France			•			

* pending regulatory approval

Consolidated income statement

For the year ended 31 December 2017

(€'000)	Notes	2017	2016
Interest income	VI	223,294	164,040
Interest expense	VI	(71,514)	(40,981)
Net interest income		**151,780**	**123,059**
Fee and commission income	VII	1,482,137	1,393,148
Fee and commission expense	VII	(476,366)	(408,483)
Net fee and commission income		**1,005,771**	**984,665**
Net interest and fee income		**1,157,551**	**1,107,724**
Dividend income		8,052	6,944
Realised gains/(losses) on investment securities	VIII	-	2,516
Net gains/(losses) on financial assets and liabilities held for trading	IX	40,313	27,947
Net gains/(losses) on foreign exchange		5,333	5,343
Other operating income		49,878	13,448
Operating income		**1,261,127**	**1,163,922**
Administrative expenses	X	(802,311)	(926,300)
Share of the profit/(loss) of investments accounted for using equity method	I	(17,977)	(7,069)
Operating profit/(loss) before impairment and taxation		**440,839**	**230,553**
Impairment	XI	(1,436)	(2,997)
Operating profit/(loss) before taxation		**439,403**	**227,556**
Taxation	XII, XIII	(163,660)	(59,646)
Profit/(loss) for the year		**275,743**	**167,910**

For the list of companies in the group, see Note I.

The accompanying Notes form an integral part of these financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December 2017

		2017			2016		
(€'000)	Notes	Gross	Tax	Net	Gross	Tax	Net
Changes in other comprehensive income							
Available-for-sale financial assets	XIV, XXII	66,190	1,205	67,395	(45,642)	(65)	(45,707)
Cash flow hedges	XVI, XXII	512	(172)	340	(1,997)	678	(1,319)
Foreign currency translation reserve	XXII	(10,806)	-	(10,806)	(28,792)	-	(28,792)
Recyclable subsequently to profit/(loss)		55,896	1,033	56,929	(76,431)	613	(75,818)
Defined benefit plans	XX	(394)	(4,784)	(5,178)	(29,894)	9,572	(20,322)
Drop down of subsidiaries	I	-	-	-	(1,492)	-	(1,492)
Not recyclable to profit/(loss)		(394)	(4,784)	(5,178)	(31,386)	9,572	(21,814)
Other comprehensive income for the year		**55,502**	**(3,751)**	**51,751**	**(107,817)**	**10,185**	**(97,632)**
Profit/(loss) for the year		**439,403**	**(163,660)**	**275,743**	**227,556**	**(59,646)**	**167,910**
Total comprehensive income for the year		**494,905**	**(167,411)**	**327,494**	**119,739**	**(49,461)**	**70,278**

The accompanying Notes form an integral part of these financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2017

(€'000)	Notes	Called up share capital	Share premium account	Other reserves	Retained earnings	Total equity
At 1 January 2017		839,601	1,623,628	225,051	666,185	3,354,465
Changes in other comprehensive income						
- Available-for-sale financial assets	XXII	-	-	67,395	-	67,395
- Cash flow hedges	XXII	-	-	340	-	340
- Foreign currency translation reserve	XXII	-	-	(10,806)	-	(10,806)
- Defined benefit plans		-	-	-	(5,178)	(5,178)
Transfer to legal reserve	XXII	-	-	(788)	788	-
Profit/(loss) for the year		-	-	-	275,743	275,743
At 31 December 2017		**839,601**	**1,623,628**	**281,192**	**937,538**	**3,681,959**

		Called up share capital	Share premium account	Other reserves	Retained earnings	Total equity
At 1 January 2016		839,601	1,623,628	291,013	620,055	3,374,297
Changes in other comprehensive income						
- Available-for-sale financial assets	XXII	-	-	(45,707)	-	(45,707)
- Cash flow hedges	XXII	-	-	(1,319)	-	(1,319)
- Foreign currency translation reserve	XXII	-	-	(28,792)	-	(28,792)
- Defined benefit plans		-	-	-	(20,322)	(20,322)
Transfer to legal reserve	XXII	-	-	9,856	(9,856)	-
Profit/(loss) for the year		-	-	-	167,910	167,910
Drop down of subsidiaries	I	-	-	-	(1,492)	(1,492)
Dividends paid	XXIII	-	-	-	(90,110)	(90,110)
At 31 December 2016		**839,601**	**1,623,628**	**225,051**	**666,185**	**3,354,465**

The accompanying Notes form an integral part of these financial statements.

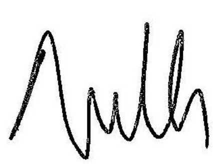
Consolidated statement of financial position

As at 31 December 2017

(€'000)	Notes	2017	2016
Assets			
Cash and balances with central banks	IV	3,582,755	5,639,674
Loans and advances	IV	11,159,317	12,145,763
Available-for-sale financial assets	XIV	5,363,273	2,840,759
Financial assets held for trading	XV	8,383	40,063
Derivatives used for hedging	XVI	453	568
Current income tax assets		8,730	11,785
Deferred income tax assets	XIII	112,750	153,772
Other assets		163,212	164,427
Pre-payments and accrued income		148,770	147,089
Pension asset	XX	541	540
Property, plant and equipment	XVII	53,520	90,492
Goodwill and intangible assets	XVIII	1,022,266	1,010,045
Investments in subsidiaries and joint ventures	I	15,272	17,274
Total assets		**21,639,242**	**22,262,251**
Liabilities			
Deposits from central banks	IV	900,382	1,165,106
Deposits from banks and customers	IV	16,205,733	16,919,785
Financial liabilities held for trading	XV	23,828	32,292
Derivatives used for hedging	XVI	400	1,026
Other liabilities		339,355	285,092
Accruals and deferred income		243,872	228,884
Current income tax liabilities		87,296	101,020
Deferred income tax liabilities	XIII	1,762	2,938
Provisions for liabilities and charges	XIX	21,236	46,451
Pension deficit	XX	133,419	125,192
Total liabilities		**17,957,283**	**18,907,786**
Shareholders' equity			
Called up share capital	XXI	839,601	839,601
Share premium account		1,623,628	1,623,628
Other reserves	XXII	281,192	225,051
Retained earnings		937,538	666,185
Total shareholders' equity		**3,681,959**	**3,354,465**
Total liabilities and shareholders' equity		**21,639,242**	**22,262,251**

The accompanying Notes form an integral part of these financial statements.

These financial statements were authorised for issue by the Board of Directors on 22 February 2018 and signed on its behalf by



Marc Antoine Autheman, Chairman of the Board

Consolidated statement of cash flows

For the year ended 31 December 2017

(€'000)	Notes	2017	2016
Profit/(loss) before taxation		**439,403**	**227,556**
Adjustments for:			
- Depreciation and amortisation	XVII, XVIII	36,881	32,479
- Impairment	XI	1,436	2,997
- Interest on internal convertible loan	IV	9,580	-
- Interest on cash and balances with central banks and loans and advances	VI	(221,283)	(164,028)
- Interest on deposits from central banks and banks and customers	VI	44,356	31,003
- Dividends received		(8,052)	(6,944)
- Realised gains on available-for-sale financial assets	VIII	-	(2,516)
- (Gains)/losses on disposal of property, plant and equipment	I	(7,860)	-
- (Gains)/losses on disposal of subsidiaries	I	(30,740)	-
- Provisions for liabilities and charges	X	(7,152)	36,748
- Share of the (profit)/loss of investments accounted for using equity method	I	17,977	7,069
- Acquisition of Euroclear Intellectual Property	XXVI	-	121,200
Other non-cash movements		(203,950)	53,156
of which effect of exchange rate changes		(288,064)	28,968
- Interest received on cash and balances with central banks and loans and advances		214,646	163,199
- Interest paid on deposits from central banks and banks and customers		(43,256)	(30,557)
Cash flows from operating profit/loss before changes in operating assets/liabilities		**241,986**	**471,362**
Net increase/(decrease) in deposits from banks and customers		304,502	(88,473)
Net (increase)/decrease in monetary reserve	IV	-	25
Net (increase)/decrease in loans and advances	IV	16,233	1,405,636
Net (increase)/decrease in other assets		82	(39,079)
Net increase/(decrease) in other liabilities		54,301	(5,977)
Net cash inflow/(outflow) from operating activities		**617,104**	**1,743,494**
Tax paid		(135,464)	(40,035)
Net cash from operating activities		**481,640**	**1,703,459**
Cash flows from investing activities			
Proceed of disposal of subsidiaries	I	50,404	-
Investments in subsidiaries and joint ventures	I	(17,244)	(16,879)
Purchase of available-for-sale financial assets	XIV	(14,815,991)	(6,263,183)
Redemption and disposals of available-for-sale financial assets	XIV	12,307,545	5,798,640
Purchase of property, plant and equipment	XVII	(16,058)	(13,876)
Purchase of intangible assets, including trademarks	XVIII	(33,287)	(55,124)
Acquisition of Euroclear intellectual property	XXVI	-	(121,200)
Sale of property, plant and equipment	I	11,351	2
Dividends received		8,052	6,944
Reimbursement of loans to related party	XXVI	6,000	2,000
Net cash from/(used in) investing activities		**(2,499,228)**	**(662,676)**
Cash flows from financing activities			
Interest paid on internal convertible loan from related party	I	(8,987)	-
Internal convertible loan from related party	XXVI	-	200,000
Equity dividends paid	XXIII	-	(90,110)
Net cash from/(used in) financing activities		**(8,987)**	**109,890**
Net increase/(decrease) in cash and cash equivalents		**(2,026,575)**	**1,150,673**
Cash and cash equivalents at beginning of year		16,318,342	15,079,417
Effects of exchange rate changes on cash and cash equivalents		(902,058)	88,252
Cash and cash equivalents at end of year		**13,389,709**	**16,318,342**
Cash and cash equivalents at end of year comprise:			
Cash and balances with central banks	IV	3,582,755	5,639,674
Loans and advances	IV	11,159,317	12,145,763
Excluding loans and advances with intitial maturity above three months		(1,352,363)	(1,467,095)
Cash and cash equivalents at end of year		**13,389,709**	**16,318,342**

Reconciliation of liabilities arising from financing activities

(€'000)	2016	Cash flows	Non-Cash Changes	2017
Internal convertible loan from related party	**199,090**	(8,987)	9,580	**199,683**

Notes to the consolidated financial statements
I. Interests in other entities

I.1. General information

Euroclear SA/NV (the Company) and its subsidiaries (together, the group) arrange for the provision of settlement and related services, including banking services in the case of Euroclear Bank, for domestic and international securities transactions, covering bonds, equities, investment funds and derivatives. Euroclear SA/NV also provides software development and a variety of administrative and non-operational support services to the (I)CSDs in the Euroclear group.

Euroclear SA/NV is a limited liability company and is incorporated and domiciled in Belgium. The address of its registered office is:

Euroclear SA/NV
1 Boulevard du Roi Albert II
1210 Brussels
Belgium

I.2. Subsidiaries

In June 2017, Euroclear SA/NV took a stake of 35% in Quantessence Limted (€1,299,000) with control over the entity. Euroclear SA/NV owns 35% of the shares, representing 50% of the voting rights with a casting vote. Quantessence Limited is a UK-based financial services company providing innovative fund services.

In June 2017, Euroclear SA/NV took an additional stake of 5.54% in Taskize Limited, which brings its total shareholding to 75.54%. Taskize Limted is a start-up company founded to develop and bring to market Taskize Connect, a collaboration software designed to resolve issues in global banking operations within and between firms. The initial stake of 70% was taken by Euroclear Investments in 2015, and dropped down in November 2016 to Euroclear SA/NV at its acquisition value.

In November 2017, Euroclear Investments acquired from Euroclear Bank SA/NV its shares in Calar Belgium SA/NV, a Belgian property company. In December, 2017, the Bry building was transferred from Euroclear France SA to Euroclear Properties France SAS at its market value. These transactions resulted in an additional other operating income of respectively €30,740,000 and €7,860,000 in Euroclear SA/NV comprehensive income.

Euroclear Market Solutions Limited, an English company incorporated in 2014 as a subsidiary of Euroclear Investments and dropped down to Euroclear SA/NV at its acquisition value in November 2016, will be terminated in 2018. The company was intended to provide a central infrastructure to enable banks and their counterparties to agree on and manage operations payables and receivables claims. The service had been developed in cooperation with Merit Software Ltd, a provider of claims management systems. Merit Software Ltd intends to continue to offer these services under their own name. The amount of Euroclear Market Solutions Limited capital and reserves was €729,000 as at the end of 2017 (€3,500,000 capital offset by €2,771,000 accumulated losses). The aggregate amount of Euroclear Market Solutions Limited assets as at the end of 2017 was €802,000. In light of the immateriality of the net asset value of the company (< 1% of total group’s equity) as of end of 2017, the company is not presented as discontinued operations in the financial statements.

Euroclear SA/NV does not have any non-controlling interests in its subsidiaries other than in Taskize and Quantessence. Judgements and estimates are thus not taken in assessing the subsidiaries’ ownership interest. The company does not face any significant restriction on its ability to access or use assets, and settle liabilities, of the group.

At December 31, 2017, the Company's subsidiaries are as follows:

	Country of incorporation	Nature of business	Proportions of voting rights and ordinary shares held
Consolidated subsidiaries			
Caisse interprofessionelle de dépôts et de virements de titres SA[1]	Belgium	Central Securities Depository for Belgium	100%
EMX Company Limited[1]	United Kingdom	Dormant	100%
Euroclear Bank SA/NV[1]	Belgium	Banking, securities settlement and custody services	100%
Euroclear Finland Oy[1]	Finland	Central Securities Depository for Finland	100%
Euroclear France SA[1]	France	Central Securities Depository for France	100%
Euroclear International Services Limited[1]	United Kingdom	Dormant	100%
Euroclear Market Solutions	United Kingdom	Proprietary services	100%
Euroclear Sweden AB[1]	Sweden	Central Securities Depository for Sweden	100%
Euroclear UK & Ireland Limited[1]	United Kingdom	Central Securities Depository for the United Kingdom and Ireland, and Investment-fund order routing	100%
Nederlands Centraal Instituut voor Giraal Effectenverkeer BV (Necigef)[1]	The Netherlands	Central Securities Depository for the Netherlands	100%
Number of wholly owned subsidiaries			10
Number of non-wholly owned subsidiary			0
Total subsidiaries			10

[1] Held through Euroclear SA/NV

EMX Company Limited’s investment-fund order routing business was transferred to Euroclear UK & Ireland Limited in September 2010. The company became dormant in the course of 2014.

	Country of incorporation	Nature of business	Proportions of voting rights and ordinary shares held
Non-consolidated subsidiaries			
CIN(Belgium) Limited[1]	United Kingdom	Nominee company	100%
CREST Client Tax Nominee(No.1) Limited[1]	United Kingdom	Nominee company	100%
CREST USD Nominee Limited[1]	United Kingdom	Nominee company	100%
CREST Depository Limited[2]	United Kingdom	Nominee company	100%
CREST International Nominees Limited[1]	United Kingdom	Nominee company	100%
CREST Stamp Nominee(No.1) Limited[2]	United Kingdom	Nominee company	100%
CREST Stamp Nominee(No.2) Limited[2]	United Kingdom	Nominee company	100%
CRESTCo Limited[2]	United Kingdom	Nominee company	100%
EC Nominees Limited[3]	United Kingdom	Nominee company	100%
ENL Nominee Limited[5]	United Kingdom	Nominee company	100%
EOC Equity Limited[3]	United Kingdom	Nominee company	100%
Euroclear Nominees Limited[3]	United Kingdom	Nominee company	100%
Euroclear Treasury Nominee Limited[3]	United Kingdom	Nominee company	100%
Fundsettle EOC Nominees Limited[3]	United Kingdom	Nominee company	100%
Quantessence Limited[4]	United Kingdom	Proprietary services	50%-35%
Taskize Limited[4]	United Kingdom	Proprietary services	76%
Trinity Nominees Limited[2]	United Kingdom	Nominee company	100%

[1] Held through CREST Depository Limited
[2] Held through Euroclear UK & Ireland Limited
[3] Held through Euroclear Bank SA/NV
[4] Held through Euroclear SA/NV
[5] Held through Nederlands Centraal Instituut voor Giraal Effectenverkeer BV (Necigef)

These companies have not been consolidated since they collectively represent less than 1% of the group consolidated equity, total assets and profit after tax and are therefore not considered as being material.

The participation in Taskize is recognised at a net book value of €8,572,000 in the statement of financial position (2016: €6,294,000). The aggregate amount of Taskize capital and reserves was €4,301,000 as at the end of 2017 (2016: €3,941,000), made of capital and share premium of €7,325,000 (2016: €5,256,000) and accumulated losses of €3,024,000 (2016: €1,315,000). In June 2017, Euroclear SA/NV injected GBP1,999,000 of additional capital in Taskize and granted a one-year liquidity facility of GBP 1,000,000 that can be drawn under the form of an intra group convertible loan agreement maturing in June 2018 (see note XXVI).

The participation in Quantessence Limited is recognised at a net book value of €1,299,000 in the statement of financial position. The aggregate amount of Quantessence capital and reserves was €0.5 million as at the end of 2017, made of capital and share premium of €1.1 million and accumulated losses of €0.8 million.

No transactions have occurred during the year between the nominee companies and the other companies in the group.

I.3. Joint venture

The Depository Trust & Clearing Corporation (DTCC) and Euroclear created a 50/50 joint venture in September 2014 focusing on collateral processing. The company, DTCC-Euroclear Global Collateral Ltd, is domiciled in the United Kingdom.

The joint venture provides an open industry infrastructure solution for clients as they manage their collateral margin needs, including a Margin Transit Utility (MTU) providing straight-through processing to the settlement of margin obligations, and a Collateral Management Utility (CMU) offering optimised collateral mobility and allocation at a global level.

The joint arrangement between DTCC and Euroclear SA/NV qualifies as joint venture. Ownership and governance of the company is shared equally between DTCC and Euroclear with its Board and senior executives drawn from the two firms' management. Under the contractual agreements, unanimous consent is required from the two parties for all relevant activities. The shareholders are jointly responsible for the company. The joint arrangement is conducted through a separate legal entity, which has been equally funded by the two shareholders. Each party has a 50% interest in the company (covering both MTU and CMU services all together) with equal rights attached to shares, dividends and net assets.

The company financial statements are prepared in accordance with International Financial Reporting Standards.

There are neither commitments nor contingent liabilities relating to the group's interest in the joint venture.

DTCC-Euroclear Global Collateral Ltd is not a listed company and there is no quoted market price available for its shares.

	Country of incorporation	Proportions of voting rights and ordinary shares held	Dividends received
DTCC-Euroclear Global Collateral Ltd	United Kingdom	50%	-

(€'000)	2017	2016
Summarised statement of financial position		
Assets		
Cash and cash equivalents	14,519	29,082
Other current assets (excluding cash)	54	46
Non-current assets	-	13,004
Total assets	**14,573**	**42,132**
Liabilities		
Other current liabilities (including trade payables)	3,770	20,172
Total liabilities	**3,770**	**20,172**

(€'000)	2017	2016
Summarised statement of comprehensive income		
Operating profit/(loss) before taxation	**(22,950)**	**(23,714)**
Taxation	(13,004)	9,576
Profit/(loss) for the year	**(35,954)**	**(14,138)**
Total comprehensive income	**(35,954)**	**(14,138)**

50% of the above comprehensive income are recognised in the group's consolidated statement of comprehensive income.

Non current assets include the deferred tax assets. Deferred tax assets have been fully impaired in 2017, due to the uncertainty as to their recoverability.

(€'000)	2017	2016
Reconciliation of summarised financial information		
Opening net assets 1 January	21,960	17,714
Capital injection	27,335	18,192
Profit/(loss) for the year	(35,954)	(14,138)
Effect of exchange rate changes	(2,538)	192
Closing net assets	**10,803**	**21,960**
Interest in joint venture at 50%		
Carrying value	**5,401**	**10,980**

II. Accounting policies

II.1.Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and IFRIC Interpretations applicable to companies reporting under IFRS.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain financial instruments and are prepared on a going concern basis.

