Euroclear plc

Annual Report 2017

About Euroclear

Euroclear is the financial industry's trusted provider of post-trade services. We provide settlement, safekeeping and servicing of domestic and cross-border securities transactions, from bonds, equities and derivatives to investment funds. We connect over 2,000 financial market participants across the globe and ensure securities transactions are processed safely and efficiently. As an open and resilient infrastructure, we help clients cut through complexity, lower costs, and mitigate risks.

Euroclear history

1968
Morgan Guaranty launches the Euroclear System.

1972
Euroclear System sold to the Euroclear Clearance System Public Limited Company which is owned by over 120 major financial institutions.

2000
Euroclear Bank is created, taking responsibility for all Euroclear-related operating and banking responsibilities.

2001
Euroclear Bank merges with Sicovam, the CSD of France, which is renamed Euroclear France. CSDs of the Netherlands and Belgium sign agreements to join the Euroclear group.

2002
CRESTCo, the CSD for Irish equities and all UK securities, becomes part of the Euroclear group. It is later renamed Euroclear UK & Ireland.

2005
Euroclear SA/NV created as a new parent company, owning Euroclear Bank and the CSDs and the group's shared securities-processing platforms.

2008
Euroclear acquires the Nordic Central Securities Depository, which includes the CSDs of Finland and Sweden.

2009
Euroclear Settlement of Euronext-zone Securities (ESES) is launched.

2014
Building on Euroclear's Collateral Highway (2012). Euroclear and the Depository Trust & Clearing Corporation (DTCC) establish joint venture to deliver a pan-Atlantic collateral processing infrastructure – DTCC-Euroclear GlobalCollateral Ltd.

2016
Euroclear's ESES CSDs (Euroclear Belgium, Euroclear France and Euroclear Nederland) connect to the ECB's TARGET2-Securities platform.

2017
Euroclear focused on implementing CSDR programs and strengthening cyber resilience.

Strategic report 2017

Consolidated financial statements 2017

Euroclear plc
Strategic report 2017

Chairman's message

Dear shareholders,

Your company performed well in 2017. Strong revenue performance delivered better than expected underlying operating profit, which was only slightly below 2016 despite our planned supplementary investments to fund programmes that strengthen the company's resilience.

Your Board recommends paying a dividend of €39 per share, increasing the payout ratio from 40% to 52%.

The sustained revenue growth achieved through the year demonstrates that our business initiatives are bearing fruit. This performance is testament to the implementation of our consistent strategy in responding to the evolving needs of our clients.

Your Board supported the temporary increase in the company's cost base that was necessary to complete regulatory-driven projects, such as Central Securities Depositories Regulation (CSDR), and to strengthen the company's controls around cyber security. We expect these investments to stabilise in 2018, before the cost base begins to reduce towards year end.

Adapting to the changes required by CSDR remains a notable area of focus for the group. Your Board continues its commitment to oversee an orderly implementation of the CSDR programme, which also increases the robustness of the organisation.

Progress in 2017 was made in implementing the wide-reaching changes required by CSDR, including changes to the governance structures of the group's operating entities.

Furthermore, each operating entity submitted its initial application for an operating licence under CSDR in line with the respective timelines, and we continue our dialogue with regulatory authorities to complete the authorisation process.

The Board's prerogative is to ensure a stable and committed community of shareholders who are invested in the future vision for your group.

Over the past year, we have welcomed the addition of new investors showing a firm commitment to Euroclear's model as an independent, profit-moderated infrastructure that helps assure the efficiency, stability and safety of the global financial markets.

There have been a number of changes to the composition of our Boards in the course of 2017.

The Board is pleased to welcome Andrew Butcher, Harold Finders, Catherine Langlais and Sota Suzuki as new Directors, along with Bernard Frenay who is now an Executive Director. Lieve Mostrey, group CEO, was appointed to the Euroclear PLC Board in December 2017.

Masashi Kurabe, Eddy Wymeersch, Michel Berthezène, John Devine, Isabelle Hennebelle and Satvinder Singh have all now left the Board,

The Board's prerogative is to ensure a stable and committed community of shareholders who are invested in the future vision for your group.

Marc Antoine Autheman
Chairman of the Board

and we thank them for their service. In particular, I would like to extend my gratitude to Eddy Wymeersch who served admirably as Deputy Chairman.

Nils-Fredrik Nyblaeus has been appointed to the Deputy Chairman role and Franco Passacantando has been appointed as Risk Committee Chairman. I am also grateful to the Board for extending my own mandate as Chairman until the end of 2021.

The Board expresses its satisfaction with the strengthened senior management team, under the stewardship of Lieve Mostrey, in driving an ambitious business agenda while progressing towards a higher standard of internal controls. We thank management and all the group's employees for their commitment and continued efforts.

Looking forward, the Board believes that Euroclear is becoming stronger and better structured, ensuring a successful future. Your company is well positioned to extend its revenue growth, supported by more favourable economic conditions in Europe, and will continue to invest in efforts to deliver its strategic vision.

Marc Antoine Autheman
Chairman of the Board

Interview with Lieve Mostrey, Euroclear group CEO

In this short interview, Lieve Mostrey reviews Euroclear's progress in 2017, and outlines her expectations for its strong and successful future.

Q. 2017 was your first full year as CEO of Euroclear. How would you describe the company's performance?

LM: Thank you. I'm pleased to report that our overall financial performance in 2017 was ahead of our budget and we have made progress towards our corporate priorities.

As we anticipated, 2017 was a year requiring higher financial investment levels as we made headway in key corporate initiatives such as implementing incoming Central Securities Depositories Regulations (CSDR) and our cyber security resilience programme, as well as adapting to the new European settlement landscape introduced by the European Central Bank's (ECB) Target2-Securities (T2S) platform.

Meanwhile, we also advanced the business agenda that underpins our vision to increase our relevance to the industry as a provider of trusted, global financial market infrastructure and related post-trade services. As a consequence of these planned investments, underlying administrative expenses increased by 9% to €809 million.

In line with better than expected economic growth, our business has performed strongly, to generate a positive revenue performance, up 5% to €1,223 million. This growth largely offset the anticipated increase in expenses, delivering an adjusted operating profit 2% lower than 2016 at €403 million.

Q. Can you provide a status update on the CSDR, the Cyber Resilience and T2S programmes?

LM: Many of our people across the Euroclear group will think about CSDR when they reflect on 2017! The transition to the new pan-European regulatory framework has required considerable focus from each Euroclear CSD, all of which submitted their initial applications to the competent authorities before the official September 2017 deadline. We are progressing well with our programme to implement CSDR and we continue our dialogue with regulatory authorities to complete the licensing procedure.

The threat posed by cyber-crime is constantly evolving and like every financial institution we have to continue to keep pace and stay resilient. We are advancing as planned in this multi-year programme which covers both the technical aspects of cyber security but also making sure that we have a risk culture that is aware of the potential risks of the digital environment.

In 2017, for the first time, we began to offer single CSD access to T2S by combining the strengths of our ESES CSDs with the value-add services available from Euroclear Bank.

This is an important step towards providing a unique gateway to the T2S markets across the Eurozone for international participants.

In line with better than expected economic growth, our business has performed strongly, to generate a positive revenue performance, up 5.2% to €1,223 million.

Lieve Mostrey
Chief Executive Officer

Q. Last year, you set out your strategy: to claim and protect Euroclear's core business; expand and grow in collateral management, funds and global markets; and to explore innovation enabled by technology. What progress has been made?

LM: We have stayed consistent in our strategy as we strive to further increase relevance to the industry. Of course, we have sought to balance our investments carefully based on our corporate priorities and I'm pleased to report that our approach is delivering tangible results.

For example, the range and breadth of our diversified solutions in collateral management has helped to meet clients evolving needs, delivering 7% growth in average daily outstanding to €1.2 trillion. In addition, we positioned our company to seize the opportunities presented by connecting collateral pools across the Atlantic through our joint venture with the DTCC.

Servicing the funds market remains an area of opportunity for the group, as we extend our safe and efficient model to meet the specific and evolving post-trade needs of the asset class and its participants. To this end, we have continued to listen and adapt to participants' requirements, including making certain changes to our pricing models to be more transparent.

'Euroclearability' is now considered to be a hallmark of quality in ensuring that domestic issuers and infrastructures adhere to the global standards expected by most investors. We continue to see growth economies transition to meeting these standards and establishing international links with Euroclear Bank. Chile and Peru both took this step in 2017 and completed successful sovereign debt issuances, attracting greater appetite from global investors than might have been expected previously. We continue to work with a number of economies around the globe to explore how we can support them in a similar way.

Finally, on innovation, our strategy is to explore and develop possible opportunities to improve business models both in our existing business and through diversification, often through the use of new technology. While some initiatives are still in the early stages, others like the development of the international ETF model have been moving towards maturity. Today approximately 40% of the European ETF industry is in the international form.

We have joined with a number of French banks to set up a new FinTech company called LiquidShare that will look at applications for distributed ledger technology (DLT) to improve the liquidity of European SMEs. We continue to believe that this technology could have promising applications for us, and we are very pleased to be working with our partners to explore this opportunity.

Financial markets are driven by the views of its participants, and insights that data can provide. Today data in financial services is a multi-billion euro industry with some Financial Market Infrastructures already allowing clients to benefit from the reference data at their disposal. As such, we believe that, if packaged in a smart way, data could be an interesting resource for Euroclear in the years ahead.

During 2017, we launched Euroclear Information Solutions, a new business line consisting of data solutions that aims to make the global fixed income markets more transparent, supporting clients in sourcing liquidity and their risk management activities.

Q. Turning now to people, what developments have happened in 2017?

Firstly, I would like stress that it's our people – the hard work and commitment of our teams worldwide – that underpin the success of our business. For this continued effort, we thank them greatly.

We already have a strong 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 a company-wide investment in dialogue sessions that actively involve all staff in our future direction and corporate commitments.

In addition, we have further strengthened both the senior leadership team and a number of management layers throughout the organisation, welcoming a number of new colleagues through key senior appointments.

Most notably, we welcomed Yves Dupuy, who has replaced me as Chief Technology Officer and joins the Management Committee. Yves brings a wealth of experience and expertise that will be invaluable to the company.

Q. Brexit has undoubtedly been *the* big topic of discussion in Europe for the past 18 months or so; how is Euroclear positioned ahead of the March 2019 deadline?

LM: We have completed our analysis to understand the possible implications of the United Kingdom leaving the European Union to our business. Encouragingly, the analysis has demonstrated the robustness of our business model and the benefits of being a diversified group with entities across the European capital markets. Nevertheless, as I highlighted last year, Brexit created some uncertainty for the Irish marketplace,

Key business drivers trended positively in 2017

Value of securities held [1]
(in € trillion)

2014	2015	2016	Change	2017
26.0	27.5	27.7	+3.1%	€28.6 tn

Average daily collateral provision outstanding [2]
(in € billion)

2014	2015	2016	Change	2017
886.9	1067.7	1072.5	+7.2%	€1,150 bn

Turnover [1]
(in € trillion)

2014	2015	2016	Change	2017
623.3	669.5	655.4	+11.8%	€732.8 tn

Group-wide fund orders routed
(in millions)

2014	2015	2016	Change	2017
11.4	12.7	11.0	-5%	10.5

Number of netted transactions
(in millions)

2014	2015	2016	Change	2017
181.6	190.7	195.9	+9.7%	214.8

[1] The data includes intra-group holdings/transactions, as relevant.

[2] The Collateral Highway launched in July 2012, mobilises collateral from sources within and external to the Euroclear group.

which we serve today through Euroclear UK & Ireland. Having worked closely with the relevant authorities in Ireland, we are pleased to have identified a sustainable, long-term solution (subject to regulatory approvals) which is to establish a new CSD, based in Dublin, that will share the CREST settlement system.

Q. What are your thoughts on changes to the shareholder base in 2017?

LM: We were pleased to welcome new and engaged investors that continue our tradition of having a shareholder community that is active in our space, as well as being supportive of Euroclear's model as an independent, open-architecture financial market infrastructure.

Q. And finally, what do you expect Euroclear's journey to look like over the coming year?

LM: Whilst markets start to demonstrate higher volatility, we expect to benefit from economic growth, increasing interest rates and the effects of tightening of quantitative easing on collateral management services.

That means, from a financial perspective, revenues should continue to trend positively. Although we will continue to invest at relatively elevated levels again in 2018, I expect our additional temporary investments to begin to subside, which will result in costs plateauing and run rates gradually reducing towards the year end.

With regard to our business objectives, we will remain consistent in delivering the strategy, including the key corporate initiatives around cyber resilience, compliance with CSDR, expanding collateral management and developing our T2S proposition, as well as starting to see the first results from our new information services initiatives.

This is an exciting period for the group. I would like to take this opportunity to thank our stakeholders in the markets we serve – our clients for entrusting us with their business, the regulators for their oversight,our employees and partners for their efforts, and our shareholders for their ongoing support.

On our global Collateral Highway, the daily outstandings for the end of 2017 averaged €1,150 billion, an increase of 7.2% compared to €1,072.5 billion in 2016.

Euroclear's Management Committee

The Management Committee is responsible for managing the Euroclear group. It is chaired by the group CEO. In the course of 2017, we reorganised certain governance structures to streamline the Management Committee, providing a more agile and effective executive leadership for the group.

Lieve Mostrey

Chief Executive Officer

Frederic Hannequart

Chief Business Officer

Bernard Frenay

Chief Financial Officer

Yves Dupuy

Chief Information Officer

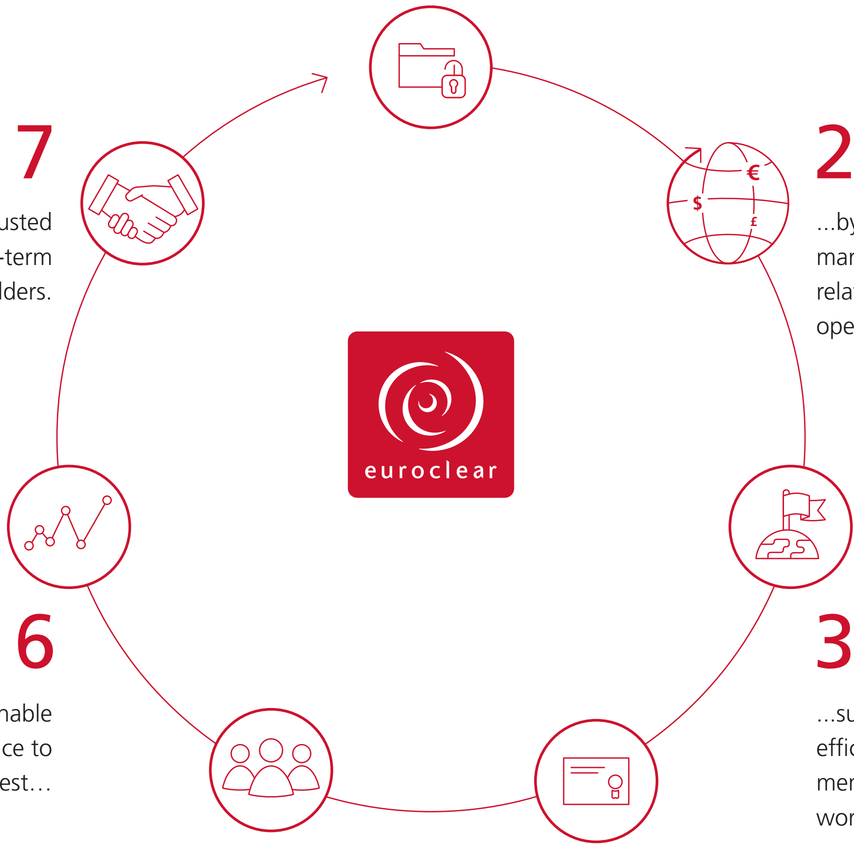
Peter Sneyers

Chief Risk Officer

Euroclear's business model: meeting our commitments to stakeholders

Our business model enables Euroclear to deliver its corporate commitments to a broad range of stakeholders. We aim to create long-term value as a trusted cornerstone of the capital markets by providing robust and relevant services as a financial market infrastructure.