The EU has not endorsed IAS 39 Financial Instruments: Recognition and Measurement as issued by the IASB, deciding instead to amend some of the hedge accounting requirements. The group has not applied these hedge accounting requirements and has therefore complied with IAS 39 in full as issued by the IASB.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note III.

II.1.a. Adoption of interpretation and amendments to standards

The following amendments to standards became effective on 1 January 2017:
- Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses
- Amendments to IAS 7: Disclosure Initiative

The application of these amendments had no significant impact on the group’s financial statements.

II.1.b. Standards, amended standards and interpretations endorsed by the EU, but not yet effective in 2018

The following new standards became effective on 1 January 2018.
- IFRS 9 on Financial Instruments. The impact of the new classification and measurement rules will be limited since all financial assets will keep the same measurement method as today. Cash, loans and advances will be measured at Amortised Cost (AC), debt securities and equity instruments, previously classified as available-for-sale, will satisfy the conditions for classification at Fair Value through Other Comprehensive Income (FVOCI). Derivatives will remain measured either at FVOCI (if qualifying as cash flow hedging) or Fair Value through Profit and Loss (FVPL).

There is no impact on the group’s accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the group does not have any such liabilities.

The new hedge accounting rules align the accounting for hedging instruments more closely with the group’s risk management practices. The group’s current hedge relationships still qualify as continuing hedges upon the adoption of IFRS 9.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. The new model results in an earlier recognition of credit losses. There will be no significant impact on the financial statements from the adoption of the ECL (impact < 0.05% of total equity), due to the short term nature and high quality of the group’s financial assets and high level of collateralisation.

The new standard also introduces expanded disclosure requirements and changes in presentation. These will change the nature and extent of the group’s disclosures about its financial instruments.

- IFRS 15 Revenue from Contracts with Customers: The application of this new standard will have no significant impact on the group's financial statements.

The following new standards will be applied for financial years commencing on 1 January 2019.
- IFRS 16 Leases: The new standard will apply to leased buildings, the car pool and DP equipment. The new standard will revise the accounting model for lessees through the measurement of right-of-use (ROU) asset and lease liability at present value of lease payments. Assessment of the impact is in process. The amounts of operating lease commitments are disclosed in noted XXV.

II.2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. Unless otherwise stated, these policies have been consistently applied to all the years presented.

II.3. Consolidation

Subsidiaries are all entities over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

A group entity controls an investee if and only if the investor has all the following:
- power over the investee;
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect the amount of the investor's returns.

In accordance with IFRS 3, the cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Costs directly attributable to the acquisition are expensed. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest.

The excess of the cost of acquisition over the fair value of the group's share of the identifiable net assets is recognised as goodwill. If the cost of acquisition is less than the fair value of the group's share of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Where permitted under local legislation, the accounting policies of subsidiaries have been changed to ensure consistency with the policies of the group.

Business combinations involving entities under common control were specifically excluded from the scope of IFRS 3 Business combinations. The group has therefore applied the guidance provided by IAS 8 Accounting policies, changes in accounting estimates and errors, which requires management to consider the requirements and guidance in other international standards and interpretations dealing with similar issues. Management have therefore applied the UK GAAP requirements of Financial Reporting Standard (FRS) 6 Mergers and acquisitions for such business combinations involving entities under common control. This standard allows the assets and liabilities of the parties to the combination to be retained at their book value.

A joint arrangement is an arrangement of which two or more parties have joint control. A joint arrangement has the following characteristics:
- the parties are bound by a contractual arrangement;
- the contractual arrangement gives two or more of those parties joint control of the arrangement.
A joint arrangement is either a joint operation or a joint venture.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Joint ventures are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost and the carrying amount is subsequently increased or decreased to recognise the group's share of the net result of the joint venture after the acquisition. The group's share of the joint venture's profit or loss is recognised in its income statement. The group's interest in a joint venture or associate is carried in the statement of financial position at its share in the net assets of the joint venture, less any impairment loss. The accounting policies of the joint venture are changed where necessary to ensure consistency with the policies adopted by the group.

II.4. Segment reporting

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Euroclear SA/NV Management Committee.

II.5. Foreign currency translation

II.5.a. Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in euro, which is the company's functional and presentation currency.

II.5.b. Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges. Translation differences on non-monetary items measured at fair value through profit or loss are reported as part of the fair value gain or loss. Translation differences on other non-monetary items are included in the foreign currency translation reserve.

II.5.c. Group companies

The results and financial position of all the group's entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the balance sheet date;
- income and expenses for each income statement are translated at average exchange rates for the year; and
- the resulting exchange differences are recognised in the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income, in the foreign currency translation reserve and the hedge of net investments in foreign operations reserve. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on the sale.

None of the group companies have used the currency of a hyperinflationary economy as its functional currency.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing exchange rate.

II.6. Revenue recognition

II.6.a. Interest income and expense

Interest income and expense are recognised in the income statement for all instruments measured at amortised cost using the effective interest rate method. This is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense over the relevant accounting years.

The effective interest rate is the rate that exactly discounts the estimated cash payments or receipts over the expected life of the instrument to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the future expected cash flows are estimated after considering all the contractual terms of the instrument, but not future credit losses.

Group loans to, and deposits from, banks and customers are principally related to Euroclear Bank clients' cash accounts operated in connection with their securities settlement activity, with balances generally changing on a daily basis. Time deposits and the re-deposits of surplus funds rarely have maturities of more than three months.

Interest income and expense on derivative instruments are recorded in profit and loss on an accrual basis.

II.6.b. Fee and commission income and expense

Fee and commission income and expense which respectively represent a return and cost for services rendered (such as safekeeping, settlement and custody) are recognised in the income statement when the related service is performed. Safekeeping fees are based on the monthly average depot value of securities held in custody, while settlement fees are based on the number of settled transactions. Rebates granted are deducted from fee and commission income when declared.

Fee and commission income and expense, which represent a return for credit risk borne or which are in the nature of interest (securities borrowing), are recognised in the income statement over the period of the loan, or on a systematic basis over the expected life of the transaction to which they relate, net of rebates granted.

II.6.c. Dividends

Dividends on available-for-sale equity instruments are recognised in the income statement when the group's right to receive payment is established.

II.6.d. Gains and losses on disposals
Gains and losses on disposals of property, plant and equipment, determined by comparing proceeds with the carrying amount, are included in the income statement in other operating income and administrative expenses respectively.

II.7. Financial instruments

Financial assets are classified into held-to-maturity investments, available-for-sale financial assets, held for trading, or loans and receivables. The group has not designated any financial instrument as at fair value through profit or loss.

II.7.a. Held-to-maturity investments
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the group's management has the positive intention and ability to hold to maturity. In accordance with IAS 39, the disposal of any more than an insignificant amount of held-to-maturity assets will result in the entire category being tainted and reclassified as available-for-sale for a period of two years (provided no further tainting occurs). Held-to-maturity assets are recognised in the balance sheet on settlement date at fair value plus any directly related transaction costs. They are subsequently measured at amortised cost using the effective interest method less any impairment losses.

II.7.b. Available-for-sale investments
Available-for-sale investments are those financial assets including debt securities and equity shares which are intended to be held for an indefinite period of time, but which may be sold in response to changes in the group's financial environment.

Available-for-sale investments are recognised in the balance sheet on settlement date at fair value. Gains or losses arising from changes in the fair value of such assets are recognised directly in equity, until the asset is either sold, matures or becomes impaired, at which time the cumulative gain or loss previously recognised in equity is released to the income statement. Interest revenues are recognised using the effective yield method.

The fair value of listed debt securities and equity shares reflects the published price at the balance sheet date. In the case of investments with no listed market price, a valuation technique (e.g. recent transactions between willing and knowledgeable parties, discounted cash flows and market multiples) is applied. Where the fair value of unlisted equity investments cannot be reliably measured, they continue to be valued at cost.

II.7.c. Held for trading
A financial asset is classified as held for trading if it is either:
- acquired for the purpose of selling or repurchasing in the near term;
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking;
- a derivative that is not a designated and effective hedging instrument.

Assets held for trading are initially recognised and subsequently measured at fair value. The movements in fair value are recognised in the income statement.

II.7.d. Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recognised in the balance sheet on settlement date at fair value plus directly related transaction costs, if any, when cash is advanced to the borrowers. They are subsequently measured at amortised cost using the effective interest method.

Long-term loans or receivables that carry no interest are initially recognised at the net present value of all future cash receipts discounted using applicable market interest rates at origination, with the difference between nominal value and net present value recorded in the income statement. The difference between nominal value and net present value is subsequently recognised in the income statement over the life of the investment using the effective interest rate.

II.8. Borrowings

Borrowings are recognised initially at fair value, being the issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method.

II.9. Derivative financial instruments and hedge accounting

All derivative financial instruments are recognised, and subsequently re-measured, at fair value. Derivative fair values are determined from quoted prices in active markets where available. Where there is no active market for an instrument, fair value is derived from prices for the derivative's components using appropriate pricing or valuation models.

Gains and losses arising from changes in fair value of a derivative are recognised as they arise in profit and loss, unless the derivative is part of a qualifying hedge.

Hedge relationships are formally documented at inception. The documentation includes identification of the hedged item and the hedging instrument, and explains the risk that is being hedged and the way in which effectiveness of the hedge relationship will be assessed at inception and during the period of the hedge. If the hedge is not highly effective in offsetting changes in fair values or cash flows attributable to the hedged risk, consistent with the documented risk management strategy, hedge accounting is discontinued.

The group may enter into three types of hedges: hedges of changes in the fair value of a recognised asset or liability or firm commitment (fair value hedges), hedges of the variability in cash flows from a recognised asset or liability or a forecast transaction (cash flow hedges), and hedges of the net investment in a foreign entity (net investment hedges).

II.9.a. Fair value hedges

Changes in the fair value of derivatives that are designated and which qualify as fair value hedges are recorded in the profit and loss account, together with any changes in the fair value of the hedged asset or liability attributable to the hedged risk. Hedge accounting is discontinued when the hedging instrument does no longer qualify for hedge accounting.

II.9.b. Cash flow hedges

In the case of a cash flow hedge, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge should be recognised directly in other comprehensive income and released to profit and loss when the hedged item (for instance the forecasted transaction) affects profit and loss. The ineffective portion of the gain or loss on the hedging instrument is recognised immediately in the profit and loss account.

II.9.c. Net investment hedges

A hedge of a net investment in a foreign operation is accounted for similarly to cash flow hedges. The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in other comprehensive income and released to profit and loss when the foreign operation is partially disposed or sold. The ineffective portion of the gain or loss on the hedging instrument is recognised immediately in the profit and loss account.

II.10. Impairment of financial assets

The group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets classified as held-to-maturity, available-for-sale or loans and receivables is impaired. A financial asset or portfolio of financial assets is impaired and an impairment loss recognised where there is objective evidence that an event occurring after initial recognition of the asset has adversely affected the amount or timing of future cash flows and this effect can be reliably estimated.

For financial assets carried at amortised cost, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the financial asset’s original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss.

Cash flows relating to short-term receivables (less than three months) generally are not discounted. The impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, and is recognised immediately in profit and loss. If, in a subsequent year, the amount of the impairment or bad debt loss decreases and the decrease can be related objectively to an event occurring after the recognition of the original loss, this loss is reversed. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed.

For financial assets carried at fair value, if there is objective evidence of impairment of an available-for-sale financial asset, the cumulative net loss (difference between amortised acquisition cost and current fair value less any impairment loss previously recognised in profit or loss) that has previously been recognised in equity is removed and recognised in the income statement. If, in a subsequent year, the fair value of an available-for-sale debt instrument increases and the increase can be objectively related to an event occurring after the loss was recognised, the loss may be reversed through profit and loss. Impairments on investments in equity securities cannot be reversed.

II.11. Purchase and resale agreements

Securities purchased under agreements to resell ('reverse repos') are recorded as loans and advances to other banks or customers, as appropriate. The difference between the sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

II.12. Goodwill and intangible assets

II.12.a. Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the identifiable net tangible and intangible assets of an acquired entity at the date of acquisition. Goodwill is carried at cost less accumulated impairment losses and tested for impairment annually or more frequently where events or changes in circumstances indicate that it might be impaired. For the purpose of impairment testing, goodwill is allocated to cash-generating units, the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. If impairment is identified, the carrying value of goodwill is written down to its net recoverable amount. Impairment losses are immediately recognised in profit and loss and are not subsequently reversed.

II.12.b. Computer software

Computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Costs associated with the development phase of computer software being developed by, and for use of, the group are capitalised only when the following can be demonstrated:

- technical feasibility;
- intention to complete;
- ability to use or sell the asset;
- generation of probable future economic benefits;
- availability of technical, financial and other resources; and
- reliable measurement of attributable expenditure.

Borrowing costs that are directly attributable to the acquisition or development of software are considered as part of the cost of the software.

The cost of computer software is amortised using the straight-line method over its estimated useful life, normally estimated to be between three and five years.

Impairment tests are performed annually or more frequently if events or circumstances indicate that the asset might be impaired.

Costs associated with maintaining or upgrading computer software programmes are recognised as an expense as incurred.

II.12.c. Other intangible assets

At the time of a business combination, part of the cost might be attributed to one or more intangible assets when these are separable or arise from contractual or other legal rights (such as contractual customer relationships), provided a fair value can be measured reliably.

For each asset, the expected useful life is also assessed. Where this is a finite period, the cost of the asset will be amortised using the straight-line method over that period. The estimated useful life is assessed to be indefinite when, following an analysis of all the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows. In such circumstances, the cost will not be amortised.

After initial recognition, the amortisation period and amortisation method for assets with a finite life are reviewed at least at each financial year-end, and changed when necessary.

For assets with an indefinite life, impairment tests are performed annually or more frequently if events or circumstances indicate that the asset might be impaired.

II.13. Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation. Where an item of property, plant and equipment comprises major components having different useful lives, these components are accounted for separately.

Borrowing costs that are directly attributable to the acquisition of an asset are considered as part of the cost of the asset.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost can be measured reliably. All other costs are charged to the income statement during the financial year in which they are incurred.

Depreciation on property, plant and equipment is determined using the straight-line method to allocate the depreciable amount (difference between the cost and the residual value) over its estimated useful life.

The estimated useful life of property, plant and equipment is as follows:
- buildings (including enhancements): 20 to 40 years;
- leasehold improvements: shorter of economic life and period of lease;
- furniture and fixtures: seven years; and
- IT equipment (data processing and communications): between two and five years.

Land is not depreciated.

II.14. Leases

Contracts to lease assets are classified as finance leases where they transfer substantially all the risks and rewards of ownership of the asset to the customer. Contracts not deemed to be finance leases are treated as operating leases.

Assets acquired under finance leases are included within fixed assets at the fair value of the leased asset or, if lower, the present value of the minimum lease payments, and depreciated over their economic useful lives taking into account anticipated residual values.

Operating lease income and charges are adjusted where relevant by lease incentives and are recognised on a straight-line basis over the life of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor, or received from the lessee by way of penalty, is recognised as an expense or income in the period in which termination takes place.

II.15. Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise balances with an original maturity of not more than three months, including cash and non-restricted balances with central banks, and loans and advances to banks and other customers.

II.16. Provisions

Provisions are recognised where:
- there is a present obligation arising from a past event;
- there is a probable outflow of resources; and
- the outflow can be estimated reliably.

Provisions are recognised in respect of onerous contracts where the unavoidable costs of the future obligations under the contract exceed the economic benefits expected to be received.

Contingent liabilities are possible obligations whose existence depends on the outcome of one or more uncertain future events not wholly under the control of the group. For those present obligations where the outflows of resources are uncertain, or in the rare cases where these outflows cannot be measured reliably, this will give rise to a contingent liability. Contingent liabilities are not recognised in the financial statements but are disclosed, unless they are remote.

II.17. Employee benefits

II.17.a. Pension obligations

The group operates a number of post-retirement benefit schemes for its employees, including both defined contribution and defined benefit pension plans.

A defined contribution plan is a pension plan under which the group pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further contributions.

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan.

The liability recognised in the balance sheet in respect of defined benefit plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in equity in the period in which they occur.

Past service costs are recognised immediately in the profit and loss account.

The costs of defined contribution plans are charged to the income statement in the year in which they fall due.

II.17.b. Other post-retirement benefits

Some group companies provide post-retirement healthcare benefits to their retirees. The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity. These obligations are valued annually by independent qualified actuaries.

II.18. Current and deferred income taxes

Current tax payable on profits, based on the applicable tax law in each jurisdiction, is recognised as an expense in the year in which profits arise.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted in each relevant country by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The principal temporary differences arise from:
- depreciation of tangible fixed assets and amortisation of intangible assets;
- revaluation of certain financial assets and liabilities, including derivative contracts;
- provisions for pensions and other post-retirement benefits;
- tax losses carried forward; and
- in relation to acquisitions, the difference between the fair values of the net assets acquired and their tax base.

Temporary differences on the initial recognition of assets and liabilities other than those acquired in a business combination are not recognised unless the transaction affects accounting or taxable profit.

Deferred tax assets, including those related to income tax losses available for carry forward, are recognised when it is probable that future taxable profit will be available against which the temporary differences can be used.

Deferred income tax is provided on temporary differences arising from investments in subsidiaries and associates, except where:
- the timing of the reversal of the temporary difference is controlled by the group; and
- it is probable that the difference will not reverse in the foreseeable future.

Current tax assets and liabilities are offset when they arise in the same entity and where there is both a legal right of offset and the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Deferred tax related to a transaction or event which is charged or credited directly to equity (e.g. fair value re-measurement of available-for-sale investments and cash flow hedges) is also credited or charged directly to equity and is subsequently recognised in the income statement together with the deferred gain or loss.

Deferred tax assets and liabilities are not discounted.

II.19. Dividends

Dividends on ordinary shares are recognised in equity and as a liability in the year in which they are approved by the Company's shareholders.

Dividends for the year that are declared after the balance sheet date are not recognised as a liability and are instead disclosed as subsequent events.

III. Critical accounting estimates and judgements

The Euroclear group makes estimates and assumptions that affect the reported amounts of assets and liabilities. These estimates are considered to be important to understand the group's financial condition, since they require management to make complex and subjective judgements, some of which may relate to matters that are inherently uncertain. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

III.1. Impairment of goodwill and contractual customers' relationships with an indefinite useful life

The group tests goodwill and contractual customers' relationships for impairment annually (during the fourth quarter), irrespective of whether there is an indication of impairment. Furthermore, the group remains alert for indicators of impairment throughout the year and conducts a high-level impairment review at each quarter end.

Such impairment reviews are deemed to detect:
- overpayment;
- under-performance compared with expectations; and
- significant changes with an adverse effect on the acquired business. Such changes can stem from, for example, new business parameters (e.g. volatility of stock markets, changes in the volume of securities safekept on behalf of customers, ...) or from changes in market data used to determine the cost of capital of the acquired businesses.

An impairment loss is recognised whenever the recoverable amount of the goodwill is less than its carrying amount (book value). The recoverable amount of an asset is the higher of its net selling price and its value in use, both based on present value calculations.
- Net selling price is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable willing parties, less the cost of disposal.
- Value in use is the amount obtainable from the use of an asset until the end of its useful life and from its subsequent disposal. Value in use is calculated as the present value of estimated future cash flows. The value in use calculation may take into account not only the post-acquisition performance of the acquired entity itself, but also the changes in cash flows in other entities in the group that are positively or negatively affected by the acquisition.

No impairment charge was deemed necessary at the end of 2016 and 2017. See Note XVIII.

Contractual customers' relationships with an indefinite useful life relate to the acquisition of Euroclear Belgium.

III.2. Provisions

A provision is a liability of uncertain timing or amount. At each reporting year, the necessity to record or adjust provisions is considered based on the latest information available.

Onerous lease provisions are recognised when a decision has been taken to vacate premises leased by the Company and when the space is expected to remain empty or to be sub-let at terms and conditions below those in the Euroclear lease. The provision represents the lower of the cost to breach the contract and the cost of fulfilling it, taking into account the expected benefits that might be received under a sub-lease, providing the entity is actively seeking to sub-let the property.