1 We are dedicated to reducing risk and providing liquidity to make global markets safer...



2 ...by operating financial market infrastructure and related services that are open to all...

3 ...supporting the efficiency and development of capital markets worldwide…

4 ...with relevant, robust products and services that meet clients' evolving needs...

5 ...enabled by the expertise of our people and our technology platforms...

6 ...to generate sustainable financial performance to continuously invest…

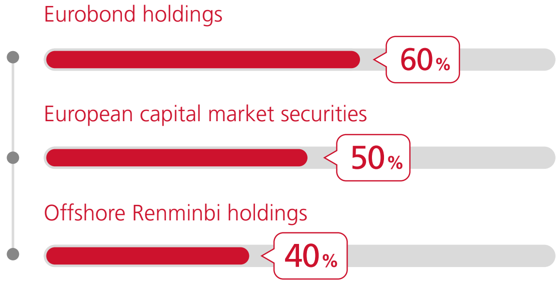
7 ...and nurture trusted relationships and long-term value for all our stakeholders.

1. We are dedicated to reducing risk and providing liquidity to make global financial markets safer

Our DNA is built on actively enabling risk reduction in the capital markets. For the past 50 years, clients have entrusted Euroclear to provide safe and efficient settlement, safekeeping and servicing of transactions for European and Global capital markets.

We have built our position as a scale provider of post-trade services through industry expertise, client engagement and reliable technology. We continue to develop products and services that make it easier for clients to manage risk and liquidity in a more robust regulatory context, including through collateral management solutions.

€28.6 trillion assets held in custody for our clients



215 million transactions processed

€733 trillion in turnover

>1.5 million securities worldwide

2. We operate trusted financial market infrastructure and related services that are open to all

As an open-architecture financial market infrastructure, we have created a global network and client franchise founded on partnerships across financial markets.

Underpinning our role as a market infrastructure is our prudent and structured approach to risk management, enhanced by a risk-conscious culture, operating within a strong regulatory framework. We strive to strike an effective balance between managing risk and achieving the company's strategic objectives.

The group's strong and stable financial position is vital in maintaining the confidence of its stakeholders and is demonstrated by Euroclear Bank's credit agency ratings of AA+ (Fitch) and AA (Standard & Poor's).

Our Ethical and Compliance framework and governance structures establish the principles we follow to conduct business with integrity, honesty and fairness, and in accordance with applicable laws. We have robust controls to combat money-laundering and other criminal activities.

>2000 clients

>100 central banks

90% of the world's 50 largest banks

AA+ Fitch

AA Standard & Poor's

3. We support the efficiency and development of capital markets worldwide

As a leading partner for the global capital markets, we connect our traditional European core to the world's financial markets, helping clients to benefit from the opportunities created by an interconnected global economy.

We have an extensive global network across major markets, currencies and serving a broad range of asset classes, from bonds, equities and derivatives to investment funds. By developing collateral management solutions, we meet the needs of financial market participants to mobilise collateral across borders and time-zones.

Our open architecture model supports growth economies in attracting foreign investors to help fund long-term development needs, while facilitating access to growth opportunities for international investors.

>120 countries

Our clients are located in over 120 countries

50 currencies

We deal in 50 settlement currencies

50 major markets

We have links to 50 major markets

16 languages

We offer personalised client support in 16 languages

4. We provide relevant, robust products and services to meet clients evolving needs

We deliver efficient and low risk mechanisms for the acceptance, issuance and distribution of securities. We lead the way in automation and provide delivery-versus-payment (DVP) settlement. In addition, we provide direct access to Eurozone securities through our connection to the Target2-Securities (T2S) platform.

We automate complex corporate actions, continuously improving deadlines and reducing risks. Clients also benefit from streamlined voting and tax services.

Our Collateral Highway is utility to source, mobilise and optimise collateral across geographical borders and time zones. Our joint venture with the DTCC, DTCC-Euroclear Global Collateral Ltd (DEGCL), extends this offer by connecting collateral pools across the Atlantic, further supporting clients as they manage liquidity constraints across borders.

Our funds offer includes fully automated funds order-routing, settlement and asset servicing within local markets and across international borders. We provide a single point of access for funds investors to process subscriptions, redemptions, transfers and switches, covering 145,000 investment funds worldwide.

€2.1 trillion
funds under custody

10.5 million
fund orders routed annually

145,000
investment funds processed by Euroclear

> 1200
fund administrators

We also centralise settlement for ETF international trades conducted on multiple trading venues across Europe, a structure that eases cross-border processing.

We are exploring a range of innovative opportunities that support our clients' evolving needs, frequently in collaboration with a range of specialised partners, including FinTech companies. These initiatives aim to find applications for technology and data insights that make markets run more smoothly and safely.

5. The combination of our people’s expertise, corporate culture and our robust technology platforms enables our business model to deliver

We employ over 3,900 people across the globe who represent 89 nationalities, of which 50% are women.

Renowned for our in-depth understanding of the operational intricacies associated with post-trade transaction processing, we have the global experience and knowledge to lend expertise to our stakeholders as we collectively respond to market change.

Our values extend to encouraging a diverse workforce and building a stable and sustainable future while reducing risk and ensuring value for our shareholders. Euroclear’s reliable technology platforms underpin the provision of the services we provide. We continuously invest in their development as we manage operational risk and offer new client solutions.

50%
women workers
of 3,900 employees worldwide

Our corporate values

R E A C H

Respect · Effective · Accountable · Client first · Helpful

6. We generate sustainable financial performance that allows us to invest

We generate net fee income and interest income, predominantly through the provision of settlement and safekeeping services.

Our goal is to derive sustainable levels of profitability, return on equity and earnings per share from our income after investments in the costs to provide our products and services.

Stakeholders benefit from the investments that are enabled by our profitability, including those in new products and services, training and development opportunities, strong levels of regulatory capital and returns to our shareholders.

Senior Management and the Board regularly monitor the group’s performance through both operational metrics and against financial key performance indicators.

7. We nurture trusted relationships and long-term value for all our stakeholders

Clients: We enable clients to securely and efficiently undertake post-trade activities.

Shareholders: We aim to deliver robust returns and long-term sustainable value for our investors.

Employees: We strive to build engaged and effective teams, underpinned by strong values, to make Euroclear a great place for employees to grow their careers.

Regulators: We engage with governing bodies to support the effective functioning of the financial system and the broader economy

Society: We serve the public good by ensuring the efficiency of markets, actively enabling risk reduction and by acting as a responsible corporate citizen.

Our ambition goes beyond compliance to fully embrace the spirit of the regulations in making financial markets safer.

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.

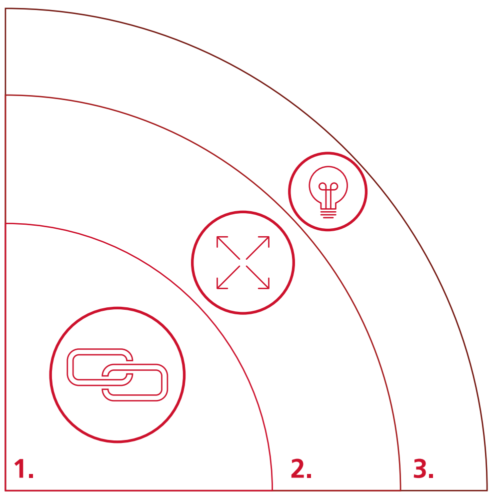
In the context of evolving financial markets, participants seek to work with a trusted market infrastructure to benefit from operating stability and resilience, greater collateral mobility and access to liquidity, and higher levels of process automation.

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.

Euroclear's strategy

Growing our business through newfound relevance, while maintaining our strong core



1. Strengthening our European core

2. Expand global growth initiatives

3. Explore innovative value-add solutions

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 authorisation process. 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, the 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.

This solution went live towards the end of 2017, and we 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 Belgium, Finland, France, Ireland, the Netherlands, Sweden and the UK.

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.

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 corporate securities 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 Distributed Hedger Technology (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 1200 fund administrators, and we routed over 10.5 million funds orders through our platforms in 2017.