Provisions for onerous contracts are recognised when the Company has a contract that is onerous. The provision represents the best estimate of the unavoidable costs of the obligations under the contract over the economic benefits expected to be received under it.

Human resources-related provisions are recognised when a decision has been made, a formal plan exists and the main features are known by those affected. The provision represents the best estimate of the full cost to be incurred to implement the plan.

Provisions for dilapidation, or end-of-lease obligations, are recorded when Euroclear is contractually bound to incur such costs and a reliable estimate can be made.

Provisions for litigation are recorded when there are strong indications that costs will be incurred to settle the legal cases concerned and a reliable estimate can be made.

III.3. Defined benefit plans

The present value of the defined benefit plan obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Any changes in these assumptions will impact the carrying amount of the obligations.

The assumptions used in determining the net cost/(income) for the plans include the discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the plan obligations. In determining the appropriate discount rate, the group considers the interest rates of high-quality corporate bonds (or mortgage backed bonds in Sweden) that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related plan liability.

Other key assumptions for plan obligations are based in part on current market conditions.

The major assumptions used are shown in Note XX.

III.4. Deferred tax assets

Deferred tax assets are recognised to reflect the future tax benefit from unused tax losses or tax credits and other temporary differences. If there is a concern about the relevant entities' capacity to utilise the tax assets within a reasonable (13-year) period, the assets are impaired, even when there remains a possibility to benefit longer term if sufficient taxable profits arise. The 13-year period is considered reasonable in view of the activities of the Euroclear group entities and the sector in which they operate.

The Belgian government announced in July 2017 an important corporate tax reform which will decrease the corporate tax rate in Belgium of 33.99% down to 29.58% in 2018 and 25% as from 2020. The Act affecting the reform has been voted by Parliament in December 2017 which, by virtue of the guidance in IAS 12, is considered as substantively enacted. Therefore, deferred taxes on temporary differences have to be calculated based both on the new tax rates and the timing of their expected reversals. In this regard, management has exercised judgement in deciding which temporary differences are expected to reverse before 2020, on which the tax rate of 29,58 % is applicable, and which temporary differences are expected to reverse after 2020 to which the tax rate of 25% is applied.

III.5.Impairment of available-for-sale equity investments

The group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the group evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of a deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows. The group determines that available-for-sale equity investments are impaired when there is a constant decrease of fair value of more than 50% compared with the fair value at inception for a period greater than one year.

Where appropriate, the group has recourse to adequate valuation techniques (e.g. discounted cash flows, market multiples) to estimate the value of non-quoted available-for-sale equity investments, as explained in section IV.

As far as such investments are concerned, no indicator of impairment has been detected. The group, therefore, estimates that their respective values in the accounts of the relevant acquiring company are still justified.

IV. Risk management and the financial risk management environment

This section is unaudited unless specifically stated as audited.

IV.1. Managing business in a risk-controlled environment

IV.1.a. The Enterprise Risk Management framework

The Risk Management function has developed a comprehensive Enterprise Risk Management (ERM) framework, taking into account relevant market and regulatory standards. The ERM framework aims to help Euroclear achieve its key goals through the structured identification, assessment and management of risks.

Euroclear's ERM framework:

- Establishes clear and robust risk governance arrangements;
- Ensures open and transparent identification, analysis, management, monitoring and reporting of risks – including root causes, potential impacts and incidents – from across the organisation;
- Embeds risk appetite in senior management decision-making through Euroclear's Risk Appetite Framework, thereby ensuring an appropriate balance between risk and reward is maintained. Risk appetite helps senior management understand how much risk the Euroclear Board is willing to accept in the pursuit of Euroclear's key goals;
- Helps foster a healthy risk culture including, amongst others, our attitude towards risk and opportunity, our level of risk awareness, how we take decisions and how responsibility and accountability are defined. Risk culture is thus the embedding of risk management in our day-to-day activities.

IV.1.b. The three lines of defence

The three lines of defence model operated within Euroclear facilitates the effective operation of the ERM framework. Each line plays a distinct role providing senior management and the Board with assurance on Euroclear's likely achievement of its key goals through the effective management of risks.

First line of defence: The first line (management) is responsible for taking acceptable risks in line with Euroclear's risk appetite. Management uses the ERM framework to help them identify, assess and control/mitigate risks that might impact the achievement of Euroclear's key goals or are outside of risk appetite.

First line management:
- provides the Board with information on current risk profile, as well as key and developing risks;
- demonstrates to the Board that risk controls are both adequate and effective; and
- advises whether key goals (objectives) are likely to be achieved.

Second line of defence: the Risk Management function provides robust independent oversight of management risk-taking through a combination of continuous risk monitoring and independent risk assessments.

In doing so, Risk Management:

- Establishes, maintains, facilitates and assesses the effective operation of Euroclear's ERM framework;
- Constructively challenges management and advises the Board on the identification, assessment, mitigation and reporting of risks
- Provides the Board and Risk Committee with an independent view of:
  - risk capacity, appetite and profile;
  - key and emerging risks, both at Euroclear group and entity level; and
  - likely achievement of key goals.
- Acts as an independent risk 'sounding board' (providing advice) for Senior Management and the Board.

Compliance & Ethics division defines the framework, monitors, tests, reports and escalates to management on controls relating to laws and regulations and advice on remedial actions. Compliance also provides regular training across the organisation to increase awareness of compliance risks and ethical issues.

Other support functions like Finance or HR monitor specific controls and escalate to management in case of control defects.

Third line of defence: Internal Audit provides comprehensive assurance based on the highest levels of independence and objectivity within the organisation, in order to support the Board and senior management in reaching their objectives. Internal Audit's scope is unrestricted, and provides assurance on the adequacy and effectiveness of Euroclear's governance, risk management and internal controls**.**

IV.1.c. Risk appetite framework & control environment

Euroclear faces a range of risks in pursuit of its key goals. The principle risks facing the organisation are reflected in Euroclear's nine top level risk categories: Conduct & Culture; Operational; Legal & Compliance; Credit; Liquidity; Market; Strategic & Business; Change; and Systemic risks.

Euroclear has developed a Risk Appetite Framework (RAF) that takes the Board approved risk appetite statement in the Corporate Risk Management Board Policy and allocates it to each of Euroclear's principle risks. The RAF sets meaningful measures and limits for the amount of risk the Board is willing to accept in relation to each of its principle risks in pursuit of its key goals.

Risk and control monitoring

Evidence of effective control operation is monitored and reported through Euroclear's quarterly Positive Assurance Reporting (PAR) and annual Internal Control System (ICS) reporting processes. The PAR provides management's view on the likely achievement of business objectives by entity or division and evidences the robustness of the risk and control environment in that area. The ICS provides an annual summary of Euroclear's risk and control environment and draws heavily from information captured through the PAR process.

The first line of defence performs an annual Risk & Control Self-Assessment (RCSA) facilitated by the Risk Management division. The RCSA process is an annual management assessment of the adequacy and effectiveness of Euroclear's risk and control framework. The RCSA process also seeks to identify any new or emerging risks that need to be addressed. The RCSA and the complementary Horizontal Self-Assessment (HSA) are key components of the ERM framework.

An annual, externally audited ISAE3402 report is produced for each Euroclear CSD (Central Securities Depository) providing assurance on relevant internal controls.

Risk reporting

In its role as providing independent oversight of management risk-taking, Risk Management:

- Performs continuous risk monitoring and analysis using a number of techniques, supplemented by independent risk assessments and horizon scanning to form its independent opinion of Euroclear's key and emerging risks. The results of RM's assessments are shared with senior management as appropriate and key information summarised and reported to the Management Committee and Board Risk Committee in the quarterly Chief Risk Officer's (CRO) report.
- Reports its assessment of Euroclear's risk profile and any areas of concern through the Risk Appetite Framework dashboard incorporated into the quarterly CRO report.
- Escalates to the appropriate level material risk issues when, in its opinion, either a new risk emerges or mitigating actions for an existing risk have been insufficient in scope and/or time.

IV.2. Operational risk management

All Euroclear entities face operational risks in their daily activities, caused by either inadequate or failed internal processes, human errors, system failures or external events.

In line with Basel recommendations, Euroclear categorises its operational risks and loss events in seven risk event types:
- employment practices and workplace safety;
- clients, products & business practices;
- execution, delivery & process management;
- internal fraud;
- external fraud and cyber;
- business disruption & systems failure;
- damage to or loss of physical (or other) assets.

Euroclear uses Key Risk Indicators (KRIs), Key Performance Indicators (KPIs) and regular self-assessment to effectively monitor operational risk. Risk management also ensures that the first line consistently logs and reports all incidents and escalates them at the appropriate management level as necessary.

Euroclear (anonymously) shares its internal loss data with the Operational Riskdata Exchange Association (ORX) in order to access their database of high quality operational risk loss data. Euroclear uses this data for its capital modelling and to understand and manage operational risk adequately.

<u>Information Security & Business Continuity</u>
A major component of our operational risk management is Information Security (IS) and Business Continuity Management, which are fully integrated in our ERM framework and aligned with recognised international standards.

Euroclear's business continuity arrangements include identification of all critical functions to ensure continuity of required services. To this end, appropriate business continuity plans are in place for each CSD and critical function and division. In addition, Euroclear's business continuity programme includes a testing strategy to enable each entity to respond to unforeseen events. Euroclear performs functional as well as entity and group wide business continuity plan tests to ensure continued readiness to respond to crisis situation. For example:

- IT disaster recovery testing: switch between data centres;
- crisis management exercises;
- office recovery testing: switch to a recovery office and dual sites testing;
- testing of agreed arrangements with critical suppliers and external parties covering for example:
  - crisis communication
  - reciprocal plans with other Financial Market Infrastructures (e.g. National Central Banks, other (I)CSDs, Central Counterparts)
- Participation to market wide exercises where and when they are organised;
- Building evacuation exercises.

In addition, each division/department is responsible for producing, maintaining and implemented its "site-switch" procedure to ensure the continuity of Euroclear Bank's critical functions.

IV.3. Euroclear group financial risk management

Euroclear's financial risk framework, together with the risk appetite, ensures that financial risks (i.e. credit, liquidity and market risks) remain within an accepted level. As an FMI, the financial risks Euroclear faces are however limited, interlinked and, in the majority of the cases the direct result of participant's activity.

IV.3.1. Credit risk

Credit risk is defined as the risk to Euroclear's earnings or capital arising from Euroclear's obligor's failure to perform due to inability or unwillingness on its financial obligations to Euroclear on time and in full. In the scope of its activities Euroclear's obligors are defined as borrowing participants, cash correspondents and settlement banks, treasury counterparts and issuers of securities in the investment and treasury securities portfolio.

Euroclear Bank

The credit risk framework sets limits based on Euroclear bank's credit risk appetite, and addresses among others the size and conditions of credit facilities for borrowing participants and market facilities to support treasury activity, concentrations and collateral quality. Furthermore operational processes are designed and reassessed on a regular basis to actively monitor and minimize credit risks.

Credit risk is mainly taken on borrowing participants and on other counterparts when performing the day-to-day balance sheet management, in particular re-depositing participant long cash balances or investing its capital. To date Euroclear Bank has not experienced any credit losses, not even during periods of market turmoil. This is largely due to the very short duration (mostly intra-day) and predominantly secured nature of its credit exposures.

All credit granted to borrowing participants is uncommitted and must be secured by proprietary collateral, for which strict collateralisation rules apply. As of 2018, unsecured exposure on borrowing participants will only be permitted when allowed under CSDR (e.g. exempted entities). Today already more than 99% of Euroclear Bank's participant's credit exposures are collateralised.

Euroclear Bank also has treasury exposures resulting from clients' end-of-day cash positions. These balances are usually placed in the market with high-quality counterparties for a short duration, preferably by using reverse repurchase agreements (reverse repos) or invested in very high quality securities with relatively short-term maturities. Unsecured treasury credit exposure is allowed but kept limited.

Euroclear CSDs have no direct cash relationship with their clients as their transactions settle in central bank money. Consequently, they cannot extend loans or credit facilities to their customers. Euroclear CSDs can potentially face a certain level of credit risk arising from the non-payment of fees by their clients, albeit for limited amounts considering both the frequency of the billing and their relatively broad customer base. Therefore, each CSD of the group is required by its home regulator to hold enough liquidity to cover such risks.

Finally, the Euroclear CSDs are also exposed to credit risk related to the reinvestment of their cash surplus with their bank counterparties. Credit risk is however mitigated through a strict investment policy limiting among others the allowed counterparties, type of instruments, currencies and maturity.

IV.3.1.a. Credit exposure

Intra-day credit exposure arises when Euroclear Bank delivers assets before receiving the appropriate counter value from the other counterpart and when Euroclear Bank extends short-term credit to its clients to facilitate the settlement of securities transactions on a Delivery-Versus-Payment (DVP) basis. Generally, the duration varies with the sources of exposure and funding. Only in unforeseen circumstances (primarily as the result of settlement failures or delayed credits) part of the operating exposure can become an end-of-day overdraft retained in the books of Euroclear bank until the next day. Sanctioning rates act as an effective deterrent to discourage participant intraday credit exposures to translate into overnight credit exposures. Other credit exposures that can go beyond the short-term (intraday and overnight) are related to Treasury activity, Securities Lending and Borrowing (SLB) and General collateral access (GCA) Term lending.

The table below summarises the maximum gross credit exposure (net of any impairment losses recognised in accordance with IAS 39), which for the purpose of this annex is defined as the net carrying amount as reported in the financial statements (therefore measured on an end-of-day basis), without taking into account any collateral held or other credit enhancement attached.

(€'000)	Notes	2017	2016
At 31 December			
Financial assets			
- Cash and balances with central banks		3,582,755	5,639,674
- Loans and advances		11,159,317	12,145,763
- Available-for-sale financial assets	XIV	5,363,273	2,840,759
- Financial assets held for trading	XV	8,383	40,063
- Derivatives used for hedging	XVI	453	568
Total financial assets		**20,114,181**	**20,666,827**
Securities lending indemnifications	XXIV	**25,912,288**	**28,298,635**
Total		**46,026,469**	**48,965,462**

At 31 December 2017, secured exposure amounted to €34,994,366,000 (2016: €39,288,600,000) including €8,032,760,000 of reverse repo transactions (2016: €10,179,992,000). Unsecured exposure amounted to €11,032,103,000 (2016: €9,676,862,000) and relates to treasury exposure and credit exposure to exempted entities as per Article 23(2) of Regulation (EU) 390/2017.

The credit quality of balances with central banks and the portfolio of loans and advances can be assessed by reference to the internal rating system adopted by the group. The internal rating 'Eaa' shown below sums up the ratings 'Eaa-', 'Eaa' and 'Eaa+' of Euroclear Bank's internal ratings scale. Accordingly, the internal rating 'Ea' sums up the ratings 'Ea-', 'Ea' and 'Ea+' of the internal ratings scale.

Rating (in %)	2017	2016
At 31 December		
Eaaa	24%	32%
Eaa	36%	28%
Ea	32%	32%
Ebbb+ and Ebbb	6%	7%
Ebbb- and below	2%	1%
Total	**100%**	**100%**

The table below presents an analysis of the available-for-sale financial assets (€5,057,435,000 at 31 December 2017, excluding equity shares; 2016: €2,605,327,000), using the second best approach on LT IDR ratings assigned by the three major rating agencies (Standard & Poor's, Moody's and Fitch ratings). Euroclear Bank's available-for-sale financial assets mainly consist of high credit quality short-term investments.

Rating (in %)	2017	2016
At 31 December		
AAA	26%	8%
AA+	29%	22%
AA	32%	48%
AA-	13%	22%
Total	**100%**	**100%**

IV.3.1.b. Credit risk mitigation

Credit exposure is mitigated by recourses (e.g. collateral, guarantees or letter of credit) to secure the credit and market facilities that are granted to borrowing participants, treasury counterparts and Clearstream Banking Luxembourg. These recourses can be used to cover any credit exposure that Euroclear Bank may incur due to default following a credit event e.g. a bankruptcy, sanctions, etc.

As clients' have both an aggregated credit facility as well as credit facilities by currency, clients can use the collateral pledged and held in Euroclear Bank to guarantee all the obligations they have with Euroclear Bank, irrespective of the nature of the exposure and the original currency. For repo activity with Treasury counterparts, Euroclear Bank signs global master repurchase agreements (GMRAs), which allow for close-out netting of positions in case of a counterparty default. If the post-liquidation value of collateral does not cover the defaulted credit exposure, Euroclear Bank may end up with a residual credit exposure. The potential residual credit exposure that Euroclear Bank faces after consideration of all credit mitigation and protective measures in place is however monitored on a daily basis.

In accordance with Articles 10-11 of Regulation (EU) 390/2017, strict collateralisation rules apply concerning the quality and quantity of securities used as collateral for overdrafts, guarantees issued to securities lenders in the context of the SLB and GCA programmes, and reverse repos. Euroclear Bank uses a four category collateral classification system. The internal rating as well as a series of credit, market and liquidity indicators are used to determine the category allocation. Any collateral that cannot be categorised in one of the four categories, is not accepted as collateral to secure credit exposure. Frequent monitoring shows that more than 99% of the collateral pledged in the Euroclear System has investment grade quality.

In order to accurately determine the value of the collateral it takes, Euroclear Bank has developed a dynamic internal collateral valuation model taking into account market, credit, country and liquidity risks. Haircuts are computed at least once a day for each security, reflecting the latest market risk factors and conditions. The collateral valuation model is back-tested (daily) and stress tested (yearly). The results show that the collateral valuation model has provided continually adequate valuations, even during periods of high volatility for the markets.

The credit exposure of the interoperable link (i.e. the Bridge) with Clearstream Banking Luxembourg is annually secured by means of a letter of credit issued by a consortium of creditworthy financial institutions in Euroclear Bank's favour. In accordance with Article 16(k) of Regulation (EU) 390/2017, no credit institution has committed to a share of the total outstanding letter of credit above 10%. The guarantee amounted to USD 3 billion at end-2017. Additionally Euroclear Bank has a right to set-off as a final settlement that extinguishes the mutual debts owed between the parties in exchange for a new net amount. Potential residual credit exposure under the Bridge is managed down and monitored.

IV.3.1.c. Concentration risk

Euroclear's role as a provider of post trade services to global capital markets means its exposures are highly concentrated on the financial sector. Concentration limits are however set to ensure that the group does not take excessive exposures on a limited number of clients or counterparties. Furthermore thresholds are set per collateral asset type, individual issuers, country (including geographic region), economic sector, type/activity of the issuer, rating, settlement currency, etc.

Exposure concentration: European regulation (Article 395 of Regulation (EU) 575/2013) imposes risk concentration limits that have to be respected for each applicable exposure. The Large Exposure Limit is the maximum amount that Euroclear Bank can lend to a single participant family or group of connected clients. Euroclear Bank should never have an end of day exposure on one single participant family larger than 25% of its eligible capital, after taking into account the effect of the credit risk mitigation in accordance with Articles 399 to 403 of Regulation (EU) 575/2013. Additionally limits to manage concentration risk arising from exposures to shadow banking entities (defined as under Article 395(2) of Regulation (EU) 575/2013 and that are not excluded undertakings as defined in EBA guidelines (EBA/GL/2015/20) are in place, both at individual family and aggregated level.

Collateral concentration: Collateral concentration thresholds and limits, which apply to the aggregate exposure on entity and/or family level, are set in line with Euroclear Bank's risk appetite to ensure Euroclear Bank's ability to liquidate securities pledged as collateral is not impaired. A minimum amount of collateral needs to be ECB eligible and/or fit the eligibility criteria of committed reverse repo facilities must be maintained, to ensure it can be monetized to raise sufficient liquidity when a credit facility of a borrowing participant is above a certain amount or a treasury counterpart defaults on its obligations. Collateral monitoring against determined thresholds and limits is performed to anticipate collateral concentration and to allow actions to be taken.