Through Euroclear FundsPlace, we are developing a range of trade and post-trade services for funds that meets the industry's evolving needs.

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. We call this initiative Global Reach. 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 cooperation between the Chilean Ministry of Finance and Euroclear to adapt post-trade processes to 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 adapted 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 increasingly work with specialised providers, particularly in financial technology, to develop efficient solutions. 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 DLT.

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.

Managing risk

Euroclear operates within a regulated market infrastructure regime, further strengthened through the recent introduction of CSD regulations (CSDR).

Robust risk management and compliance processes form an integral part of the group's strategic decision making process and contribute to building and maintenance of a resilient and sustainable business.

We operate a group-wide enterprise risk management (ERM) framework, supported by a sound risk culture and transparent Board and Senior Management risk governance arrangements, to help us manage the risks involved in the operation of both domestic and international settlement, custody and collateral services, and other settlement-related activities.

Our group-wide risk management approach, underpinned by Euroclear's low overall appetite for risk, helps protect the Group's trusted reputation with its stakeholders – something that is critical to Euroclear's business model and the implementation of its strategy.

Moreover, we place special emphasis on managing legal and reputational risks, such ethical and compliance risks through our compliance risk management framework, thereby ensuring we meet our legal and regulatory obligations on matters such as diversity and inclusion, human rights, anti-fraud and money laundering.

We continuously monitor changes in the Group's risk profile and endeavour to take appropriate steps to address significant deviations at an early stage with a goal of matching Euroclear's risk profile with the Board's risk appetite. While primary focus is given to managing those risks that fall within Euroclear's span of control, as a financial market infrastructure we also regularly consider the implications of external factors, such as potential systemic risk to the financial markets, our participants and their clients and the implications of geopolitical risks and climate change.

Principal risks		Our approach
	Operational risk Risk of loss resulting from inadequate or failed internal processes, people and systems, or external events. Includes custody risk, model risk, fraud and cyber, business disruption, system failures and model risk.	Euroclear operates a robust group-wide operational risk management framework that focuses on the identification, assessment, management, monitoring and reporting of operational risks and issues.
Banking risks (Euroclear Bank only)	**Credit Risk** Risks arising from the default or failure of a participant or counterparty to meet their agreed upon financial obligations to Euroclear.	Credit risk is borne mainly by Euroclear Bank as a single-purpose settlement bank. Credit risks are closely monitored both intra and inter day. Other operating entities have a very low financial risk appetite with settlement services offered in central bank money.
Banking risks (Euroclear Bank only)	**Liquidity risk** Risks arising from being unable to settle a cash or securities obligation when due resulting from inappropriate and/or insufficient liquidity sources.	Liquidity is key to Euroclear Bank's business model. We operate a robust framework for managing intra and inter day operations with a high level of preparedness for unexpected and/or significant liquidity shocks.
Banking risks (Euroclear Bank only)	**Market risk** Risks to our (on or off balance-sheet) positions arising from movements in market prices. Market risk arises from possible changes in foreign exchange rates, interest rates, equity or commodity prices.	Euroclear Bank has a low level of market risk derived primarily from interest rate and foreign exchange exposures resulting from investment of its capital and future earnings. No trading activity takes place. A hedging strategy is in place to mitigate this risk.
	Legal and compliance risk Risks arising from applicable or upcoming laws, regulations, market rules and prescribed practices in all relevant jurisdictions, enforceability of contracts, conflicts of laws between jurisdictions.	A group-wide ethical and compliance framework aims to adequately identify, monitor and manage legal and compliance risks. The risk areas monitored include, inter alia, fraud, market abuse and money laundering, and also consider the risks arising from upcoming regulations.

Risk mitigation developments in 2017

Throughout 2017, we progressed a number of important initiatives to strengthen the organisation in relation to its principal risks.

These initiatives focused on enhancing the group's internal controls and cyber resilience, further developing our risk-conscious culture and meeting the requirements of CSDR.

Enhancing cyber resilience

(Operational Risk)

Over recent times, the financial industry has woken up to the evolving risks posed by cyber threats, which have demonstrated increased levels of complexity, sophistication and propensity to target the sector.

Security – including effective controls to counter cyber-crime – is an area that Euroclear has always taken very seriously, and we have continuously invested in controls that maintain the resilience of our systems and engaged in collaborative efforts to increase cyber resilience in the industry.

In addition, we have taken steps to strengthen our own cyber security capability by investing in a multi-year cyber resilience programme. During 2017, the second year of the programme, we reinforced the group's control environment and procedures, as well as continued developments to our system and IT architecture.

Developing our risk-conscious corporate culture

(Legal and Compliance Risk / Operational Risk)

As an organisation, Euroclear has always taken risk management very seriously. In the face of an ever evolving risk environment and the importance of risk management to our strategy, we have taken additional steps to raise risk awareness amongst our people, including staff dialogue sessions and dedicated security-related communications campaigns.

Meeting the requirements of CSDR

(Legal and Compliance Risk)

CSDR provides a regulatory framework that strengthens the safety of our industry by reinforcing risk management, internal controls and governance.

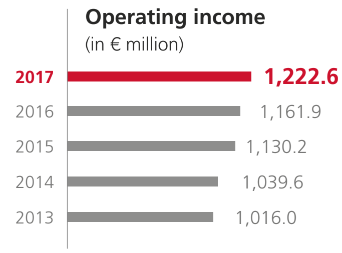
We continue to implement CSDR programmes across the Euroclear group, working with clients and partners to meet compliance with the provisions of the regulation.

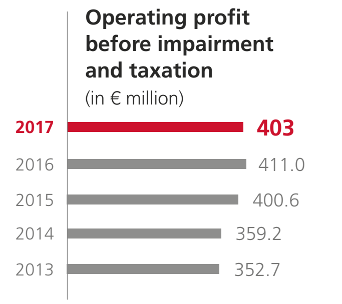
Our ambition goes beyond compliance to fully embrace the spirit of CSDR in making markets safer.

Further information on our risks and uncertainties, risk management strategies, policies and processes can be found in the notes accompanying the Consolidated Financial Statements and in our annual Pillar 3 report on www.euroclear.com.

Financial review

The Euroclear group delivered robust business performance in 2017 reflecting its continued relevance as a leading financial market infrastructure.





Income statement review

The group's results for the year are set out on page 52 of the Euroclear plc consolidated financial statements.

Net fee and commission income was €1,005.8 million in 2017, an increase of 2% compared to the previous year.

Net interest income was €153.0 million, compared to €122.9 million last year, predominantly due to higher USD interest rates margins.

Other income reached €63.8 million in 2017, an increase of 17.5% compared to 2016.

Operating income was €1,222.6 million in 2017, an increase of 5.2% compared to 2016.

Administrative expenses increased by 3% to €804.2 million in 2017. After adjusting for one-off items of €5.2 million in 2017 (€34.6m in 2016 for restructuring costs), administrative expenses increased by 9% year on year reflecting increased investment in regulatory-driven, cyber security and growth initiatives.

Share of results in the DEGCL joint venture amounted to a loss of €18.0 million in 2017 compared to a loss of €7.1 million in 2016.

Operating profit before impairment and taxation was €403 million, down 2%, excluding non-recurring items and deferred tax asset impairment in DEGCL recognised in 2017, reflecting higher operating income offset by higher administrative expenses.

Effective tax rate amounted to 41%, compared to 20% in 2016. Excluding deferred tax asset reassessment in 2017 resulting from changes in the Belgian tax regime, the effective tax rate stands at 35% in 2017 compared to 29% in 2016 after adjusting for the one-off tax gain related to the termination of the license agreement between Euroclear Bank and Euroclear plc.

Profit for the year ended 31 December 2017 was €236 million, a decrease of 21% compared to a profit of €298 million in 2016. Excluding non-recurring items, Euroclear SA/NV deferred tax asset impairment in 2017 resulting from changes in the Belgian tax regime and for the one-off tax gain realised in 2016 due to the termination of the license agreement, 2017 profits are in line with last year.