Geographical concentration of financial assets and liabilities

In the table below the geographical regions are those in which Euroclear's clients or counterparties are located. Cash is always classified under the country of the issuing central bank.

(€'000)	European Union	Europe - Other	Americas	Asia	Rest of the world	Total
At 31 December 2017						
Total financial assets	18,037,317	853,722	497,746	684,098	41,298	20,114,181
Total financial liabilities	7,893,097	1,025,399	2,494,611	5,179,225	538,011	17,130,343
At 31 December 2016						
Total financial assets	18,615,361	440,432	939,385	664,914	6,735	20,666,827
Total financial liabilities	8,135,864	976,027	3,409,518	5,050,240	546,560	18,118,209

IV.3.2. Liquidity risk

Liquidity risk is the risk that Euroclear, although solvent, is unable to meet its contractual or contingent obligations or that it does not have the appropriate amount, tenor and composition of funding and liquidity to support its assets.

IV.3.2.a. Liquidity risk at Euroclear Bank

Euroclear Bank provides liquidity to offer efficient settlement and custody services. It ensures timely cross-border settlement with domestic markets, supports new issues and custody activities, and enables clients to transfer sales and income proceeds in a timely manner. Euroclear Bank's liquidity risk is largely intra-day and transactional.

Euroclear Bank's overnight settlement process, enabling clients to settle transactions in a wide range of currencies within a single timeframe, efficiently recycles and minimises liquidity needs, as clients only have to fund the resulting net debit position.

Euroclear Bank may end up with residual cash positions at the end of the day. On a daily basis, Euroclear Bank is typically long cash, which it invests mostly on a very short term basis to match the volatility of clients' settlement and money transfer activities.

IV.3.2.b. Liquidity risk appetite

Euroclear Bank's liquidity risk appetite is very low, given the criticality of intra-day liquidity for the efficient delivery of its settlement and custody services. Euroclear Bank has, therefore, adopted a strong risk management framework to anticipate, monitor and manage the intra-day liquidity flows to ensure the quality of its services. Liquidity risk is further mitigated by Euroclear Bank's strict client admission policy and the continuous monitoring of its clients, and by the fact that credit is secured and short-term.

IV.3.2.c. Funding

Euroclear Bank's settlement system allows for an efficient recycling of liquidity. Although Euroclear Bank settles transactions amounting to over €1,900 billion each day (2017 average), it only extends less than 4% of the settled transactions in secured intra-day credit to its clients (thanks to netted back-to-back transactions and to an efficient securities lending and borrowing programme). Since Euroclear Bank's daily payment receipts typically match its payment obligations, additional liquidity is only needed to smoothen or accelerate the payment process and to ensure the timely execution of time critical payments throughout the day.

To support its daily payment activity, Euroclear Bank relies on a large network of highly rated cash correspondents and has a direct access to TARGET2 system for euro payments. In order to raise liquidity, Euroclear Bank can also use its investment book, funded by equity and retained earnings. The investment book must be invested with the objective of capital and liquidity preservation, meaning in euro-denominated sovereign, supranational or agency debt instruments rated AA- or above and ESCB-eligible. Furthermore, Euroclear Bank has a broad access to the inter-bank market and has contingency liquidity sources in place for the major currencies.

The adequacy of Euroclear Bank's liquidity capacity is assessed daily and approved monthly by the Credit and Assets and Liabilities Committee (CALCO). It also monitors, on a monthly basis, the trend of liquidity risks that Euroclear Bank faces through liquidity key risk indicators, allowing for instance to identify changes in clients' cash management behaviour that may affect Euroclear Bank's liquidity.

IV.3.2.d. Liquidity stress testing

Euroclear Bank regularly performs idiosyncratic and market-wide liquidity stress tests to assess potential liquidity strains and to ensure adequate access to enough liquidity sources to fund any shortfalls. For the group CSDs and Euroclear SA/NV, liquidity stress testing is also performed to ensure, where applicable, compliance with local regulatory liquidity obligations as well as adequate funding.
Examples of liquidity stress tests are:
- default of the top two clients (at family level) and the knock on effects;
- operational issue affecting a cash correspondent;
- operational issue affecting a participant;
- default of another market infrastructure;
- unusual behaviour of participant's deposits.

In addition, Euroclear Bank has to comply with regulatory liquidity stress tests such as the Liquidity Coverage Ratio (LCR). The aim of the LCR is that credit institutions hold sufficient liquid assets to withstand the excess of liquidity outflows over inflows that are expected to accumulate over a 30-day stressed period. The National Bank of Belgium has been requiring full LCR compliance (100%) since 1 October 2015. Euroclear complies with this requirement and has set higher target as part of its risk appetite framework.

IV.3.2.e. Liquidity contingency plan

Euroclear Bank maintains an appropriate liquidity contingency plan to ensure the business continuity of its core settlement and custody services. The plan documents the relevant operational procedures and ensures access to (contingency) liquidity in the event of an operational or financial crisis. On top of its own capital and access to regular market funding, Euroclear Bank has negotiated committed liquidity lines and can call upon a total of €1.65 billion syndicated back-stop facility, a total of €1.3 billion bilateral standby facility and more than €1.54 billion committed forex swap facilities. The contingency plan and the availability of contingency liquidity are regularly tested and subject to stress testing. Finally, to cover its short-term liquidity needs resulting from the default of a client, Euroclear Bank has agreements in place allowing Euroclear Bank to appropriate the client pledged collateral (immediate transfer of ownership). In order to generate liquidity, this appropriated collateral is then re-used with liquidity providers or pledged with the NBB, pending full liquidation.

IV.3.2.f. Liquidity risks in Euroclear SA/NV and the CSDs

Investments of cash belonging to Euroclear SA/NV and the CSDs aim at minimising liquidity risk for these entities:
- stable cash positions linked to regulatory liquidity requirements, for entities where such requirements apply, should be invested on a rollover basis; and
- surplus cash investments, which includes the working cash needs of these entities, should always be cash flow driven, which means that the amount and period of the investments should take into account the evolution of working cash needs and capital expenditure.

The type of instrument to be used is limited to overnight or term deposits, the duration of which should not exceed three years.

The table below (audited) shows the consolidated financial liabilities analysed by remaining contractual maturity at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows at spot rate and the book value of the derivatives.

(€'000)	Notes	Repayable on demand or within one week	Other amounts maturing within 3 months	Maturity between 3 and 6 months	Maturity between 6 months and 1 year	Maturity within 1 to 5 years	Maturity after 5 years	Undiscounted contractual cash flows - Total	Book value
At 31 December 2017									
Financial liabilities									
- Deposits from central banks		900,382	-	-	-	-	-	**900,382**	**900,382**
- Deposits from banks and customers		15,590,208	404,425	10,475	9,480	37,946	237,521	**16,290,055**	**16,205,733**
- Financial liabilities held for trading	XV	8,463	15,365	-	-	-	-	**23,828**	**23,828**
- Derivatives used for hedging	XVI	-	101	102	197	-	-	**400**	**400**
Total financial liabilities		**16,499,053**	**419,891**	**10,577**	**9,677**	**37,946**	**237,521**	**17,214,665**	**17,130,343**

(€'000)	Notes	Repayable on demand or within one week	Other amounts maturing within 3 months	Maturity between 3 and 6 months	Maturity between 6 months and 1 year	Maturity between 1 and 5 years	Maturity after 5 years	Undiscounted contractual cash flows - Total	Book value
At 31 December 2016									
Financial liabilities									
- Deposits from central banks		1,165,106	-	-	-	-	-	**1,165,106**	**1,165,106**
- Deposits from banks and customers		16,433,431	275,851	10,479	9,480	37,946	246,932	**17,014,119**	**16,919,785**
- Financial liabilities held for trading	XV	24,765	7,527	-	-	-	-	**32,292**	**32,292**
- Derivatives used for hedging	XVI	-	248	258	521	-	-	**1,026**	**1,026**
Total financial liabilities		**17,623,301**	**283,626**	**10,737**	**10,001**	**37,946**	**246,932**	**18,212,543**	**18,118,209**

In the table above, the deposits from banks and customers include an amount of 4,120,345,000 €-equivalent at 31 December 2017 (2016: 4,203,193,000 €-equivalent) of deposits blocked following applicable international sanctions measures.

IV.3.2.g. Fair value of financial instruments

Financial instruments traded in active markets

A market is regarded as active if quoted prices are readily and regularly available (exchange, dealer, broker, pricing service or regulatory agency) and if these prices represent actual and regularly occurring market transactions on an arm's length basis. These instruments are included in level 1.

The fair value of such instruments is based on quoted market prices at the balance sheet date.

Financial instruments not traded in active markets

The fair value of these instruments is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available. If all significant inputs that are required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:
- quoted market prices or dealer quotes for similar instruments;
- the present value of the estimated future cash flows based on observable yield curves, for the fair value of interest rate swaps;
- the forward exchange rates at the balance sheet date, with the resulting value discounted back to present value, for the fair value of forward foreign exchange contracts;
- other techniques, such as discounted cash flow analysis, used to determine the fair value of remaining financial instruments.

The table below (audited) shows the three-level hierarchy of the financial instruments measured at fair value:

Level 1. Quoted prices in active markets for the same instruments;
Level 2. Quoted prices in active markets for similar assets or liabilities, or other valuation techniques for which all significant inputs are based on observable market data; and
Level 3. Valuation techniques for which significant input is not based on observable market data.

(€'000)	Notes	Level 1	Level 2	Level 3	Total
At 31 December 2017					
Financial assets					
Available-for-sale financial assets	XIV				
- Equity shares		290,136	-	15,702	**305,838**
- Debt instruments		5,057,435	-	-	**5,057,435**
Financial assets held for trading	XV				
- Forward foreign exchange		-	8,383	-	**8,383**
Derivatives used for hedging	XVI				
- Forward foreign exchange		-	453	-	**453**
Total financial assets		**5,347,571**	**8,836**	**15,702**	**5,372,109**
Financial liabilities					
Financial liabilities held for trading	XV				
- Forward foreign exchange		-	23,828	-	**23,828**
Derivatives used for hedging	XVI				
- Forward foreign exchange		-	400	-	**400**
Total financial liabilities		**-**	**24,228**	**-**	**24,228**

(€'000)	Notes	Level 1	Level 2	Level 3	Total
At 31 December 2016					
Financial assets					
Available-for-sale financial assets	XIV				
- Equity shares		220,864	-	14,568	**235,432**
- Debt instruments		2,605,327	-	-	**2,605,327**
Financial assets held for trading	XV				
- Forward foreign exchange		-	40,063	-	**40,063**
Derivatives used for hedging	XVI				
- Forward foreign exchange		-	568	-	**568**
Total financial assets		**2,826,191**	**40,631**	**14,568**	**2,881,390**
Financial liabilities					
Financial liabilities held for trading	XV				
- Forward foreign exchange		-	32,292	-	**32,292**
Derivatives used for hedging	XVI				
- Forward foreign exchange		-	1,026	-	**1,026**
Total financial liabilities		**-**	**33,318**	**-**	**33,318**

Financial instruments classified in level 3 relate solely to minority long-term participating interests of Euroclear Bank:

- SWIFT equity shares are re-measured each time there is a re-balancing exercise according to SWIFT's Articles of Association (i.e. every three years), at that time an indication about equity share value is provided.
- Monte Titoli equity shares have no quotation nor price indication. The valuation is based on market multiples. More specifically, the multiple used is the median P/E of a peer group (companies in the same industry enjoying strong ratings) for a three-year period, to smoothen somewhat market volatility in our assessment.
- Acadiasoft equity shares (bought in 2015) and Liquidshare, Eggsplore and DSB Limited equity shares (bought in 2017) have no quotation nor reliable price indication. These equity shares are currently recorded at their acquisition cost (Acadiasoft: €3,938,000, Liquidshare: €950,000, Eggsplore: €250,000, DSB Limited: €500,000).

The table below (audited) shows the reconciliation of the level 3 fair value measurements:

(€'000)	Notes	At 31 December 2016	Transfer in/(out) of level 3	Fair value adjustment released in profit or loss	Fair value adjustment recognised in equity	(Disposals)/ acquisitions	At 31 December 2017
Financial assets							
Available-for-sale financial assets	XIV						
- Equity shares		14,568	-	-	(566)	1,700	**15,702**
Total financial assets		**14,568**	**-**	**-**	**(566)**	**1,700**	**15,702**

(€'000)	Notes	At 31 December 2015	Transfer in/(out) of level 3	Fair value adjustment released in profit or loss	Fair value adjustment recognised in equity	(Disposals)/ acquisitions	At 31 December 2016
Financial assets							
Available-for-sale financial assets	XIV						
- Equity shares		14,435	-	-	133	-	**14,568**
Total financial assets		**14,435**	**-**	**-**	**133**	**-**	**14,568**

IV.3.3. Market risk

Market risk is the risk of losses in (on or off balance-sheet) positions arising from adverse movements in market prices. Market risk arises from possible changes in foreign exchange rates, interest rates, equity or commodity prices.

IV.3.3.a. Market risk in Euroclear

Euroclear Bank

The majority of market risk in the group is concentrated at Euroclear Bank. As part of the Financial Risk Policy Handbook, an adequate risk framework has been put in place to measure, monitor and control the interest rate and foreign exchange risk supported by Euroclear Bank. Value-at-Risk (VaR) methodologies (under ongoing review following the validation conducted in December 2017) are used to measure interest rate and currency risk in the Investment Book, Treasury Book and Hedging Book. The Management Committee of Euroclear Bank sets VaR limits for all currencies combined, which are monitored daily.

By policy, Euroclear Bank's core equity (shareholders' equity plus retained earnings) is invested in debt instruments rated AA- or higher. The duration of these assets is limited to five years and is currently around six months.

Euroclear SA/NV and the Euroclear CSDs

Interest rate risk exists only to a limited extent in the CSDs and in Euroclear SA/NV. Indeed, the CSDs do not operate commercial cash accounts but invest their cash positions in accordance with regulatory liquidity requirements. The duration of the investments cannot exceed three years, and the types of instruments to be used are limited to straight overnight or term deposits.

Foreign exchange risk is also very limited in the CSDs and in Euroclear SA/NV. To avoid the potential foreign exchange risk that could arise from the investment of their surplus cash, these investments can only be made in their local currency, meaning in EUR for entities whose functional currency is EUR, in GBP for the entities located in the United Kingdom, and in SEK for the Swedish entities. The most significant source of foreign exchange risk stems from the potential change in net asset values of Euroclear SA/NV's non-euro shareholdings (for example Euroclear UK & Ireland and Euroclear Sweden).

IV.3.3.a.1. Interest rate risk

Euroclear typically has net long cash positions and its earnings therefore are sensitive to future changes in interest rates.

The table below shows the interest rate sensitivity of Euroclear's Banking Book positions. The figures relate to Euroclear SA/NV consolidated, as communicated to the National Bank of Belgium in the framework of standardised reporting under Pillar 2 of Basel. Assets and liabilities held in the Banking Book are predominantly denominated in euro, and they are expressed at market value for the purpose of this disclosure. The economic value of the Banking Book is computed by discounting the future cash flows for assets and liabilities present in this book.

The sensitivity of the economic value of the Banking Book to interest rate shocks is presented in the first column of the table below. The 10-year contingent convertible loan amounting to €200,000,000 granted by Euroclear Investments SA to Euroclear Bank to reinforce its capital base in a recoverable situation, in the context of the Recovery and Resolution plan, is included in the interest rate risk of the Banking Book economic value calculation. There is currently a maturity mismatch between the 10-year loan and the cash investment.

The remainder of the table illustrates to which extent the net interest income of Euroclear Bank is sensitive to interest rate movements, compared to the amount earned in 2017. For the purpose of this disclosure, we aggregate the future earnings in euro, however, for the interest rate sensitivity we distinguish between sterling, US dollars and euros (all other currencies are converted and included in euros).

(€'000)	Economic value of banking book	Interest result Effective 2017	Income sensitivity Interest result Expected 2018
increase/(decrease) of interest rate, in basis points			
300	2,160,989		445,852
200	2,163,375		330,279
100	2,164,489		213,235
-	2,164,181	151,780	94,685
(100)	2,162,289		43,853
(200)	2,158,630		7,918
(300)	2,153,001		-5,393

(€'000)	Economic value of banking book	Interest result Effective 2016	Income sensitivity Interest result Expected 2017
increase/(decrease) of interest rate, in basis points			
300	1,775,220		451,605
200	1,772,062		337,037
100	1,767,231		221,061
-	1,760,522	123,059	103,638
(100)	1,751,705		50,571
(200)	1,740,523		12,979
(300)	1,726,686		3,860

The table below (audited) reflects the interest rate risk profile of assets and liabilities at 31 December, based on the earlier of maturity date and interest rate resetting date.

(€'000)	Repayable on demand or within one week	Other amounts maturing within 3 months	Maturity between 3 and 6 months	Maturity between 6 months and 1 year	Maturity between 1 and 5 years	Maturity after 5 years	Non-interest bearing	Total
At 31 December 2017								
Assets								
- Cash and balances with central banks	3,582,497	-	-	-	-	-	258	3,582,755
- Loans and advances	8,995,944	797,779	1,329,556	9,500	8,338	-	18,200	11,159,317
- Available-for-sale financial assets	-	3,158,721	934,212	666,864	287,975	-	315,501	5,363,273
- Financial assets held for trading	6,555	1,828	-	-	-	-	-	8,383
- Derivatives used for hedging	-	111	112	230	-	-	-	453
- Other assets	-	-	-	-	-	-	1,525,061	1,525,061
Total assets	**12,584,996**	**3,958,439**	**10,500**	**676,594**	**296,313**	**-**	**1,859,020**	**21,639,242**
Liabilities								
- Deposits from central banks	900,381	-	-	-	-	-	1	900,382
- Deposits from banks and customers	15,589,498	404,806	10,500	-	-	199,683	1,246	16,205,733
- Financial liabilities held for trading	8,564	15,264	-	-	-	-	-	23,828
- Derivatives used for hedging	-	101	102	197	-	-	-	400
- Other liabilities	-	-	-	-	-	-	826,940	826,940
Shareholders' equity	-	-	-	-	-	-	3,681,959	3,681,959
Total liabilities and shareholders' equity	**16,498,443**	**420,171**	**10,602**	**197**	**-**	**199,683**	**4,510,146**	**21,639,242**
Total interest sensitivity gap	(3,913,447)	3,538,268	2,253,278	676,397	296,313	(199,683)	(2,651,126)	-
Cumulative gap	**(3,913,447)**	**(375,179)**	**1,878,099**	**2,554,496**	**2,850,809**	**2,651,126**	**-**	**-**

(€'000)	Repayable on demand or within one week	Other amounts maturing within 3 months	Maturity between 3 and 6 months	Maturity between 6 months and 1 year	Maturity between 1 and 5 years	Maturity after 5 years	Non-interest bearing	Total
At 31 December 2016								
Assets								
- Cash and balances with central banks	5,639,464	-	-	-	-	-	210	5,639,674
- Loans and advances	9,659,438	1,017,342	1,424,021	7,840	26,310	-	10,813	12,145,764
- Available-for-sale financial assets	-	1,429,198	453,444	267,292	449,664	-	241,161	2,840,759
- Financial assets held for trading	1,931	37,370	762	-	-	-	-	40,063
- Derivatives used for hedging	-	136	141	290	-	-	-	568
- Other assets	-	-	-	-	-	-	1,595,424	1,595,424
Total assets	**15,300,833**	**2,484,046**	**1,878,368**	**275,422**	**475,974**	**-**	**1,847,608**	**22,262,251**
Liabilities								
- Deposits from central banks	1,165,106	-	-	-	-	-	-	1,165,106
- Deposits from banks and customers	16,433,089	276,466	10,500	-	-	198,752	978	16,919,785
- Financial liabilities held for trading	24,765	7,527	-	-	-	-	-	32,292
- Derivatives used for hedging	-	248	258	521	-	-	-	1,026
- Other liabilities	-	-	-	-	-	-	789,576	789,576
Shareholders' equity	-	-	-	-	-	-	3,354,465	3,354,465
Total liabilities and shareholders' equity	**17,622,960**	**284,241**	**10,758**	**521**	**-**	**198,752**	**4,145,019**	**22,262,251**
Total interest sensitivity gap	(2,322,127)	2,199,806	1,867,611	274,901	475,974	(198,752)	(2,297,411)	-
Cumulative gap	**(2,322,127)**	**(122,322)**	**1,745,289**	**2,020,190**	**2,496,164**	**2,297,412**	**-**	**-**

Interest sensitivity gap

A negative interest rate sensitivity gap exists when more liabilities than assets re-price or mature during a given period. A negative gap position tends to benefit net interest income in a declining interest rate environment and vice versa.