Balance sheet review

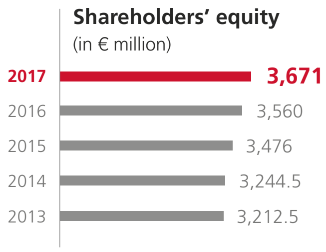
The group's financial position as of 31 December 2017 is set out on page 55 of the Euroclear plc consolidated financial statements.

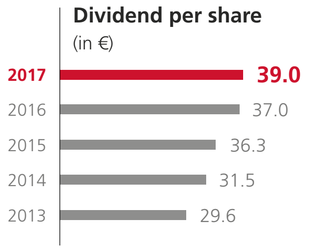
Total assets were €22,008 million on 31 December 2017, down €868 million from the previous year.

Loans and **deposits** totalled €15,076 million and €16,886 million, respectively, on 31 December 2017.

Total shareholders' equity totalled €3,671 million in 2017, up €110 million from the prior year.

Net asset value per share (total shareholder's equity divided by the year-end number of shares) totalled €1,166 as of 31 December 2017, compared to €1,103 in 2016.





Capital management

In 2017, the group's dividend pay-out ratio of around 52% compared to 40% from prior year. The Board has recommended a dividend of €122.8 million, or €39 per share (2016: €37). Euroclear Bank is rated AA+ by Fitch Ratings and AA by Standard & Poor's.

Employee evolution

The average number of people employed by the group during the year was 3,924 compared to 3,944 in 2016.

Key performance indicators

Our key performance indicators reflect our stability and discipline as a company.

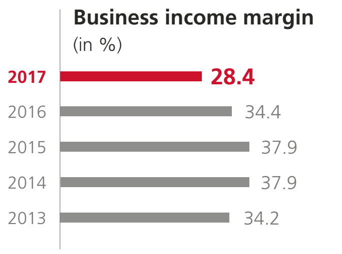
Business income margin (Business income excluding administrative expenses compared to administrative expenses) reduced from 34.4% to 28.4% in 2017, reflecting the adjusted increase in administrative expenses of 9% resulting from continued investments in regulatory-driven, cyber security and growth initiatives.

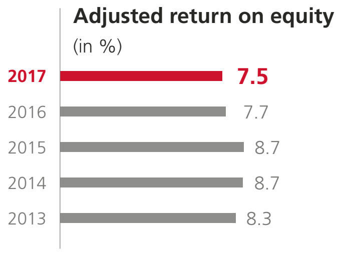
Operating margin (operating profit before impairment and taxation compared to operating income). The adjusted operating margin reduced from 35.4% to 33.0% in 2017.

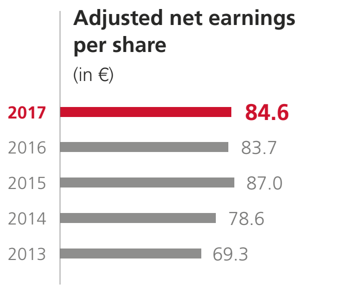
Unit cost ratio (administrative expenses compared to the average value of securities held). The adjusted Unit cost ratio increased from 0.27 basis point (bps) in 2016 to 0.29 bps in 2017.

Return on equity (profit for the year compared to average shareholders' equity) reduced from 8.5% to 6.5% in 2017. The adjusted return on equity is 7.5% in 2017, down 0.2% compared to 7.7% in 2016.

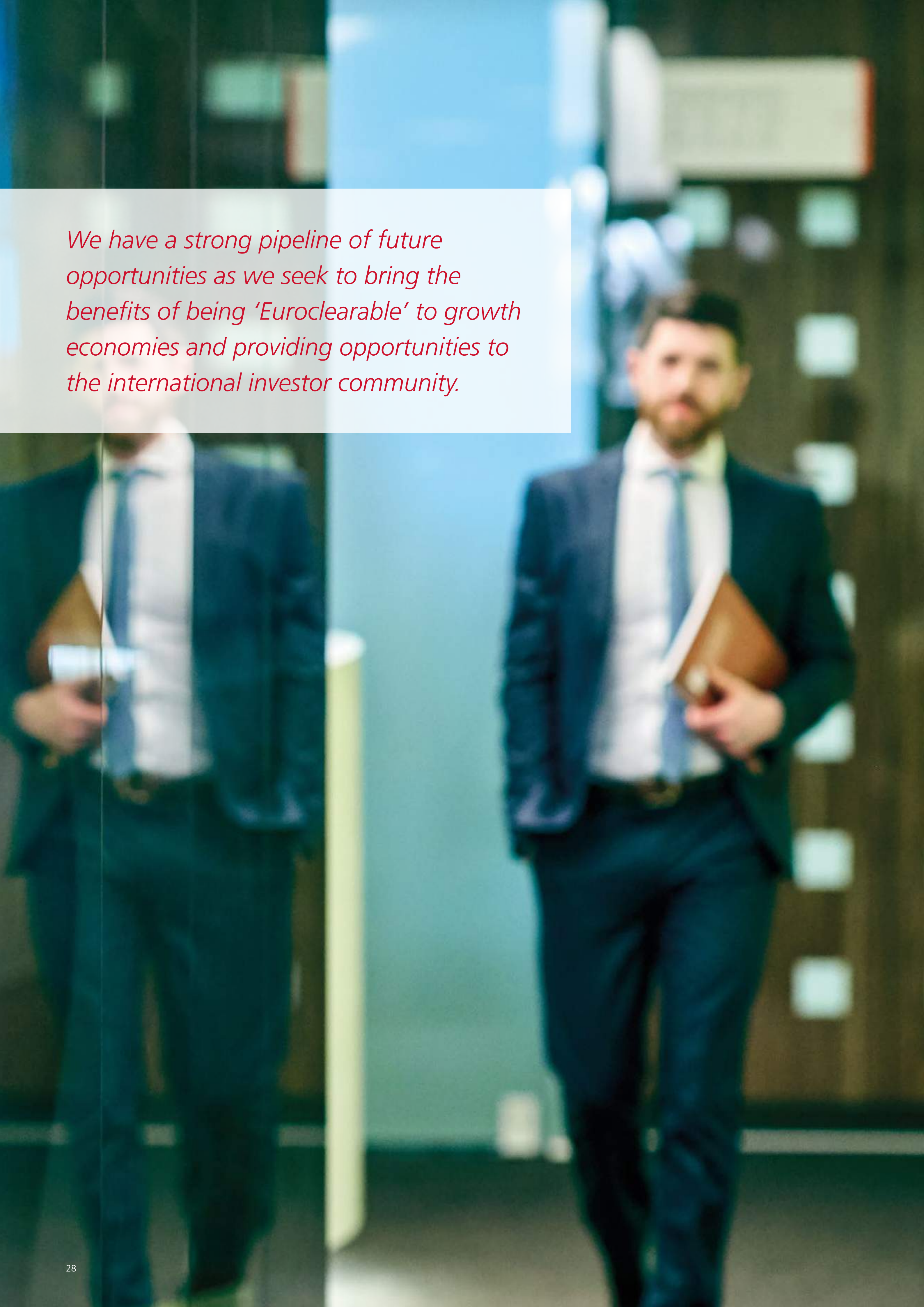
Net earnings per share (profit for the year divided by the weighted average number of shares) decreased to €74.1 in 2017 compared to €92.4 in 2016 due to lower earnings and share buyback in 2017. The adjusted net earnings per share for 2017 is up by 1% at €84.6 compared to €83.7 in 2016.







We have a strong pipeline of future opportunities as we seek to bring the benefits of being 'Euroclearable' to growth economies and providing opportunities to the international investor community.



Business review

Valérie Urbain
Chief Executive Officer

Euroclear Bank

Euroclear Bank performed strongly in 2017 as we achieved robust business results while making important progress in key initiatives. Through these steps, we are positioning Euroclear Bank to fulfil its role as a safe and efficient financial market infrastructure that connects investors and issuers around the world.

		Turnover	Value of securities held	Number of netted transactions
Euroclear Bank	**2017**	€498.2 trillion	€12.8 trillion	95.4 million
	Change from 2016	+10.3%	+1.1%	+13.3%

Global markets were buoyant in 2017 and into early 2018. Strong volumes delivered a positive revenue performance in Euroclear Bank, with growth in both our core business and strategic growth initiatives.