Key components

The following table (audited) analyses the nature of cash and balances with central banks:

(€'000)	2017	2016
At 31 December		
Cash in hand	23	27
Loans and advances	3,582,732	5,639,647
Total cash and balances with central banks	**3,582,755**	**5,639,674**

Euroclear Bank and other group entities had deposited €3,582,324,000 (2016: €5,639,278,000) of surplus funds with central banks. Amongst other reasons Euroclear Bank, like other banks, is required to comply with average monetary reserve requirements determined by the European Central Bank (ECB). Throughout each period set by the ECB, Euroclear Bank deposits varying amounts in its monetary reserve account at the National Bank of Belgium in order to meet the average requirement for that period.

The following table (audited) analyses the nature of loans and advances:

(€'000)	2017	2016
Surplus funds	10,115,094	11,337,638
Loans and advances	1,044,223	808,125
Total	**11,159,317**	**12,145,763**

The fair value of the loans and advances with an initial maturity greater than one year at 31 December 2017 was €35,425,000 (2016: €58,642,000).

The following table (audited) analyses the nature of deposits from banks and clients:

(€'000)	2017	2016
Deposits	14,933,403	15,861,820
Borrowings	1,272,330	1,057,965
of which long term funding	199,683	199,090
Total	**16,205,733**	**16,919,785**

On 16 December 2016, a 10-year contingent convertible loan amounting to €200,000,000 (corresponding to one third of the proceeds of the senior unsecured debt instrument issued by Euroclear Investments SA) was granted by Euroclear Investments SA to Euroclear Bank. This loan (principal amount of €198,755,000, net of €1,245,000 of issue costs) bears interest from and including 16 December 2016 to (but excluding) the interest payment date falling on 16 December 2026 at the rate of 4.74% per annum. This internal convertible senior loan is intended to strengthen its recovery profile of the Bank.

The fair value of the long term debt at 31 December 2017 was €233,272,000 (2016: €201,555,000).

There are no deposits with an initial maturity greater than one year at 31 December 2017 (2016: 0).

The following table (audited) analyses the nature of deposits from central banks:

(€'000)	2017	2016
Deposits	900,382	1,165,106
Total	**900,382**	**1,165,106**

IV.3.3.a.2. Foreign exchange risk

The group's entities have the euro as their functional currency, with the exception of subsidiaries and joint venture located in the United Kingdom or Sweden.

The group's structural currency exposures (audited) were as follows:

(€'000)	Net investments in non-euro operations	Currency hedges other than borrowings	Remaining structural currency exposures
Functional currency of the operation involved			
At 31 December 2017			
- US dollar	5,402	-	5,402
- Pound sterling	122,099	-	122,099
- Swedish krona	58,270	-	58,270
At 31 December 2016			
- US dollar	10,886	-	10,886
- Pound sterling	133,335	-	133,335
- Swedish krona	51,648	-	51,648

The table below (audited) summarises the group's exposure to foreign currency exchange rate risk. Included in the table are the group's assets and liabilities at carrying amounts, categorised by currency.

Concentration of assets and liabilities per currency (€'000)	Euro	US dollar	Singapore Dollar	Pound sterling	Other	Total
At 31 December 2017						
Total assets	10,636,828	7,854,929	515,337	903,620	1,728,528	21,639,242
Total liabilities and shareholders' equity	8,944,742	8,051,486	231,846	1,495,131	2,916,036	21,639,242
Net balance sheet position	1,692,086	(196,557)	283,491	(591,511)	(1,187,508)	-

The net non-euro balance sheet positions mainly reflect a combination of outstanding currency swaps and the net assets of subsidiaries and branches located in the United Kingdom and Sweden.

Concentration of assets and liabilities per currency (€'000)	Euro	US dollar	Japanese yen	Pound sterling	Other	Total
At 31 December 2016						
Total assets	**12,256,754**	**7,110,510**	**398,826**	**932,632**	**1,563,529**	**22,262,251**
Total liabilities and shareholders' equity	**9,229,796**	**8,746,718**	**618,023**	**1,332,074**	**2,335,641**	**22,262,251**
Net balance sheet position	**3,026,958**	**(1,636,208)**	**(219,197)**	**(399,442)**	**(772,112)**	**-**

IV.3.3.b. Market risk appetite for Euroclear Bank

Market transactions are carried out at the discretion of Euroclear Bank, which accepts market risk only within its low risk appetite. Euroclear Bank complies with internal market limits, such as Value-at-Risk (VaR).

Euroclear Bank adheres to the following principles relating to the management of market risk. Euroclear Bank does not engage in any activity that is not considered as part of its normal business or a consequence of its clients' activity, and as such will not engage in trading (even if, under IFRS, certain transactions in derivatives do not qualify as hedges and are therefore recognised under trading activities). The activities and instruments in which Euroclear Bank can engage must be in line with its low-risk profile. Euroclear Bank is not significantly exposed to equity risk or commodity risk. A prudent investment strategy is applied in order to preserve the core equity of Euroclear Bank. In particular, the assets of the investment book can only be invested in highly rated and liquid debt instruments (with the exception of intra-company loans) and an appropriate hedging strategy may be applied so as to protect future earnings against adverse market conditions.

IV.3.3.c. Market risk mitigation (hedging) for Euroclear Bank

Euroclear Bank has engaged in a series of market derivatives in order to hedge the forex risk exposure resulting from future income streams, with the aim of ensuring that the financial results are not adversely affected by market evolutions ('predictability of future revenues'). Such transactions are classified as cash flow hedges.

The Foreign Exchange Manageable Amount owned by Finance Division forecasts the future Non-banking Income by currency, based on the plan figures. The outcome of this exercise is used by Treasury Department to carry out the Foreign Exchange hedging activity.

IV.3.3.d. Market risk measurement for Euroclear Bank

The market risk relative to the management of the available for sale portfolio is measured using a VaR methodology. The VaR for a portfolio is the maximum loss over a determined time horizon at a given confidence level (99%). The VaR model assumes a holding period, until positions can be closed, of one day. The market parameters are derived from the volatility and correlation observed from historical daily changes. Euroclear Bank has to comply with a global VaR limit, as well as VaR limits by book. The market risk exposure that Euroclear Bank takes is segregated in the following books: Investment Book (all securities purchased by Euroclear Bank with the proceeds of its own equity); Treasury Book (assets, liabilities and commitments resulting from the activity of Euroclear Bank Clients); and Hedging Book (market transactions that are conducted to manage the risk exposure resulting from future income streams).

The VaR model is back tested on an annual basis or in case of material changes.

Given its low market risk appetite and the fact that Euroclear Bank does not engage in trading activities, the VaR figures are low. The increase in the Investment Book Interest Rate VaR (2017 average) is related to the 10-year contingent convertible loan amounting to €200,000,000 used to reinforce Euroclear Bank's capital base in a recovery situation.

(€'000)	2017 average	2017 min	2017 max	2016 average	2016 min	2016 max
Investment book IR risk	1,064	644	1,935	476	203	2,529
Treasury book IR risk	23	1	309	26	5	118
Hedging book	600	93	1,547	445	48	1,786
Aggregate VaR (Hedging & Investment) book	1,228	720	2,046	662	225	2,537

IV.4. Capital management

IV.4.a. Capital measurement and allocation

The internal view on Euroclear Bank's capital needs is based on economic capital models, which estimate the amount of capital that Euroclear needs to have in order to protect itself from unexpected losses resulting from the risks it faces in its various activities. This view is complemented by stress scenarios. These models and stress scenarios are continuously kept up-to-date and regularly validated by an independent party. Euroclear Bank is therefore confident that the resulting capital requirements are adequate to support the risks that it faces. The capital requirement models cover operational risk, credit risk, and market risk. In addition, Euroclear Bank maintains a model that estimate the uncertainty on the profit and loss over a one year horizon due to movements in market risk and business risk factors. This conservative approach to capital, combined with Euroclear's strong risk management and effective controls, has helped Euroclear Bank retain high credit ratings in times of market stress. Euroclear Bank is assigned a AA+ credit rating by Fitch Ratings and a AA credit rating by Standard & Poor's (S&P).

The National Bank of Belgium (NBB) is the main supervisor of Euroclear Bank, the lead regulator for Euroclear SA/NV and, for consolidated capital adequacy purposes only, Euroclear Plc. In addition, individual Euroclear CSDs are regulated by their own local supervisors, which set and monitor compliance with their capital adequacy and liquidity requirements. All Euroclear CSDs and Euroclear Bank will be subject as of 2018 to the capital requirements stipulated under CSDR.

The Capital Requirement Regulation (CRR) requires Euroclear Bank, Euroclear SA consolidated and Euroclear plc consolidated entities, to maintain at all times:
- a ratio of total capital to risk-weighted assets that cannot fall under a threshold of 8%;
- a ratio of Tier 1 capital to risk-weighted assets that must exceed a threshold of 6%;
- a ratio of common equity Tier1 capital (CET1) exceeding 4.5%; and
- a capital conservation buffer of 1.25% in common equity. The buffer will be set to 1.875% in 2018 and 2.5% in 2019.

Euroclear Bank and Euroclear SA/NV have, together with seven other banks or banking groups in Belgium, been identified in 2015 by the NBB as domestic systemically important banks (referred to in EU legislation as "other systemically important institutions", or O-SIIs) under Belgian banking law and CRD IV. The NBB applies therefore as of 2016, a common equity Tier 1 capital ratio surcharge of 0.75% to Euroclear Bank standalone and Euroclear SA consolidated, in three tranches of 0.25%.

Euroclear determines risk-weighted assets for credit, operational risk and market risk.

For credit risk, Euroclear uses the Foundation Internal Ratings Based Approach (FIRBA). Risk-weighted assets take into consideration balance sheet assets and off-balance-sheet exposures that may give rise to credit risk, as calculated for both Euroclear Bank and the group on a consolidated basis. Collateral and other eligible guarantees are taken into account appropriately.

With respect to operational risk, Euroclear has received approval to use the Advanced Measurement Approach (AMA) for the calculation of Pillar 1 capital requirements since Q1 2008. Euroclear uses a hybrid approach at all consolidated levels above Euroclear Bank, by combining the AMA for Euroclear Bank with a Standardised or Basic Indicator Approach for the other group's entities.

As Euroclear Bank is a limited purpose bank and does not have a trading book, the market risk that Euroclear Bank incurs is very limited. For market risk, Euroclear uses the Standardised Approach to cover the Foreign Exchange risk.

Euroclear intends to maintain a CET1 ratio and total capital ratio in line with the SREP requirements on a continuous basis, in accordance with the supervisory review of its capital adequacy at statutory and consolidated levels.

In addition to the capital ratios, Euroclear Bank will have to comply with the leverage ratio as of 2018. Current requirement is 3%. Euroclear's current levels of the leverage ratio are already well above this regulatory requirement and are disclosed in the pillar 3 publication.

The table below sets out the group's Tier 1 and total capital, which both comfortably exceed the regulatory requirements.

IV.4.b. Regulatory capital position (audited)

(€'000)	2017	2016
Risk-weighted assets [1]	**6,661,461**	**6,534,231**
Capital requirement	**532,917**	**522,738**
- Credit risk	169,976	163,198
- Market risk	28,232	28,126
- Operational risk	334,709	331,414
Capital base [2]	**2,464,841**	**2,335,606**
- Tier 1	2,464,841	2,335,606
- Tier 2	-	-
Solvency ratio		
- Tier 1	37.0%	35.7%
- Total	37.0%	35.7%

[1] Risk-weighted assets (unaudited) represent the total capital requirement multiplied by a factor of 12.5. This means that the risk-weighted assets do not only relate to credit and market risk, but also comprise the gross-up of the capital requirements related to operational risks. For Euroclear, the latter are the main source of capital consumption.
[2] Capital base is highly comparable to the shareholders' equity presented in the Statement of financial positions. Differences are due to deductions required by CRD IV regulation, mainly goodwill and intangible assets, current year proposed dividend, limits on investments in financial sector entities, cash-flow hedging reserve and provision shortfall for expected losses.

V. Segment analysis

The Euroclear SA/NV Management Committee receives internal reports for Euroclear Bank, Euroclear SA/NV, Euroclear UK & Ireland, the ESES CSDs and the Nordics.

The reportable business segments are as follows:
- Euroclear Bank (including its Hong Kong branch, its Polish branch and its Japanese branch operational since December 2017) is an International Central Securities Depository (ICSD);
- Euroclear SA/NV (including its branches in Amsterdam, London and Paris) is the provider of software development and non-operational support services to the (I)CSDs;
- Euroclear UK & Ireland is the Central Securities Depository (CSD) subsidiary located in the United Kingdom. This entity also runs an investment fund order routing business;
- the ESES segment includes the group's CSD subsidiaries located in Belgium, France and the Netherlands; and
- the Nordics segment includes two companies: Euroclear Sweden (CSD in Sweden) and Euroclear Finland (CSD in Finland).

Information reported within 'Other' relates to Euroclear Market Solutions Limited (acquired from Euroclear Investments SA in November 2016) and to Calar Belgium, a property company whose building is leased almost entirely to Euroclear SA/NV (sold to Euroclear Investments in November 2017). None of these qualified as a reportable segment in 2017 or 2016.

The risks and returns associated with Euroclear Bank's ICSD services do not vary geographically and, accordingly, is considered as one geographical segment. The activities of all other segments are within Europe.

No single customer generated 10% or more of the group's revenues.

Transactions between the companies are on normal commercial terms and conditions. Recharges of software development costs and support services are based on formal agreements between the entities concerned.

Segment assets and liabilities comprise all third-party assets and liabilities.

(€'000)	Notes	Euroclear Bank	Euroclear SA/NV	Euroclear UK & Ireland	ESES CSDs	Nordics	Other	Eliminations	Group
		2017							
Net interest income	VI	153,655	(1,256)	136	(104)	(399)	(252)	-	151,780
Net fee and commission income	VII	618,082	(12)	121,913	168,667	97,154	(5)	(28)	1,005,771
Intra-group recharges		1,877	542,144	51	240	196	231	(543,035)	1,704
Other income		82,533	100,536	173	10,021	(272)	6,311	(97,430)	101,872
Operating income		856,147	641,412	122,273	178,824	96,679	6,285	(640,493)	1,261,127
Staff costs	X	(125,736)	(251,237)	(9,196)	(20,023)	(19,855)	(111)	-	(426,158)
Other direct costs	X	(32,410)	(264,471)	(9,119)	(4,685)	(32,880)	(2,938)	8,228	(338,275)
Depreciation and amortisation	XVII, XVIII	(1,359)	(30,883)	(41)	(728)	(2,436)	(1,434)	-	(36,881)
Royalty fees		(3,537)	-	(484)	(579)	(339)	-	4,932	(7)
Group non-operational and Administrative support services		(354,375)	(1,739)	(67,081)	(100,246)	(19,561)	(1,023)	543,035	(990)
Share of result in joint venture		-	(17,977)	-	-	-	-	-	(17,977)
Operating profit/(loss) before impairment and taxation		338,730	75,105	36,352	52,563	21,608	779	(84,298)	440,839
Impairment	XI	(288)	(109)	(331)	55	(756)	(7)	-	(1,436)
Operating profit/(loss) before taxation		338,442	74,996	36,021	52,618	20,852	772	(84,298)	439,403
Taxation	XII	(103,204)	(32,902)	(6,763)	(15,494)	(4,455)	(842)	-	(163,660)
Profit/(loss) for the year		**235,238**	**42,094**	**29,258**	**37,124**	**16,397**	**(70)**	**(84,298)**	**275,743**
External revenues		1,384,855	14,145	131,885	181,878	94,091	153	-	1,807,007
Revenues from other segments		17,019	629,130	957	27,927	4,602	6,391	(686,026)	-
Total revenues		**1,401,874**	**643,275**	**132,842**	**209,805**	**98,693**	**6,544**	**(686,026)**	**1,807,007**
Segment assets		19,418,936	1,463,087	131,564	254,236	370,660	759	-	21,639,242
Segment liabilities		17,619,824	226,588	9,622	52,465	48,719	65	-	17,957,283

(€'000)	Notes	2016 Euroclear Bank	Euroclear SA/NV	Euroclear UK & Ireland	ESES CSDs	Nordics	Other	Eliminations	Group
Net interest income	VI	122,614	341	431	412	(458)	(281)	-	123,059
Net fee and commission income	VII	590,599	(10)	129,208	170,618	94,284	(5)	(29)	984,665
Intra-group recharges		1,010	505,856	15	391	475	79	(505,302)	2,524
Other income		42,400	87,351	134	3,607	235	7,450	(87,503)	53,674
Operating income		756,623	593,538	129,788	175,028	94,536	7,243	(592,834)	1,163,922
Staff costs	X	(124,312)	(254,894)	(9,007)	(19,139)	(18,208)	(68)	-	(425,628)
Other direct costs	X	(159,971)	(250,951)	(5,575)	(10,054)	(20,717)	(3,446)	10,130	(440,584)
Depreciation and amortisation	XVII, XVIII	(1,953)	(25,334)	(49)	(803)	(2,809)	(1,531)	-	(32,479)
Royalty fees		(27,275)	-	(492)	(621)	(333)	-	1,446	(27,275)
Group non-operational and Administrative support services		(307,674)	(1,447)	(54,601)	(124,169)	(17,642)	(104)	505,303	(334)
Share of result in joint venture		-	(7,069)	-	-	-	-	-	(7,069)
Operating profit/(loss) before impairment and taxation		135,438	53,843	60,064	20,242	34,827	2,094	(75,955)	230,553
Impairment	XI	322	(2,572)	(198)	(209)	(340)	-	-	(2,997)
Operating profit/(loss) before taxation		135,760	51,271	59,866	20,033	34,487	2,094	(75,955)	227,556
Taxation	XII	(39,902)	6,144	(11,883)	(5,935)	(7,345)	(725)	-	(59,646)
Profit/(loss) for the year		**95,858**	**57,415**	**47,983**	**14,098**	**27,142**	**1,369**	**(75,955)**	**167,910**
External revenues		1,203,649	16,078	137,695	163,619	91,884	461	-	1,613,386
Revenues from other segments		17,650	578,500	963	27,242	4,654	7,071	(636,080)	-
Total revenues		**1,221,299**	**594,578**	**138,658**	**190,861**	**96,538**	**7,532**	**(636,080)**	**1,613,386**
Segment assets		20,122,125	1,382,004	146,150	207,912	374,269	29,791	-	22,262,251
Segment liabilities		18,568,340	221,780	12,171	45,490	58,423	1,582	-	18,907,786

The €84,298,000 remaining in the Eliminations column relates to dividends received from companies within the group (2016: €75,955,000).

VI. Net interest income

(€'000)	Notes	2017	2016
Interest income on financial instruments			
- Cash and balances with central banks		2,951	4,065
- Loans and advances		218,332	159,963
- Available-for-sale financial assets		2,002	-
Interest income on defined benefit plans	XX	9	12
Total interest income		**223,294**	**164,040**
Interest expense on financial instruments			
- Deposits from central banks		(6,487)	(10,161)
- Deposits from banks and customers		(37,869)	(20,842)
- Available-for-sale financial assets		(25,018)	(8,234)
Interest expense on defined benefit plans	XX	(2,140)	(1,744)
Total interest expense		**(71,514)**	**(40,981)**
Net interest income		**151,780**	**123,059**

VII. Net fee and commission income

(€'000)	2017	2016
Fee and commission income		
Clearing and settlement	451,420	405,714
Safekeeping	683,045	643,551
Other	347,672	343,883
Total fee and commission income	**1,482,137**	**1,393,148**
Fee and commission expense		
Clearing and settlement	(101,563)	(80,444)
Safekeeping	(206,166)	(184,352)
Other	(168,637)	(143,687)
Total fee and commission expense	**(476,366)**	**(408,483)**
Net fee and commission income	**1,005,771**	**984,665**

Other fee and commission income mainly relates to communication fees and the recovery of out-of-pocket expenses incurred on behalf of clients, issuer services fees earned by Euroclear Finland and Euroclear Sweden, and revenue earned by Euroclear UK & Ireland for collecting Stamp Duty Reserve Tax on behalf of Her Majesty's Revenue & Customs in the United Kingdom and Stamp Duty on behalf of the Irish Revenue Commissioners.

Other fee and commission expense mainly relates to fees incurred on behalf of clients, fees for collateral leasing as well as fees for credit and forex swap lines.

VIII. Realised gains/(losses) on investment securities

(€'000)	2017	2016
Available-for-sale financial assets - fair value adjustment recognised in equity and released in profit or loss during the period - equity shares	-	2,516
Total	**-**	**2,516**

Realised gains in 2016 relate to the sale of the ICE equity shares.

IX. Net gains/(losses) on financial assets and liabilities held for trading

(€'000)	2017	2016
Foreign exchange trading	40,313	27,947
Total	**40,313**	**27,947**

The net gains on foreign exchange trading mainly relate to treasury swaps initiated by Euroclear Bank in order to convert balances in non-core currencies into euro or US dollars for re-investment purposes. Under IFRS, these results may not be included within net interest income.

X. Administrative expenses

(€'000)	Notes	2017	2016
Staff costs			
- Wages and salaries		302,224	308,707
- Social security costs		69,953	70,671
- Defined benefit plans	XX	24,334	18,536
- Defined contribution plans		5,998	6,027
- Other staff costs		23,649	21,687
Royalty fees	XXVI	7	27,275
Auditors' remuneration		2,053	2,307
Consultants fees		204,619	168,036
Occupancy		43,746	40,684
Maintenance and repairs		48,834	40,346
Travel and training		16,878	17,451
Communications		8,071	8,016
Other rent and non capitalised expenses		12,402	13,253
Other taxes		8,705	5,880
Depreciation and amortisation	XVII, XVIII	36,881	32,479
Other administrative expenses		26,882	27,112
Provisions for liabilities and charges	XIX	(7,152)	36,748
Capitalised expenses		(25,773)	(40,115)
Intellectual property repurchase		-	121,200
Total		**802,311**	**926,300**

The average number of persons employed by the group during the year was 3,919 (2016: 3,940).

The auditors' remuneration for Euroclear SA/NV and its subsidiary undertakings was as follows:

(€'000)	2017	2016
Fees payable to the Company's auditor for the audit of the Company's annual accounts	421	421
Fees payable to the Company's auditor and its associates for other services:		
- The audit of the Company's subsidiaries, pursuant to legislation	783	846
- Other attest and assurance services	762	912
- Other services	87	128
Fees included in the consolidated financial statements	2,053	2,307
Fees in respect of audit of pension plan	46	46
Total	**2,099**	**2,353**

Euroclear ensures that the independence of the external auditor is preserved through a specific policy adopted by the Board and agreed by PwC. This policy adheres to the highest standards of independence. The engagement of the external auditor for non-core services is subject to specific controls, monitored by the Board's Audit Committee.

XI. Impairment

(€'000)	Notes	2017	2016
Impairment charges			
Property, plant and equipment	XVII	94	-
Goodwill and intangible assets	XVIII	607	2,713
Other assets		735	284
Total		**1,436**	**2,997**

(€'000)	2017	2016
Other assets impaired		
At 1 January	2,066	2,316
Charge to the income statement	735	284
Amounts used	(101)	(481)
Exchange differences	(38)	(53)
At 31 December	**2,662**	**2,066**

The decision was taken in 2017 to impair a portion of the infrastructure rebuild project in Sweden. In 2016, the group impaired the capitalised costs spent on the Domestic Funds Platform project, in light of the uncertainties as to the level of future business.

Other assets are principally made up of amounts invoiced to and receivable from third party clients, Euroclear Bank's coupons and redemption proceeds, advances paid to suppliers, recoverable VAT and guarantee deposits. For other assets, impairment mainly relates to fees receivable from clients in several group's (I)CSD subsidiaries, and to miscellaneous other receivables, the recovery of which is at least partially in doubt.

XII.Taxation

(€'000)	2017	2016
Current income tax expense	132,363	72,272
Adjustments to tax charge in respect of previous years	(4,488)	(398)
	127,875	**71,874**
Deferred tax charge/(income) relating to the origination and reversal of temporary differences	8,512	(12,249)
Deferred tax charge/(income) resulting from change in tax rate	27,273	21
Tax expense for the year	**163,660**	**59,646**

Further information on deferred tax is presented in Note XIII.

The tax on the group's profit before tax differs from the theoretical amount that would arise from using the standard rate as follows:

(€'000)	2017	2016
Operating profit/(loss) before tax	**439,403**	**227,556**
At standard rate of tax[1]	163,659	59,642
Effects of:		
- Notional interest on capital	(1,225)	(5,821)
- Expenses not deductible for tax purposes	7,309	4,191
- Elimination of intercompany dividends (net tax effect)	796	(514)
- Share of net tax (profit)/loss of investments accounted for using equity method	6,110	2,403
- Income not subject to tax	-	(844)
- Disposal of subsidiaries	(10,244)	-
- Different rates in the companies in the group	(25,901)	966
- Change of tax rate on deferred taxation	27,273	21
- Impairment of deferred tax assets	371	-
- Adjustments to tax charge in respect of previous years	(4,488)	(398)
Tax expense for the year	**163,660**	**59,646**

[1] A rate of 37.25% (2016: 26.21%), representing the effective tax rate (before reversal of impairment), for the group, has been used as the standard rate.

Since 1 January 2006, the group entities in Belgium benefit from a tax reduction linked to a notional interest on capital.

The current income tax asset of €8,730,000 at 31 December 2017 (2016: €11,785,000) represents the total of amounts recoverable from the tax authorities relating to over-payments of income tax pre-payments, prior year adjustments and R&D tax credit.

The net tax effect linked to the intercompany dividends eliminated for consolidation purposes have been considered separately in order to adequately reflect the impact of this item of reconciliation on the tax expense. The expenses not deductible for tax purposes include the other tax effects of consolidation adjustments not subject to deferred tax.

The year-to-year variation of the effect of the different rates applicable to the companies within the group is explained by a combination of factors: increase of the above group's effective tax rate and changes in the taxable basis of certain sizeable entities.
The Belgian government enacted in December 2017 an important corporate tax reform which will decrease the corporate tax rate in Belgium of 33.99% down to 29.58% in 2018 and 25% as from 2020. Therefore, deferred taxes on temporary differences have been recalculated based both on the new tax rates and the timing of their expected reversals.

XIII. Deferred taxation

The details of deferred taxation are as follows:

(€'000)	Total	Maturity on or before 31 December 2018	Maturity after 31 December 2018
At 31 December 2017			
Assets			
Defined benefit plans	32,170	-	32,170
Available-for-sale securities	788	788	-
Cash flow hedging reserve	(16)	(16)	-
Financial assets/(liabilities) held for trading	164	-	164
Software development	71	17	54
Property, plant and equipment	142	(22)	164
Tax loss carried forward	71,882	5,111	66,771
Other temporary differences	7,549	6,257	1,292
Total	**112,750**	**12,135**	**100,615**
Liabilities			
Defined benefit plans	(2,641)	-	(2,641)
Other temporary differences	4,403	1,095	3,308
Total	**1,762**	**1,095**	**667**

(€'000)	Total	Maturity on or before 31 December 2017	Maturity after 31 December 2017
At 31 December 2016			
Assets			
Defined benefit plans	39,227	-	39,227
Available-for-sale securities	(417)	50	(467)
Cash flow hedging reserve	156	156	-
Financial assets/(liabilities) held for trading	196	-	196
Software development	96	17	79
Property, plant and equipment	666	21	645
Tax loss carried forward	96,120	3,533	92,587
Other temporary differences	17,728	16,806	922
Total	**153,772**	**20,583**	**133,189**
Liabilities			
Defined benefit plans	(2,682)	-	(2,682)
Other temporary differences	5,620	1,082	4,538
Total	**2,938**	**1,082**	**1,856**

Deferred taxes are classified as assets or liabilities depending on the total net deferred tax asset or liability across all types of deferred tax at year-end for each entity. At 31 December 2017 and 31 December 2016, Euroclear Sweden had a net deferred tax liability.

Deferred taxation for tax losses carried forward mainly relates to Euroclear SA/NV.

Analysis of the movements of the net deferred tax asset and liability balances is as follows:

(€'000)	Notes	2017	2016
At 1 January		150,834	128,033
Acquisition/disposal of subsidiaries		(484)	350
Income statement		(35,785)	12,228
Deferred tax relating to items (charged) or credited to equity			
- Defined benefit plans	XX	(4,784)	9,572
- Revaluation reserve on available-for-sale financial assets	XXII	1,205	(65)
- Cash flow hedging reserve	XXII	(172)	678
Exchange differences		174	38
At 31 December		**110,988**	**150,834**

The deferred tax income/(charge) in the income statement comprises the following temporary differences:

(€'000)	Notes	2017	2016
Defined benefit plans	XX	(2,233)	5,310
Financial assets/(liabilities) held for trading		(32)	-
Software development		(22)	(32)
Property, plant and equipment		(34)	(24)
Tax losses carried forward		(23,867)	(5,941)
Impairment of tax losses carried forward		(371)	-
Other temporary differences		(9,226)	12,915
Total		**(35,785)**	**12,228**

XIV. Available-for-sale financial assets

(€'000)	2017	2016
At 31 December		
Equity shares		
- Listed	290,136	220,864
- Unlisted but fair value determinable	15,702	14,568
Equity instruments at cost		
Listed debt instruments	5,057,435	2,605,327
Total	**5,363,273**	**2,840,759**

All debt securities have fixed coupons.

For unlisted securities, the valuation is based on the prices at which the securities could probably be sold to willing and knowledgeable parties. These prices are determined using generally accepted valuation techniques, including discounted cash flow models and relevant market multiples.

The realised results on the available-for-sale financial assets can be found in Note VIII.

The maturity profile of the available-for-sale financial assets can be found in Note IV.

The movement in available-for-sale financial assets can be summarised as follows:

(€'000)	Equity shares	Debt securities	Total
At 1 January 2017	235,432	2,605,327	2,840,759
Additions	1,700	14,814,291	14,815,991
Redemptions and disposals	-	(12,307,545)	(12,307,545)
Gains/losses from changes in fair value			
- (Gains)/losses on redeemed or sold securities	-	(14)	(14)
- Gains/(losses) on held securities	68,706	(2,503)	66,203
Amortisation of discounts and (premiums)	-	(56,054)	(56,054)
Net change in accrued interest	-	3,933	3,933
At 31 December 2017	**305,838**	**5,057,435**	**5,363,273**

(€'000)	Equity shares	Debt securities	Total
At 1 January 2016	281,922	2,158,938	2,440,860
Additions	-	6,263,183	6,263,183
Redemptions and disposals	(123)	(5,796,001)	(5,796,124)
Gains/losses from changes in fair value			
- (Gains)/losses on redeemed or sold securities	(2,516)	205	(2,311)
- Gains/(losses) on held securities	(43,851)	520	(43,331)
Amortisation of discounts and (premiums)	-	(20,650)	(20,650)
Net change in accrued interest	-	(868)	(868)
At 31 December 2016	**235,432**	**2,605,327**	**2,840,759**

XV. Financial instruments held for trading

XV.1. Fair value and notional amounts

The fair value and notional amounts of the group's trading derivatives were as follows:

	Fair value		Notional amount	
(€'000)	Assets	Liabilities	Assets	Liabilities
At 31 December 2017				
Foreign exchange derivatives				
- Forward foreign exchange	8,383	23,828	2,402,971	1,274,995
Total	**8,383**	**23,828**	**2,402,971**	**1,274,995**
At 31 December 2016				
Foreign exchange derivatives				
- Forward foreign exchange	40,063	32,292	3,949,805	1,647,929
Total	**40,063**	**32,292**	**3,949,805**	**1,647,929**

The notional amount related to forward foreign exchange contracts at 31 December 2017 and 31 December 2016 principally reflect to outstanding currency swaps.

In certain circumstances, currency forward exchange contracts are used by certain companies of the Euroclear group to hedge the fair value of some specific liabilities expressed in foreign currencies. These transactions do however not qualify for hedge accounting.

XVI. Derivatives used for hedging

Some of Euroclear Bank's fee income is sensitive to changes in foreign exchange rates. To protect this revenue stream from adverse movements in such rates, Euroclear Bank enters into currency forward foreign exchange contracts whereby it sells the relevant currencies on a future date at a predetermined price.

Such transactions are classified as cash flow hedges.

The positions taken on the hedging book are managed according to the following key principles:
- an exposure once hedged will not be re-opened; and
- unwinding of positions will be done only in exceptional circumstances, for instance in case of an over-hedged position.

XVI.1. Cash flow hedges

The fair value and notional amounts of the group's derivatives used for cash flow hedges were as follows:

	Fair value		Notional amount	
(€'000)	**Assets**	**Liabilities**	**Assets**	**Liabilities**
At 31 December 2017				
Foreign exchange derivatives				
- Forward foreign exchange	453	400	25,878	39,314
Total	**453**	**400**	**25,878**	**39,314**
At 31 December 2016				
Foreign exchange derivatives				
- Forward foreign exchange	568	1,026	107,043	75,740
Total	**568**	**1,026**	**107,043**	**75,740**

The group applies hedge accounting for expected revenue streams influenced by changes in foreign exchange rates for certain currencies.

The amounts recognised in the cash flow hedging reserve at year-end will be gradually released to the income statement (net gains/losses on foreign exchange) in the following year, when the related cash flows materialise.

There was no *ineffectiveness* arising from cash flow hedging to be recognised in profit or loss as at 31 December 2017 and 31 December 2016.

There were no transactions for which cash flow hedge accounting had to be ceased in 2017 or 2016 as a result of the highly probable cash flows no longer expected to occur.

The movements in the cash flow hedging reserve can be detailed as follows:

(€'000)	Gross amount	Deferred tax	Net amount
At 1 January 2017	(458)	156	(303)
Amount released from other comprehensive income to profit or loss during the period	6,381	(2,169)	4,212
Change of fair value directly recognised in other comprehensive income during the year	(5,870)	1,997	(3,872)
Change to cash flow hedging reserve during the year	512	(172)	340
At 31 December 2017	**53**	**(16)**	**37**
At 1 January 2016	1,538	(522)	1,016
Amount released from other comprehensive income to profit or loss during the period	3,366	(1,144)	2,222
Change of fair value directly recognised in other comprehensive income during the year	(5,363)	1,822	(3,541)
Change to cash flow hedging reserve during the year	(1,997)	678	(1,319)
At 31 December 2016	**(458)**	**156**	**(303)**

XVI.2. Hedges of net investments in foreign operations

The group has hedged, until July 2011, part of the currency translation risk of net investments in foreign operations (EMXCo, Euroclear UK & Ireland, the UK branch of Euroclear SA/NV and Euroclear Sweden).

The balance of the hedge of net investments in foreign operations reserve can be detailed as follows:

(€'000)	Notes	2017	2016
At 1 January and 31 December		(18,238)	(18,238)

XVII. Property, plant and equipment

(€'000)	Notes	Land and buildings	Leasehold improvements	Furniture and fixtures	IT equipment	Other equipment	Total
Cost							
At 1 January 2017		92,443	56,166	14,574	120,369	605	284,157
Additions		850	1,964	674	12,545	25	16,058
Capitalisation of dilapidation provision	XIX	-	259	-	-	-	259
Transfer and disposals		(93,293)	(1,763)	(1,814)	(5,846)	(32)	(102,748)
Exchange differences		-	(457)	(56)	(195)	(3)	(711)
At 31 December 2017		**-**	**56,169**	**13,378**	**126,873**	**595**	**197,015**
Accumulated depreciation							
At 1 January 2017		(61,383)	(38,997)	(9,341)	(83,829)	(115)	(193,665)
Depreciation charge		(2,344)	(3,661)	(1,399)	(15,775)	(31)	(23,210)
Impairment		-	-	-	(94)	-	(94)
Transfer and disposals		63,727	1,492	1,809	5,870	5	72,903
Exchange differences		-	311	68	184	8	571
At 31 December 2017		**-**	**(40,855)**	**(8,863)**	**(93,644)**	**(133)**	**(143,495)**
Net book value at 31 December 2017		**-**	**15,314**	**4,515**	**33,229**	**462**	**53,520**

(€'000)	Notes	Land and buildings	Leasehold improvements	Furniture and fixtures	IT equipment	Other equipment	Total
Cost							
At 1 January 2016		91,891	56,463	13,843	138,959	576	301,732
Additions		552	1,082	518	11,640	31	13,823
Capitalisation of dilapidation provision	XIX	-	53	-	-	-	53
Transfer and disposals		-	(444)	453	(29,729)	-	(29,720)
Exchange differences		-	(988)	(240)	(501)	(2)	(1,731)
At 31 December 2016		**92,443**	**56,166**	**14,574**	**120,369**	**605**	**284,157**
Accumulated depreciation							
At 1 January 2016		(58,841)	(34,905)	(8,165)	(98,127)	(85)	(200,123)
Depreciation charge		(2,545)	(4,399)	(1,333)	(15,845)	(29)	(24,151)
Transfer and disposals		3	1	-	29,692	-	29,696
Exchange differences		-	306	157	451	(1)	913
At 31 December 2016		**(61,383)**	**(38,997)**	**(9,341)**	**(83,829)**	**(115)**	**(193,665)**
Net book value at 31 December 2016		**31,060**	**17,169**	**5,233**	**36,540**	**490**	**90,492**

The figures above include cost of property, plant and equipment under construction for an amount of €7,818,000. (2016: €1,489,000).

The movements in Transfers and disposals relate to the sale of Calar Belgium and the Bry building in 2017.

XVIII. Goodwill and intangible assets

(€'000)	Internally developed software	Purchased software	Know-how	Goodwill	Contractual customer relationship	Unpatented technology	Trademarks	Total
Cost								
At 1 January 2017	85,113	79,001	45,952	1,411,061	21,964	59,725	10,200	1,713,016
Additions	21,141	12,146	-	-	-	-	-	33,287
Transfer and disposals	(4,178)	(112)	-	-	-	-	-	(4,290)
Exchange differences	(190)	(230)	(36)	(6,094)	-	-	-	(6,550)
At 31 December 2017	**101,886**	**90,805**	**45,916**	**1,404,967**	**21,964**	**59,725**	**10,200**	**1,735,463**
Accumulated amortisation and impairment								
At 1 January 2017	(10,215)	(51,524)	(45,952)	(535,555)	-	(59,725)	-	(702,971)
Amortisation charges	(7,915)	(5,756)	-	-	-	-	-	(13,671)
Impairment charge	(607)	-	-	-	-	-	-	(607)
Transfer and disposals	3,319	2	-	-	-	-	-	3,321
Exchange differences	-	235	36	460	-	-	-	731
At 31 December 2017	**(15,418)**	**(57,043)**	**(45,916)**	**(535,095)**	**-**	**(59,725)**	**-**	**(713,197)**
Net book value at 31 December 2017	**86,468**	**33,762**	**-**	**869,872**	**21,964**	**-**	**10,200**	**1,022,266**

(€'000)	Internally developed software	Purchased software	Know-how	Goodwill	Contractual customer relationship	Unpatented technology	Trademarks	Total
Cost								
At 1 January 2016	51,840	69,001	46,001	1,421,151	21,964	59,725	-	1,669,682
Additions	33,452	11,472	-	-	-	-	10,200	55,124
Transfer and disposals	(149)	(649)	-	-	-	-	-	(798)
Exchange differences	(30)	(823)	(49)	(10,090)	-	-	-	(10,992)
At 31 December 2016	**85,113**	**79,001**	**45,952**	**1,411,061**	**21,964**	**59,725**	**10,200**	**1,713,016**
Accumulated amortisation and impairment								
At 1 January 2016	(3,075)	(48,447)	(46,001)	(536,170)	-	(59,725)	-	(693,418)
Amortisation charges	(4,426)	(3,902)	-	-	-	-	-	(8,328)
Impairment charge	(2,713)	-	-	-	-	-	-	(2,713)
Transfer and disposals	(1)	(2)	-	-	-	-	-	(3)
Exchange differences	-	827	49	615	-	-	-	1,491
At 31 December 2016	**(10,215)**	**(51,524)**	**(45,952)**	**(535,555)**	**-**	**(59,725)**	**-**	**(702,971)**
Net book value at 31 December 2016	**74,898**	**27,477**	**-**	**875,506**	**21,964**	**-**	**10,200**	**1,010,045**

The Euroclear trademarks have been transferred from Euroclear plc to Euroclear SA/NV on 31 December 2016 against cash consideration.