Clients increasingly employ Euroclear Bank's collateral management solutions to reduce risk in the context of a more stringent regulatory environment. We continued to see growth in collateral outstanding (i.e. the amount of collateral allocated by the Euroclear system) across product lines, including in triparty repo and securities lending, while also on-boarding those participants adopting the new regulatory regime relating to margin requirements for non-cleared derivatives during 2017.

Progress was made in engaging clients in our range of funds solutions, and we brought in a new pricing model to make our offer more attractive in certain customer segments. Meanwhile, the international ETF structure continues to grow traction in the industry.

Eurobonds remains attractive to international issuers. Notably, Argentina returned to the market for a second time following a successful issuance in 2016, while Saudi Arabia also used Euroclear Bank as it launched its first ever issuance, totalling $17.5 billion.

Asia is an exciting source of long-term growth in the global capital markets. We demonstrated our commitment to the region by establishing a branch structure in Tokyo, securing a more appropriate corporate structure to service the requirements of the Japanese financial market.

As outlined in the strategy section on pages 20–21, we are developing new links with a number of growth markets, with Chile and Peru established in 2017. We have a strong pipeline of future opportunities as we bring 'Euroclearability' to growth economies and their domestic issuers, providing opportunities to the international investor community.

Ensuring we meet the requirements of CSDR has been a major focus for Euroclear Bank throughout 2017. We submitted the initial applications for authorisation under CSDR in line with the official timelines, and dialogue with our regulators to complete the authorisation process is ongoing.

Additionally, we increased interoperability between Euroclear Bank and the ESES CSDs to support the launch of the new Single CSD Access service, providing clients with a gateway to T2S via ESES.

John Trundle
Chief Executive Officer

Euroclear UK & Ireland

For Euroclear UK & Ireland, 2017 performance concentrated on two key themes. We took steps to ensure we can provide strong, stable and efficient post-trade services in the face of the potential implications of Brexit and to adhere to the requirements of CSDR. At the same time, we have continued to implement our strategic vision in these financial markets.

		Turnover	Value of securities held	Number of netted transactions
Euroclear UK & Ireland	**2017**	€135.4 trillion	€6.0 trillion	61.9 million
	Change from 2016	+10.3%	+2.8%	+3.4%

The data for Euroclear UK & Ireland excludes self-collateralised repos.

Like all of the group's CSDs, getting ready for CSDR has been a major focus for Euroclear UK & Ireland in 2017, and we applied for Euroclear UK & Ireland's authorisation under CSDR in line with the official timelines. Meanwhile, we have continued to implement the necessary changes to systems and processes to comply with the new regulatory frameworks.

One important change that forms part of the shift to CSDR has been the more formal role played by the User Committees, the client-led bodies that have replaced the Market Advisory Committees. We remain committed to consulting with clients as we work together on a range of initiatives that meet their evolving needs in the UK and Ireland.

Since the vote held in 2016 by the UK to leave the European Union (EU), we have completed a thorough analysis to understand the potential impacts and risks to the Euroclear UK & Ireland business, including in the event that the UK leaves the EU without an agreement in place (a so-called 'Hard Brexit').

As outlined in our prior year report, we have been identifying a solution to ensure we can continue to support clients in Ireland post-Brexit. Having worked closely with the relevant authorities, we have identified a sustainable, long-term solution which is to establish a new CSD, subject to regulatory approval, based in Dublin. The new CSD will continue to use the CREST settlement system.

Regarding the implementation of our strategy, we developed Euroclear UK & Ireland's new client offering to provide direct access to central bank money from the Federal Reserve Bank of New York's Net Settlement Service. Having now launched the necessary software, we are currently awaiting regulatory approvals and anticipate going live with the service in 2018.

We also saw an increasing level of adoption by clients of the Euroclear UK & Ireland's funds service, following changes to our pricing structures. This service combines the strengths of our EMX and CREST systems to provide funds order routing and settlement.

Brigitte Daurelle
Chief Executive Officer
Euroclear ESES CSDs

ESES CSDs – Euroclear Belgium, Euroclear France and Euroclear Nederland

The ESES CSDs performed well in 2017 as we progressed a number of strategic initiatives, including the ongoing implementation of CSDR, following our migration to T2S delivered in 2016.

		Turnover	Value of securities held	Number of netted transactions
Euroclear Belgium	**2017**	€0.9 trillion	€0.2 trillion	2.5 million
	Change from 2016	-1.8%	+1.1%	+5.1%
Euroclear France	**2017**	€78.4 trillion	€6.7 trillion	26.9 million
	Change from 2016	+24.6%	+6.6%	+16.0%
Euroclear Nederland	**2017**	€5.1 trillion	€1.1 trillion	6.3 million
	Change from 2016	+8.1%	+6.1%	+5.2%

The data for Euroclear France excludes 'pensions livrées' with Banque de France.

Having migrated to T2S, our ESES CSDs connect approximately 40% of the total outstanding in corporate bonds, equities and funds, and 30% of government bonds issued on the platform. Since then, we have engaged with clients, other CSDs and the ECB to support subsequent migration waves, which in 2017 included Germany and Spain.

By increasing cross-border settlement efficiency in Europe, T2S presents new opportunities for firms to access liquidity and finance their activity more effectively. One of our new solutions is to provide Single CSD Access to T2S via ESES that allows clients to benefit from value-add services, like tax and asset servicing. We successfully launched piloted the service at the end of 2017, with further developments planned in 2018.

We have been preparing the ESES CSDs for the evolving regulatory landscape and working towards compliance with CSDR, submitting the three entities' initial filings to obtain their licenses in line with the official timelines. We are well progressed in completing the authorisation process, while implementing programmes to meet compliance with the provisions of the regulation.

In our role as financial market infrastructure, we continue to support industry efforts to strengthen local capital market communities and develop the international competitiveness of Amsterdam, Brussels and Paris for the post-Brexit environment.

For example, Euroclear led an initiative to enhance distribution of French mutual fund assets, establishing a pan-industry working group to develop plans to increase Paris' competitiveness in this area. We are also investigating how we might support ambitions to develop Paris as a global centre for green finance. Additionally, Paris is increasingly considered as a centre of excellence in the collateral management industry. We are working closely with local players as we seek to broaden access to the Euroclear Collateral Highway.

As a shareholder in LiquidShare, Euroclear is working with seven financial institutions in France and the Netherlands to explore how distributed ledger technology might be applied to the European SME post-trade sector. We also continued to partner with Euronext, and have reinforced this through a series of initiatives that connect issuers and investors throughout the Euronext countries.

Note: Euroclear Settlement of Euronext-zone Securities (ESES) comprises Euroclear France, Euroclear Belgium and Euroclear Nederland.

Hanna Vainio
Chief Executive Officer

Euroclear Finland

The 2017 agenda for Euroclear Finland was dominated by the migration of its entire securities processing infrastructure to a new IT system, known as Infinity, as well as the implementation of its CSDR programme.

		Turnover	Value of securities held	Number of netted transactions
Euroclear Finland	**2017**	€0.6 trillion	€0.4 trillion	7.6 million
	Change from 2016	+9.0%	+7.2%	+7.0%

The 2017 agenda for Euroclear Finland was dominated by the migration of its entire securities processing infrastructure to a new IT system, known as Infinity, as well as the implementation of its CSDR programme.

Infinity is a sizeable undertaking and the work to prepare for phase 2 in early 2018 will position Euroclear Finland as one of the first European CSDs to provide corporate action services that are consistent with European ISO standards.

We have been working closely with clients on the delivery of the Infinity roadmap, with a relatively smooth period of market testing of the new platform ahead of the next deployment.

We thank clients for their ongoing collaboration on this programme and in our preparations for the future connection of Infinity to T2S. In addition to submitting Euroclear Finland's initial application for CSDR, we have been working to embed CSDR by strengthening our teams, including local management, in a new organisational structure.

Meanwhile, we continued to explore innovative solutions such as the potential services related to digitalisation of Housing Company Certificates in Finland and non-listed companies shareholder ledgers and ways to extend our data driven services.