Goodwill and the contractual customer relationship relate to the acquisition of EMXCo, Euroclear Belgium, Euroclear Finland, Euroclear France, Euroclear Nederland, Euroclear Sweden and Euroclear UK & Ireland.

The unpatented technology related to the infrastructure of Euroclear Finland and Euroclear Sweden, which was fully amortised by mid-2012.

XVIII.1. Determination of the cash-generating units

Goodwill impairment reviews are based on the cash-generating units (CGUs) for the group's three relevant operating segments: the ESES CSDs (Euroclear Belgium, Euroclear France, Euroclear Nederland), Euroclear UK & Ireland (Euroclear UK & Ireland and EMX Company Ltd, which was integrated into Euroclear UK & Ireland in 2010) and the Nordics (Euroclear Finland and Euroclear Sweden).

Except for Euroclear Sweden, goodwill and contractual customer relationship are expressed and tested for impairment purposes in euros. At the time of the acquisition of Euroclear UK & Ireland, the related goodwill was considered as a non-monetary asset of the acquirer and therefore expressed in euros. At the time of migration to IFRS, which considers goodwill to be a monetary asset of the acquired entity, Euroclear decided not to restate prior years' business combinations. The goodwill relating to EMX Company Ltd, now appraised together with that of Euroclear UK & Ireland, is expressed in sterling but is translated into euros at the spot rate on closing date for the purpose of impairment testing.

XVIII.2. Basis on which recoverable amounts have been determined

The recoverable amounts are based on the 'value in use' using the discounted cash flow methodology for each segment. The 2017 valuation of all the entities concerned is based on a five-year free cash flow forecast with projections for periods beyond this assuming a perpetual annuity ranging between 1.8% and 2% depending on the concerned entity.

The net book values of the goodwill, and Euroclear Belgium's contractual customer relationships, are set out in the table below:

(€'000)	2017	2016
Euroclear UK & Ireland	203,475	204,045
ESES	484,626	484,626
NCSD	203,735	208,799
	891,836	897,470

These are the only intangible assets considered to have indefinite useful lives.

XVIII.3. Key assumptions related to discount factors

The appropriate discount rates are determined by applying the Capital Asset Pricing Model (CAPM). The discount rates and perpetual growth rates used for each CGU in the 2017 and 2016 impairment reviews were as follows:

	2017		2016	
	Discount rate	Perpetual growth rate	Discount rate	Perpetual growth rate
Euroclear UK & Ireland	5.40%	1.80%	6.70%	1.70%
ESES	5.90%	1.80%	6.50%	1.70%
NCSD	7.50%	1.80%-2.00%	8.30%	1.70%-2.00%

XVIII.4. The 2017 impairment review

The key assumptions for the valuation exercise are based on both external sources of information and on internal expectations (assets held in custody, transaction volumes, interest rates, etc.). Forecasts are taken from Board approved plans which translate into resilient profitability trends throughout 2018 and over the next four years. For all operating segments, their valuation indicated that the current values of goodwill and related intangibles are fair and justified.

The Board concluded that in 2017, there is no goodwill impairment risk arising from the review.

As far as sensitivity analysis is concerned, neither an increase of the discount rate by 1% nor a decrease of the business drivers by 5% would have resulted in an impairment in one of the CGUs (all other factors being equal).

The changes in the parameters used for the sensitivity analysis set out above are based on management's estimates of what level of change is reasonably possible. For example, the choice of a 5% decrease for business volumes is justified by the volatility observed between forecasts and actuals over the past three years while the increase of the discount rate is justified by the highest yearly variance over the past three years.

XIX. Provisions for liabilities and charges

(€'000)		Onerous contracts	Early retirement	Dilapidation	Litigation	Other provisions	Total
At 1 January 2017		1,322	34,573	3,552	75	6,929	46,451
Capitalisation of dilapidation provision	XVII	-	-	259	-	-	259
Additions		5,439	-	-	2,728	2,071	10,238
Unused amounts reversed during the period		-	(16,924)	-	(30)	(436)	(17,390)
Amounts used		-	(17,649)	-	(45)	(847)	(18,541)
Exchange differences		-	-	(79)	-	298	219
At 31 December 2017		**6,761**	**-**	**3,732**	**2,728**	**8,015**	**21,236**

A new provision for onerous lease was created in November 2017 for unoccupied floors in the building leased in Poland (€1,781,000). Additional provisions have been recorded for three onerous contracts. These new provisions and other outstanding provisions for onerous contracts will be progressively used over the remaining period of the concerned contracts.

Provisions for early retirement of €34,600,000 were created at the end of 2016 and increased with €1,488,000 during the year. €17,649,000 has been reclassified to accruals (amounts and timing of the payments confirmed) and the unused amount of €18,412,000 over-accrual has been released to the P/L.

Provisions for dilapidation costs are recorded to reflect end-of-lease obligations in several countries. A provision was recorded for the new lease contract in Poland during the year.

The additions in 'other provisions' relate to the increase of provisions to reflect the uncertainty as to the recovery of taxes. The amounts used reflect the use of a tax-related provision.

The current portion of the provisions for liabilities and charges is estimated at €10,736,000 (2016: €38,128,000).

XX. Defined benefit plans

The group operates various post-employment schemes, including defined benefit and defined contribution pension plans, and post-employment medical plans.

The group has several defined benefit pension plans covering employees in Belgium, France, Japan, the Netherlands and Sweden under broadly similar regulatory frameworks. The plans exclusively provide retirement and death benefits to the eligible participants. All of the defined benefit pension plans are final or average salary pension plans, which provide benefits to members in the form of a lump sum payment or a guaranteed level of pension payable for life. The level of benefits provided depends on members' length of service and their salary in the final years leading up to retirement. The plans face broadly similar risks, as described below. The majority of benefit payments are from the administered funds; however, there are also a limited number of unfunded plans where the company meets the benefit payment obligation as it falls due (Japan). Plan assets are governed by local regulations and practice in each country, as is the nature of the relationship between the group and the pension funds Board of Directors. Responsibility for governance of the plans – including investment decisions and contribution schedules – lies jointly with the sponsoring companies and the Board of Directors. The Board of Directors must be composed of representatives of the company and plan participants in accordance with the plan's regulations.

The group also operates a number of post-employment medical benefit schemes, in Belgium and France. These plans are unfunded. The method of accounting, significant assumptions and the frequency of valuations are similar to those used for defined benefit pension schemes with the addition of actuarial assumptions relating to the long-term increase in healthcare costs.

Finally, the group operates certain defined contribution schemes in Belgium which present particular features usually associated with defined benefit plans. These plans indeed foresee a legally guaranteed rate of return. As a result of the persisting low interest rate environment, this legally guaranteed return may not be matched by the return provided by the insurance companies. This means that the financial market risk related to these plans is partially borne by the employer, who therefore might face a net liability. The latter does however not materially impact the group's net defined benefit liability as the insurance company continues to guarantee the total interest rate on the accrued accumulated reserves up to the legal minimum guaranteed level until 2016. These schemes have been included for the first time in the defined benefit obligation figures in 2016 (see line Refinement).

A full actuarial valuation of the plans, under IFRS, was made by independent qualified professional actuaries as of 31 December 2017 and showed a deficit of €133,419,000 (2016: €125,192,000) offset by a pension surplus of €541,000 (2016: €540,000). The valuation covered all the plans.

The pension cost in 2017 of €26,465,000 (2016: €20,268,000) has been fully recognised in the current year. The contribution, reflecting employer's contributions for funded plans and benefit disbursements for unfunded plans, amounted to €18,251,000 (2016: €4,439,000).

The major assumptions used by the actuaries in their valuations were:

	2017	2016
Discount rate	1.75%	1.77%
Expected inflation rate	1.82%	1.82%
Future salary increases	3.30%	3.29%
Expected medical cost trend rate	4.66%	4.78%

The above percentages are weighted averages of the assumptions used for the individual plans.

Assumptions regarding future mortality experience are set based on advice and published statistics in each territory (MR/FR table with an age set back of three years in Belgium, TGHF 05 table in France, AG Prognosetafel 2016 with 2016 experienced mortality in the Netherlands, EPF 2014 rates in Japan and PRI 2011 in Sweden).

The amounts recognised in the balance sheet are as follows:

(€'000)	2017	2016
Present value of funded obligations	(392,492)	(366,558)
Fair value of plan assets	318,006	297,786
	(74,486)	(68,772)
Present value of unfunded obligations	(57,806)	(55,207)
Irrecoverable surplus	(586)	(673)
Net pension deficit	**(132,878)**	**(124,652)**

The value of assets in all plans was:

	2017			2016		
(€'000)	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Equity instruments						
- European equities	43,405	-	43,405	39,645	-	39,645
- Global equities	85,942	-	85,942	78,355	-	78,355
- Emerging markets equities	3,468	-	3,468	3,202	-	3,202
- European real estate equities	10,592	-	10,592	9,644	-	9,644
Debt instruments						
- EMU government bonds	52,560	-	52,560	49,875	-	49,875
- EMU corporate bonds	51,438	-	51,438	48,799	-	48,799
- Euro inflation-linked bonds	21,184	-	21,184	19,289	-	19,289
Property	2,614	-	2,614	1,933	-	1,933
Cash and cash equivalents	-	-	-	103	-	103
Qualifying insurance policies	-	920	920	-	947	947
Other	45,883	-	45,883	45,994	-	45,994
Total market value of assets	**317,086**	**920**	**318,006**	**296,839**	**947**	**297,786**

The assets of the funded plans are held separately from those of the group. The group ensures that the investment positions are managed within an asset-liability matching (ALM) framework that has been developed to achieve long-term investments that are in line with the obligations under the pension schemes. Within this framework, the group's ALM objective is to match assets to the pension obligations by investing in long-term fixed interest securities with maturities that match the benefit payments as they fall due and in the appropriate currency. The company actively monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the pension obligations. A large proportion of assets consists of equities and bonds, although the group also invests in property, cash and holds some insurance assets. The group believes that equities offer the best returns over the long term with an acceptable level of risk.

The changes in the net deficit are as follows:

(€'000)	Notes	Medical plans Present value of obligations	Pension plans Present value of obligations	Fair value of plan assets	Total	Asset Ceiling	Total
At 1 January 2017		**53,637**	**368,128**	**(297,786)**	**70,342**	**673**	**124,652**
Current service cost	X	2,334	21,784	-	21,784	-	24,118
Past service cost	X	216	-	-	-	-	216
Net interest expense/(income)	VI	909	6,508	(5,286)	1,222	-	2,131
Income statement		**3,459**	**28,292**	**(5,286)**	**23,006**	**-**	**26,465**
Remeasurements							
Experience (gains)/losses		(1,906)	4,051	(8,274)	(4,223)	-	(6,129)
(Gains)/losses due to change in demographic assumptions		-	3,625	-	3,625	-	3,625
(Gains)/losses due to change in financial assumptions		1,305	1,680	-	1,680	-	2,985
Changes in asset ceiling		-	-	-	-	(87)	(87)
Statement of other comprehensive income		**(601)**	**9,356**	**(8,274)**	**1,082**	**(87)**	**394**
Employer's contributions		(407)	-	(17,844)	(17,844)	-	(18,251)
Exchange differences		-	(703)	321	(382)	-	(382)
Benefit payments		-	(10,863)	10,863	-	-	-
At 31 December 2017		**56,088**	**394,210**	**(318,006)**	**76,204**	**586**	**132,878**

		Medical plans	Pension plans				
(€'000)	Notes	Present value of obligations	Present value of obligations	Fair value of plan assets	Total	Asset Ceiling	Total
At 1 January 2016		**44,895**	**279,638**	**(246,429)**	**33,209**	**952**	**79,056**
Current service cost	X	1,885	17,914	-	17,914	-	19,799
Past service cost		-	(1,263)	-	(1,263)	-	(1,263)
Net interest expense/(income)	VI	982	6,420	(5,670)	750	-	1,732
Income statement		**2,867**	**23,071**	**(5,670)**	**17,401**	**-**	**20,268**
Remeasurements							
Experience (gains)/losses		(2,039)	1,271	(4,389)	(3,118)	-	(5,157)
(Gains)/losses due to change in demographic assumptions		-	(611)	-	(611)	-	(611)
(Gains)/losses due to change in financial assumptions		8,269	26,924	-	26,924	-	35,193
Refinement		-	46,684	(45,936)	748	-	748
Settlements		-	(1,291)	1,291	-	-	-
Changes in asset ceiling		-	-	-	-	(279)	(279)
Statement of other comprehensive income		**6,230**	**72,977**	**(49,034)**	**23,943**	**(279)**	**29,894**
Employer's contributions		(355)	-	(4,084)	(4,084)	-	(4,439)
Exchange differences		-	(1,068)	941	(127)	-	(127)
Benefit payments		-	(6,490)	6,490	-	-	-
At 31 December 2016		**53,637**	**368,128**	**(297,786)**	**70,342**	**673**	**124,652**

The weighted average duration of the defined benefit obligations is 17.3 years (2016: 16.8 years).

Funding levels are monitored on an annual basis and contributions are made to comply with minimum requirements as determined by local regulations and, if applicable, internal funding policy. The group considers that the contribution rates set at the last valuation date are sufficient to eliminate the deficit over the agreed period.

Expected contributions to post-employment benefit plans for the year ending 31 December 2018 are €4,741,000.

The cumulative actuarial loss recognised in other comprehensive income as at 31 December 2017 was €81,765,000 (2016: €81,371,000).

The sensitivity of the defined benefit obligations to a 1% movement in the weighted principal assumptions is:

	Increase in assumption	Decrease in assumption
Discount rate	-16.2%	17.3%
Salary increase rate	8.2%	-8.2%
Inflation rate	9.7%	-9.7%
Medical trend rate	4.3%	-3.2%

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligations to significant actuarial assumptions, the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the statement of financial position. As the majority of the liabilities are not affected by the life expectancy risk (because of lump sum payments), no life expectancy sensitivity is considered.

Through its defined benefit pension plans and post-employment medical plans, the group is exposed to a number of risks, the most significant of which are detailed below:

- asset volatility: the risk is kept under control thanks to proper risk management procedures and strategic asset allocation driven by the financial characteristics of the plans, in particular the plans liabilities and the risk tolerance of the Board and the group. The plan liabilities are

calculated using a discount rate set with reference to corporate bond yields; if plan assets underperform this yield, this will create a deficit. Belgian plans hold 60% of equities, which are expected to outperform corporate bonds in the long-term while providing volatility and risk in the short-term. The group believes that due to the long-term nature of the plan liabilities and the strength of the supporting group, a level of continuing equity investment is an appropriate element of the group's long term strategy to manage the plans efficiently. See above for more details on the group's asset-liability matching strategy.
- changes in bond yields: a decrease in corporate bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the plans' bond holdings.
- inflation risk: the plans' benefit obligations are linked to inflation (see sensitivity impact), and higher inflation will lead to higher liabilities. The impact is however limited and the assumptions are cautiously monitored annually.
- life expectancy: as mentioned, longevity risk is limited as the majority of the benefit payments are lump sums.
- medical trend rate risk: as the liabilities of the Belgian and French medical plans are very sensitive to the used medical trend rate, the evolution of this trend rate is monitored regularly to make sure that this trend rate properly reflects the long term expected evolution of the medical cost.
- salary increase: as the pension liabilities are quite sensitive to salary increase, the used assumptions are monitored closely and historic salary evolution is compared against the used assumptions.

The group has not changed the processes used to manage its risks from previous periods.

The movement in the deferred tax asset relating to the pension deficit is as follows:

(€'000)	Notes	2017	2016
Amount credited/(charged) through equity	XIII	(4,784)	9,572
Amount credited/(charged) through the income statement	XIII	(2,233)	5,310
Exchange differences		(81)	(92)
Increase/(decrease) in deferred tax asset		**(7,098)**	**14,790**

XXI. Share capital and share premium

		(€'000)		
Equity shares	**Number of shares**	**Share Capital**	**Share Premium**	**Total**
At 1 January and 31 December 2017	12,014,560	839,601	1,623,628	2,463,229
At 1 January and 31 December 2016	12,014,560	839,601	1,623,628	2,463,229

The shares have attached to them full voting, dividend and capital distribution rights.

XXII. Other reserves

(€'000)	Notes	Available-for-sale revaluation reserve	Cash flow hedging reserve	Hedge of net inv. in foreign operations reserve	Foreign currency translation reserve	Legal reserve	Total
At 1 January 2017		115,480	(303)	18,238	(21,665)	113,301	225,051
Fair value adjustments	XIV, XVI	66,190	512	-	-	-	66,702
Deferred tax on fair value adjustments	XIII	1,205	(172)	-	-	-	1,033
Foreign currency translation differences		-	-	-	(10,806)	-	(10,806)
Transfer to retained earnings		-	-	-	-	(788)	(788)
At 31 December 2017		**182,875**	**37**	**18,238**	**(32,471)**	**112,513**	**281,192**
At 1 January 2016		161,187	1,016	18,238	7,127	103,445	291,013
Fair value adjustments	XIV, XVI	(45,642)	(1,997)	-	-	-	(47,639)
Deferred tax on fair value adjustments	XIII	(65)	678	-	-	-	613
Foreign currency translation differences		-	-	-	(28,792)	-	(28,792)
Transfer to retained earnings		-	-	-	-	9,856	9,856
At 31 December 2016		**115,480**	**(303)**	**18,238**	**(21,665)**	**113,301**	**225,051**

The hedge of net investment in foreign operations reserve and the foreign currency translation reserve relate to the group's subsidiaries in Sweden and the United Kingdom.

In addition to the translation of structural currency exposures relating to the group's subsidiaries and joint venture with a functional currency other than the euro, the foreign currency translation reserve includes the translation impact of goodwill and intangible assets expressed in Swedish krona and sterling that were recognised at the time of acquisition of subsidiaries in Sweden, and EMXCo in the United Kingdom.

The legal reserve represents non-distributable amounts required to be established as separate reserves in compliance with local laws in certain countries where the group operates.

XXIII. Dividends paid

€ per share	2017	2016
Equity paid	**-**	**7.50**
(€'000)		
Equity paid	**-**	**90,110**

No dividend was paid by Euroclear SA/NV in respect of the financial year ending 31 December 2016.
See Note XXVII for details of the proposed 2017 dividend.

XXIV. Contingent liabilities and commitments

(€'000)	2017	2016
At 31 December		
Collateral pledged, of which:	4,327,380	3,800,462
- Own assets	1,850,592	1,605,321
- Re-use of collateral received	2,476,788	2,195,141
Securities lending indemnifications	25,912,288	28,298,635

The collateral pledged mainly relates to:

- securities deposited with the National Bank of Belgium as potential collateral, principally for Target2-related exposures. It includes investment securities with a market value of €1,814,632,000 (2016: €1,569,282,000) and the reuse of securities received as collateral for reverse repurchase agreements from participants with a market value of €2,476,788,000 (2016:€2,195,141,000); There was no exposure at 31 December 2017 (2016: €0); and
- a bank deposit of €400,000 (2016: €500,000) pledged by Euroclear Finland to a third-party registration fund in order to fulfil its obligations as account operator.

Under the terms of the Euroclear Securities Lending and Borrowing Programme, Euroclear Bank provides a guarantee to securities lenders whereby if a securities borrower is unable to return the securities, Euroclear Bank guarantees the lender to receive replacement securities or their cash equivalent. A similar guarantee applies to Euroclear Bank's GC Access Programme. The guarantee is valued at market value of the loan securities plus accrued interest. Euroclear Bank's policy is that all securities borrowings are covered by collateral pledged by the borrowing banks and clients.

XXV. Operating lease commitments

	2017		2016	
(€'000)	Property	Vehicles, plant and equipment	Property	Vehicles, plant and equipment
Group company as lessee				
Future aggregate minimum lease payments under non-cancellable operating leases:	**155,501**	**68,899**	**122,025**	**38,244**
- up to one year	26,558	18,108	21,405	16,555
- later than one year and not later than five years	68,173	50,791	55,716	21,689
- over five years	60,770	-	44,904	-

The total sublease payments receivable relating to the above operating leases amounted to €98,622 (2016:€210,619).

Minimum lease payments recognised as an expense	21,616	19,607	20,164	18,443

XXVI. Related party disclosures

Euroclear SA/NV is controlled by Euroclear Investments SA/NV, incorporated in Luxembourg, which owns 99.99% of the ordinary shares. The ultimate parent and controlling party of the group is Euroclear plc, incorporated in the United Kingdom.

Euroclear SA/NV's investments in its subsidiaries are set out in Note I.

The following is a summary of the balances relating to transactions with Euroclear SA/NV's parent, ultimate parent and other companies in the Euroclear group included in its consolidated financial statements:

(€'000)	2017 Immediate parent	2017 Ultimate parent company	2017 Other group companies	2017 Joint venture	2017 Total	2016 Immediate parent	2016 Ultimate parent company	2016 Other group companies	2016 Joint venture	2016 Total
Assets										
Loans and advances	-	-	6,473	-	6,473	-	-	8,161	-	8,161
Other assets	-	110	41	744	895	144	187	-	838	1,169
Prepayments and accrued income	16	-	3	262	281	209	-	-	746	955
Investments in subsidaries and joint ventures	-	-	9,871	5,401	15,272	-	-	6,294	10,980	17,274
Total assets	**16**	**110**	**16,388**	**6,407**	**22,921**	**353**	**187**	**14,455**	**12,564**	**27,559**
Liabilities										
Deposits from banks and customers	219,902	12	13	-	219,927	199,292	9	-	-	199,301
Other liabilities	-	-	124	-	124	1,045	-	-	-	1,045
Accruals and deferred income	95	193	100	-	388	298	7,335	-	-	7,633
Total liabilities	**219,997**	**205**	**237**	**-**	**220,439**	**200,635**	**7,344**	**-**	**-**	**207,979**
Income statement										
Interest income	5	3	296	-	304	-	11	376	-	387
Interest expense	(9,580)	-	-	-	(9,580)	(335)	-	-	-	(335)
Fee and commission income	-	-	3	-	3	-	-	-	-	-
Fee and commission expense	(34)	(3)	-	-	(37)	-	(10)	-	-	(10)
Other operating income	498	1,199	39,284	3,819	44,800	694	2,015	-	4,890	7,599
Administrative expense	(856)	(141)	(5,247)	-	(6,244)	(850)	(148,475)	(4,527)	-	(153,852)
Total income statement	**(9,967)**	**1,058**	**34,336**	**3,819**	**29,246**	**(491)**	**(146,459)**	**(4,151)**	**4,890**	**(146,211)**
Off-balance sheet										
Liquidity facility received	20,000	-	-	-	20,000	-	20,000	-	-	20,000
Liquidity facility given	-	-	(9,972)	-	(9,972)	-	-	(409)	-	(409)
Total off-balance sheet	**20,000**	**-**	**(9,972)**	**-**	**10,028**	**-**	**20,000**	**(409)**	**-**	**19,591**

Further details about transactions with related parties and of key management compensation are provided below.

XXVI.1. Transactions with other companies in the Euroclear group

XXVI.1.a. Loans

In July 2012, Euroclear SA/NV granted a ten-year loan to Euroclear France Properties SAS to finance the building and management costs of a computer center in France. Interest on the loan, payable annually accrued at a rate of 4.60% per annum. Part of the loan (€2,000,000) was reimbursed in February 2017. The remainder of the loan (€8,000,000) was reimbursed in December 2017.

In July 2012, Euroclear SA/NV provided a ten-year liquidity facility to Calar Belgium for an amount up to €8,000,000 to finance investments in the building in Belgium. The facility is used for €6,000,000 since July 2012 and is remunerated at an annual rate of 4.64% per annum payable annually. An annual fee of 0.25% is computed on the undrawn amount of the facility (€2,000,000).

XXVI.1.b. Long term borrowing

On 19 December 2016, Euroclear Bank borrowed €200,000,000 from Euroclear Investments SA under the form of an internal convertible senior loan to strengthen its recovery profile.

XXVI.1.c. Bank accounts and term deposits

Euroclear Bank, a subsidiary of Euroclear SA/NV, provides banking services to other companies in the Euroclear group. Deposits are remunerated at market rates of interest.

XXVI.1.d. Administrative support

Certain administrative support costs are periodically recharged to and by other companies within the Euroclear group. Euroclear SA/NV leases premises from Euroclear Properties France and Calar Belgium at market rates.

XXVI.1.e. Licence agreement

Under a licence agreement, Euroclear plc has granted to Euroclear Bank the right to operate the Euroclear System and the right to use and sub-licence the Euroclear trademark. The agreement was terminated on 31 December 2016 when Euroclear plc transferred to Euroclear Bank all of its rights in the Euroclear system and the operation thereof. Euroclear Bank has paid a one-off indemnity of €121,200,000 in consideration for the immediate termination of the licence agreement and for Euroclear Plc's waiver of its pre-emption rights. The Euroclear trademarks have been transferred to Euroclear SA/NV for a price of €10,200,000.

XXVI.1.f. Liquidity facilities

In July 2005, Euroclear plc provided a liquidity facility to Euroclear SA/NV for an aggregate principal amount of €20,000,000. This liquidity facility was terminated in April 2017, and replaced by a new liquidity facility of €20,000,000 granted by Euroclear Investments in favour of Euroclear SA/NV. The facility was made for an initial period of one year, automatically renewed. It can be terminated by either party with prior notice. A fee of 25 basis points is computed on the amount of the facility regardless of whether the facility is used. Any utilisation of the facility (none to date) is remunerated at Euribor plus 14 basis points.

In April 2015, Euroclear SA provided a two-year liquidity facility to Taskize Limited for an amount up to GBP 300,000 (terminated in April 2017). The facility has been used in January 2017 and the loan remunerated at an annual rate of 3.9%. In June 2017, Euroclear SA/NV Euroclear SA provided a new one-year liquidity facility of GBP 1,000,000 that can be drawn under the form of a convertible loan agreement. An annual fee of 0.55% is charged on the undrawn amount of the facility. If drawn, the loan will be remunerated at a rate of 3.87%. Taskize Limited must use the funds drawn under this agreement for the purpose of financing its operational and business setup costs and its initial application development costs.

In May 2017, Euroclear SA provided a three-year liquidity facility to Quantessence Limited for an amount up to GBP 750,000 (€846,000). An annual fee of 0.55% is charged on the undrawn amount of the facility. The facility is not yet used. If drawn, the loan will be remunerated at a rate of 3.20%.

XXVI.1.g. Pension fund

The group considers its Belgian and Dutch pension funds as a related party as it has the ability to exercise significant influence over it in taking financial or operational decisions. Disclosures related to the pension fund are presented in Note XX.

XXVI.2. Key management compensation

The compensation of key management (members of the Management Committees of Euroclear SA/NV and its (I)CSD subsidiaries and group division heads) and non-executive directors was as follows:

(€'000)	2017	2016
Short-term employee benefits	20,228	17,406
Post-employment benefits	1,963	1,680
Other long-term benefits	1,850	2,562
Termination benefits	5,536	3,102
Total compensation of key management	29,577	24,750
Emoluments of non-executive directors	1,479	860
Total compensation of key management and directors	**31,056**	**25,610**

The NBB has been informed of the compensation principles for the members of the Management Committees of Euroclear SA/NV and Euroclear Bank and of certain other Senior Management, taking into account the applicable regulations. The amounts - as approved by the respective Remuneration Committees/Boards - reflect these principles and more specifically the allocation between short-term and long-term benefits.

No loans or similar transactions occurred with directors, key management or their close family members.

The companies employing the Euroclear SA/NV non-executive directors are subject to the same terms, conditions and tariffs as other companies.

Directors' emoluments are in the form of fees with the exception of life insurance benefits for one director amounting to €12,000 (2016: €11,000).

XXVII. Events after the balance sheet date

Proposed dividend

On 22 February 2018, the directors resolved to propose a dividend in respect of the financial year ending 31 December 2017 of €11.25 (2016: €0) per equity share, which will distribute €135,164,000.

Statutory auditors' report

to the general shareholders' meeting on the consolidated financial statements for the year ended 31 December 2017

Report on the consolidated financial statements

We present to you our Statutory Auditors' report in the context of our statutory audit of Euroclear SA's (the "Company") consolidated financial statements (hereafter the "Consolidated Financial Statements"). This report includes our report on the audit of the Consolidated Financial Statements, as well as the report on other legal and regulatory requirements. These reports are an integrated ensemble and are indivisible.

We have been appointed as Statutory Auditors by the General Shareholders' Meeting of 28 April 2016, upon proposal of the Board of Directors following the recommendation by the Audit Committee and after approval by the Works' Council. Our mandate will expire on the date of the General Shareholders' Meeting which will deliberate on the annual accounts as at 31 December 2018. We started the statutory audit of the consolidated financial statements of Euroclear SA before 1990.

Report on the audit of the Consolidated Financial Statements

Unqualified opinion

We have audited the Consolidated Financial Statements of the Company and its subsidiaries (jointly "the Group") for the year ended 31 December 2017, prepared in accordance with the International Financial Reporting Standards as adopted by the European Union and with the legal and regulatory requirements applicable in Belgium. The total of the consolidated balance sheet amounts to '000 EUR 21.639.242 and the consolidated income statement shows a profit for the year (share of the Group) of '000 EUR 275.743.

In our opinion, the Consolidated Financial Statements give a true and fair view of the Group's net equity and consolidated financial position as at 31 December 2017 as well as of its consolidated income statement and its consolidated cash flow statement for the year then ended, in accordance with the International Financial Reporting Standards as adopted by the European Union and with the legal and regulatory requirements applicable in Belgium.

Basis for unqualified opinion

We conducted our audit in accordance with the International Standards on Auditing ("ISA"). Our responsibilities under those standards are further described in the "Auditors' responsibilities for the audit of the Consolidated Financial Statements" section of our report. We have fulfilled our ethical responsibilities in accordance with the ethical requirements that are relevant to our audit of the Consolidated Financial Statements in Belgium, including the requirements related to independence. We have obtained from the Board of Directors and company officials the explanations and information necessary for performing our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Consolidated Financial Statements of the current period. These matters were addressed in the context of our audit of the Consolidated Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<u>Valuation of Goodwill and Contractual Customer Relationships</u>

Key audit matter	The Company's 31 December 2017 consolidated financial statements show "Goodwill" and "Contractual Customer Relationships" captions amounting to '000' EUR 869.872 and '000' EUR 21.964 respectively, as further disclosed in note XVIII. These intangible assets have arisen as a result of the acquisitions of some of Euroclear SA's subsidiaries in previous accounting periods. The International Financial Reporting Standards prescribe that Goodwill and Contractual Customer Relationships are subject to an annual impairment assessment. We identified these intangible assets as a Key Audit Matter due to the significance of the balance and because the impairment assessment requires significant judgment of management with regards to the valuation methodology applied and the underlying assumptions used, mainly those relating to the

ability to generate future free cash flows, and to the discount factor applied to these cash flows, taking into account the appropriate risk factors.

Our audit approach

We focused our audit effort on (i) the valuation model used for the assessment, (ii) the appropriateness of the discount rate and terminal growth rates used in the model and (iii) the judgements relating to the future cash flow forecasts:

- Together with our valuation experts, we have assessed the “Discounted Cash Flow” model used by management, and evaluated the underlying hypotheses for the use of this model. We found the model used to be appropriate, in the circumstances.

- We evaluated and challenged management’s future cash flow forecasts, and the process by which they were drawn up. We found that management had followed their process for drawing up future cash flow forecasts, which was subject to timely oversight and challenge by the board of directors.
  We compared the current year’s results with the figures included in the prior years’ forecasts to assess the organisation’s ability to accurately forecast future cash flows. Actual performance was found to be generally in line with what had been factored in the discounted cash flow model.

- We challenged management’s assumptions in their forecasts of the long term growth rates -by comparing those to publicly available economic and industry forecasts- and the discount rates - by comparing the cost of capital for the company with comparable organizations, as well as by considering territory specific factors. We found the assumptions to be consistent and in line with our expectations.

- We considered the impact of regulatory and business evolutions which have the potential to significantly affect the future cash flows of these entities on which goodwill had been recognized, and found that these had been evaluated in drawing up the future cash flows.

- We challenged management on the adequacy of their sensitivity calculations. We determined that the sensitivity assumptions were based on reasonable indicators, by comparing these to our own assumptions in this respect, and performing our own sensitivity analyses on the basis thereof.

<u>Capitalisation of development costs</u>

Key audit matter

Euroclear SA capitalized internally developed software relating to various projects for an aggregate amount of ‘000’ EUR 86.468. The costs capitalized during the accounting year 2017 amounts to ‘000’ EUR 21.141. Further details with respect to these intangible assets captions are disclosed in note XVIII to the financial statements.
The International Financial Reporting Standards prescribe very strict conditions to be met before such internally developed software costs can be recognised on the balance sheet. These encompass, amongst others, a high degree of probability that these costs will yield future economic benefits. The assets are subsequently amortised over their assessed useful economic life. An annual impairment assessment is furthermore required, which is also based on the forecast of future economic benefits.

We identified the capitalisation of these intangible assets as a Key Audit Matter due to the significance of the balance and because the forecast of the said future economic benefits and the assessment of the useful economic life requires significant judgment by management.

Our audit approach

In particular, we focused our audit effort on (i) identifying the most significant projects being capitalized, (ii) the respect of the capitalization criteria and (iii) the impairment assessment:

- We tested the internal controls put in place to ensure that only eligible costs are capitalized and that appropriate impairment tests are performed and determined that they were appropriately designed and operating effectively.

- For the most significant capitalized projects, we challenged management on the respect of the capitalization criteria. We tested that Euroclear fulfilled the following conditions for capitalizing the identified projects:

- The technical feasibility of completing the intangible asset so that it will be available for use;
- The intention to complete the intangible asset and use it;
- The ability to use the intangible asset;
- The way how the intangible asset will generate probable future economic benefits. Amongst other things, that Euroclear could demonstrate, the usefulness of the intangible assets as they are being used internally
- The availability of adequate technical, financial and other resources to complete the development and to use the intangible asset;
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

- We found that all significant projects for which development costs are capitalized fulfilled the above mentioned criteria.

- We tested the impairment assessment of management and challenged the condition relating to the generation of future economic benefits for the most significant projects by reviewing and challenging management forecasts. We found the models used and assumptions chosen to be consistent and in line with our expectations.

Recoverability of Deferred Tax Assets

Key audit matter

Euroclear SA recognized an amount of ‘000’ EUR 71.882 of deferred tax assets to reflect the future tax benefit from unused tax losses or tax credits and other temporary differences. The particularities of the balance have been further detailed in Note XIII of its financial statements. The International Financial Reporting Standards prescribe that such tax assets are to be recognised to the extent that it is probable that taxable profit will be available against which the temporary differences can be utilised.

We identified this area as a Key Audit Matter because of the size of the balance and because the board of directors’ assessment of the recoverability of these assets involves judgement, including the estimate relating to future taxable profits. Furthermore, in 2017 the Belgian tax rules have extended the estimated time horizon necessary to use the deferred tax assets, casting additional uncertainties on the recoverability of these assets.

Our audit approach

We focused our audit effort on the judgements supporting the forecasted future taxable profits, and on the interpretation of the new Belgian tax rules:

- We evaluated the assessment relating to the estimated future taxable profits performed by management. More particularly, we tested that:
    - Appropriate judgements were used to determine future taxable profits and the timing of those: We found the parameters applied to be appropriate, in the circumstances;
    - We compared the current year’s results of Euroclear SA with the figures included in the prior years' forecast to assess the organisation’s ability to accurately forecast future taxable profits. Actual performance was found to be generally in line with what had been factored in the profit forecast;
    - We considered the impact of regulatory and business evolutions which have the potential to significantly affect the future taxable profits of Euroclear SA, and found that these had been evaluated in drawing up the future taxable profit forecast.

- Together with our tax experts, we assessed the interpretations of the tax rules (laws, jurisdiction and jurisprudence) on which management has based its future taxable profit forecast, and found these to be generally in line with their own expert judgement.

Responsibilities of the Board of Directors for the Consolidated Financial Statements

The Board of Directors is responsible for the preparation of Consolidated Financial Statements that give a true and fair view in accordance with the International Financial Reporting Standards as adopted by the European Union, and for establishing the internal controls the Board of Directors determines are necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the Consolidated Financial Statements, the Board of Directors is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Statutory Auditors' responsibilities for the audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the Consolidated Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the International Standards on Auditing would always detect a material misstatement when it would exist. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Consolidated Financial Statements.

As part of an audit in accordance with the International Standards on Auditing, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement in the Consolidated Financial Statements, whether due to fraud or error; design and perform audit procedures addressing those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of the internal control.

- Obtain an understanding of the internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal controls.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw the attention, in our Statutory Auditors' report, to the related disclosures in the Consolidated Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our statutory auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the Consolidated Financial Statements, including the disclosures, and whether the Consolidated Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Group in order to express an opinion on the Consolidated Financial Statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, amongst other matters, materiality, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls that we identify during our audit.

We also provide the Audit Committee with a statement on our compliance with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters discussed with the Audit Committee, we determine those matters that were of most significance in the audit of the Consolidated Financial Statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

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Report on other legal and regulatory requirements

Responsibilities of the Board of Directors

The Board of Directors is responsible for the preparation and the content of the directors' report on the Consolidated Financial Statements.

Statutory Auditors' responsibilities

In the context of our mandate and in accordance with the draft Belgian auditing standard which is complementary to the International Standards on Auditing as applicable in Belgium, our responsibility is to verify the directors' report as well as compliance, in all material respects, of the directors' report with certain legal and regulatory requirements.

In our opinion, after having performed the specific procedures, the directors' report on the Consolidated Financial Statements includes the information required by law, is consistent with the Consolidated Financial Statements, and does not present any material inconsistencies with the information that we became aware of during the performance of our mandate.

We are also responsible for considering, in particular based on the knowledge acquired resulting from the audit, whether the directors' report is materially misstated or contains information which is inadequately disclosed or otherwise misleading.

In the light of the procedures we have performed, there are no material misstatements we have to report to you. We do not express any form of assurance conclusion on the directors' report.

Statement related to independence

- We did not provide services which are incompatible with the statutory audit of the Consolidated Financial Statements and we remained independent of the company in the course of our mandate; and
- The fees for additional services which are compatible with the statutory audit of the Consolidated Financial Statements referred to in article 134 of the Companies' Code are correctly disclosed and itemized in the notes to the Consolidated Financial Statements.

Other statement

- This report is consistent with the additional report to the audit committee referred to in article 11 of the Regulation (EU) N° 537/2014.

Sint-Stevens-Woluwe, 26 February 2018

The Statutory Auditors
PwC Bedrijfsrevisoren bcvba
represented by

Damien Walgrave
Accredited auditor