Michael Carty
Chief Executive Officer

Euroclear Sweden

Euroclear Sweden has submitted its filings for authorisation under the new Central Securities Depositories Regulation (CSDR) to the Swedish Financial Supervisory Authority on schedule. We continue to successfully develop CSDR requirements in the VPC system.

		Turnover	Value of securities held	Number of netted transactions
Euroclear Sweden	**2017**	€14.2 trillion	€1.4 trillion	14.3 million
	Change from 2016	+21.0%	+4.5%	+7.9%

Euroclear Sweden has submitted its filings for authorisation under the new CSDR to the Swedish Financial Supervisory Authority on schedule. We continue to successfully develop CSDR requirements in the VPC system.

2017 has been a transformative year for Euroclear Sweden with the local organisation and management team strengthened as we embed CSDR in the organisation. In a more regulated financial environment impacting all players in the market, we have engaged with our clients to develop a revised business strategy.

Our funds offering continues to experience strong growth and we expanded the funds services offered whilst also growing geographically. The marketing activities focused on attracting new funds clients and we will continue the exciting journey to digitalize the Swedish fund market.

The number of new issuers reached record highs and we see an increasing number of foreign issuers come to Sweden attracted by market liquidity and a stable environment. We have also communicated planned multi-currency support in the VPC system for Exchange Traded Products.

Furthermore we have implemented ISO standards in the area of funds and corporate actions. Our VPC system registered 100% availability in 2017.

Euroclear Sweden has showed robust performance which derives from continuous strong revenue levels, both in Settlement and Issuer services as well as in Safekeeping. The running costs are now stable, however, the cost levels were brought up mainly due to project costs for CSDR requirements.

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.

Lieve Mostrey presents the Euroclear Social Entrepreneurship award at the Junior Achievement Company of the Year event in Brussels

Our responsibility

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.

1 NO POVERTY

5 GENDER EQUALITY

8 DECENT WORK AND ECONOMIC GROWTH

10 REDUCED INEQUALITIES

11 SUSTAINABLE CITIES AND COMMUNITIES

13 CLIMATE ACTION

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 intend to publish a comprehensive 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

5 GENDER EQUALITY

10 REDUCED INEQUALITIES

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.

In the 2017 Employee engagement survey, 88% of our people say that they feel that they can be themselves at Euroclear.

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:

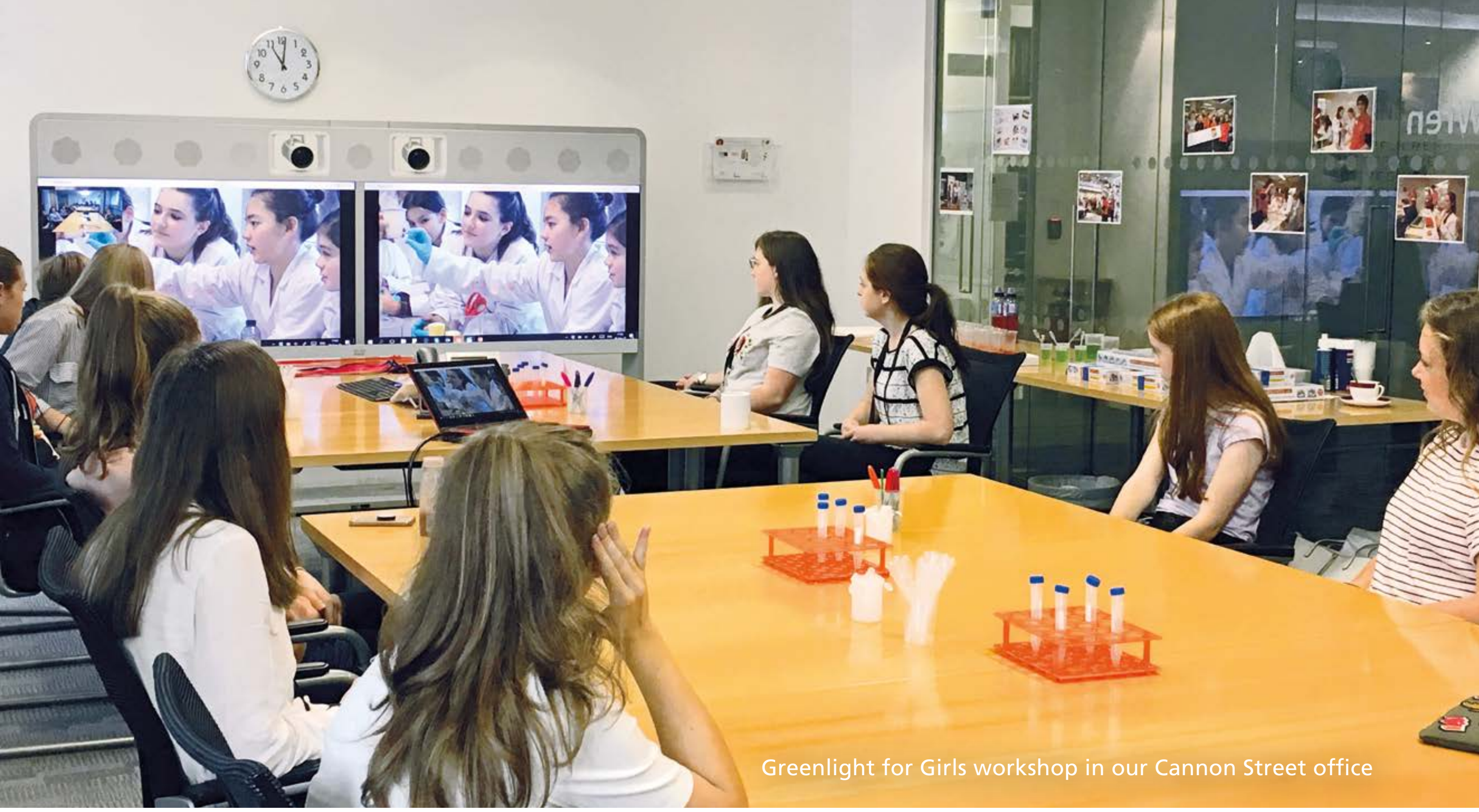
- Compliance: respect for both the letter and the spirit of the law
- Equal opportunities: remove any direct or indirect discrimination of employees and ensure corporate processes and policies are fair and transparent so that anyone can succeed, based on their merit
- Inclusive culture: build an inclusive 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



Greenlight for Girls workshop in our Cannon Street office

Workplace
2017 achievements

Nationalities:
80

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

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.

Marketplace

8 DECENT WORK AND ECONOMIC GROWTH

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 behaviours 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 behaviour, anti-money laundering, modern slavery and phishing and other potentially malicious behaviour.

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.

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 in complete compliance with applicable 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, a significant number of staff members attended the in-person training sessions around our new Speak up framework. 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 three cases of bribery / corruption, which were followed up on accordingly. One led to the termination of a 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, please refer to pages 20–21 of the Strategic report.

Marketplace
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

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 centres around four pillars:

- Emissions
- Resource use
- Supply Chain
- Compliance

By the end of December 2017, we had reduced our carbon emissions by 17.5% based on our 2014 baseline.

Emissions

We have been carbon neutral since 2012, third party certified by CarbonClear to PAS 2060 standards. 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.

By the end of December 2017, we had reduced our emissions by 17.5% based on our 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.

Environment
2017 achievements

Reduction of emissions:
17.5%

Plastic cups in main offices:
zero

Gold with commendation in London Clean City awards

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 four 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 nine new Savings & Loans schemes which are critical to helping 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

The Savings & Loans schemes help to finance small businesses in rural Uganda

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 Community 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 Brussels 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 we 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.

Community
2017 achievements

- 18 employees volunteered for the Build Africa field trips to Uganda and over 210 employees volunteered to participate in Junior Achievement events
- Staff raised €12,000 to support projects in rural Uganda, which was matched by Euroclear
- Nine new Savings & Loans schemes established in rural Uganda supported through Build Africa programme
- Local Community Committees across the group supported over 100 projects, investing over €440,000
- €84,000 donated as part of our Matching Gift programme

Corporate policies

Our corporate policies are either Board policies (signed off at Board level) or Policy handbooks (signed off at Management Committee level or on their behalf). They act as the framework for the behaviours to which we expect our staff, consultants, contractors and employees to adhere.

For full details on how we manage the risks inherent for each of these topics, please see pages 22–24 of the Strategic report.

"I couldn't be more impressed with the staff I have met from Euroclear. Their passion for the life changing work they are supporting is out of this world."

Martin George Realey, CEO Build Africa

Policies related to Workplace

- Group Employee regulation policy covers all aspects of employees rights and responsibilities and the process for ensuring such rights are adhered to
- Health and safety policies exist at local level and adhere to local laws
- The Corporate Responsibility Policy includes our Diversity and Inclusion policy at group level. Separate policies exist on discrimination and harassment at local levels
- Supplier Code of Conduct covering social and environmental aspects by which we expect our suppliers to abide
- All our Board policies contain a reference to our approach to diversity when selecting Board members

Policies related to Marketplace

- Code of Business Conduct
- Supplier Code of Business Conduct – Minimum Standards
- Ethical Conduct, Legal & Compliance Risk Board Policy
- Conflicts of Interest & External Mandates Policy handbook
- Handling of Inside Information Board Policy
- Board Code of Ethics – Policy on Conflicts of Interest for Board members
- Board Policy on External Mandates for Board and Senior Management
- Corporate Responsibility Policy handbook
- Speak Up Policy handbook
- Data Protection Policy handbook (currently in Implementing Procedure format)
- Retention, Retrieval and Disposal of Data Policy handbook
- Anti-Money Laundering & Sanctions Policy handbooks (entity-specific)
- Market Abuse Prevention Policy handbook (currently in Management Resolution format)
- Complaints Handling Policy handbook
- Compliance with SEC Exemption order on US Securities Policy handbook
- Prevention of Special Tax Mechanisms Policy handbook
- Fraud Prevention Policy handbook (currently in Management Resolution format)
- Business Continuity Management Board Policy
- Business Continuity Management Policy handbook
- Data Monitoring Policy handbook
- Outsourcing and Critical Service Providers (CSP) Board Policy
- Outsourcing Policy handbook
- Critical Service Providers Policy handbook
- New Initiative, Product and Pricing Board Policy
- Corporate Risk Management Board Policy
- Enterprise Risk Management (ERM) Framework

Policies related to Environment

The Environmental policy is included in the Corporate Responsibility policy handbook.

Policies related to Community

The Community policy is incorporated in the Corporate Responsibility policy handbook.

A full sustainability report, in line with Global Reporting Initiative standards, will be published in 2018.

Euroclear plc Consolidated financial statements

and parent company financial statements at 31 December 2017

Registered number: 01060802

Directors' report

The directors of Euroclear plc (the 'Company') 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. A review of the group's business, its development, and performance during and at the end of the financial year is set out in the Strategic Report which forms an integral part of this document.

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. Euroclear Bank is headquartered in Brussels and operates branches in Hong Kong, Krakow and Tokyo opened in 2017. The group's domestic CSDs are headquartered in their local markets.

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.

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, Euroclear Bank SA/NV (Hong Kong Branch) 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.

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 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 December 2017, Euroclear 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.

Dividends

The Board proposes a final dividend of €39 (2016: €37) per Ordinary and 'S' shares, to be approved by shareholders at the Annual General Meeting. This dividend evidences that the group stays committed to delivering long–term value to shareholders whilst leaving sufficient means for the group to fund its activity going forward.

Acquisition of own shares

In June 2017, after Board approval, Euroclear plc completed a share buyback transaction where 80,806 shares (2016: 0) were repurchased and subsequently cancelled. Hence, the remaining number of shares after the transaction is 3,147,463 at the end of the year 2017.

Information on likely future developments in the business of the company or its subsidiaries

Likely future developments in the business of the company and its subsidiaries are included in the Strategic Report.

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.

Risk management in Euroclear

Enterprise Risk management framework and governance
Euroclear operates within a 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 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 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 defence, in line with the Board's expectations and the governance arrangements.

The first line of defence 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 defence provides this assurance through, amongst others, designing and operating an effective control environment, 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 defence) and Internal Audit (third line of defence) opinions. This regular reporting by the three lines of defence provides frequent, effective and comprehensive monitoring of the control environment. Moreover, it, contributes to the effective operation of Euroclear's three lines of defence model whereby the Risk Management function plays its role as an independent challenger to the first line of defence and where Internal Audit provides comprehensive assurance based on the highest level of independence and objectivity.

Euroclear intends to maintain its strong reputation in the financial industry for its safety and resilience.

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 means, 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, 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 or 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.

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.

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 finance 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.

Euroclear has built a robust framework to ensure smooth day–to–day operations and have a high level preparedness to cope with unexpected and significant liquidity shocks.

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 and proceeds of the senior debt instrument issued by Euroclear Investments SA (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 group also faces conduct & culture and legal & compliance risks given its position as a leading financial market infrastructure group operating in a highly regulated environment. These risks are managed through robust application of Euroclear's compliance risk management framework.

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 (NBB) is the lead regulator of Euroclear SA/NV. The NBB and the Financial Services and Markets Authority (FSMA) are the supervisors of Euroclear Bank. 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 guidelines, recovery plans are in place for each of the group entities as well as for the group itself. These plans are actively reviewed 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.

Corporate governance

Introduction
We believe that sound corporate governance is key for us to remain a trusted financial market infrastructure and safeguard the interests of our shareholders. We have put in place governance procedures and practices throughout the group which promote accountability and transparency of decision–making and which seek to ensure that all stakeholder interests are duly considered and safeguarded. These procedures are underpinned by our strong focus on ethical behaviour and positive working culture. We believe that these elements together enable us to make better business decisions that ensure our continued success.

The Role of the Board and Committees
Euroclear plc is the ultimate holding company of the Euroclear group and as such its Board is principally responsible for preparing shareholder matters and decisions. Euroclear SA/NV is the Belgian parent company of the international and national central securities depositories of the Euroclear group and is the operational parent of the Group. Euroclear SA/NV Board is responsible for setting group policy and strategy and the consolidated oversight of the group business, risks and control framework. It is a wholly owned subsidiary of Euroclear Investments S.A., which itself is owned by Euroclear plc. Regulated by the National Bank of Belgium, Euroclear SA/NV also owns the group's shared securities processing platforms and delivers support services to the other companies in the group.

The Euroclear SA/NV Board fulfils its leadership role by setting clear policy and strategic directions and ensuring it maintains a strong focus on our risk appetite. The Board achieves this balance by working towards a rolling agenda of periodic reports (for example a broad CEO report, financial updates, risk updates etc.) while ensuring adequate meeting time is made for business, risk and strategic reviews. The Board launched a review of its governance set up and practices end 2017 and expects to implement some changes in the coming year.

The Boards rely on the work and advice of their Committees to prepare discussions and decisions on several key topics. This structure allows detailed or complex matters to be afforded the adequate time and expert input.

Composition of the Board
At the end of 2017, the Euroclear plc Board was composed of 20 non–executive directors, 14 of whom were senior executives from firms which are customers and shareholders. Our Chairman (Mr. Marc Antoine Autheman) and 4 other directors, are independent non–executive directors. The CEO of Euroclear SA/NV (Ms. Lieve Mostrey) has recently been appointed to the Euroclear plc Board (end 2017).

The directors of Euroclear plc who have held office during 2017 to the date of this report are listed on page 41. The directors of Euroclear plc have no interest in the shares or in the options on shares of any group company. Directors of Euroclear plc do not participate in a stock option scheme.

Activities of the Board and its committees in 2017
During 2017, the Board of Euroclear plc, following its decision to align the timing of distributions to shareholders, in the form of dividends or share buybacks, with the Internal Capital Adequacy Assessment Process (ICAAP) exercise

at the first board meeting of each year, decided to return 20% of the 2015 consolidated profits to shareholders through a share buyback operation, which was completed in June 2017.

The Board also reviewed in detail the potential implications for Euroclear plc of Brexit and will continue this review throughout 2018. Towards the end of the year, the Board agreed to register Intercontinental Exchange as a new large shareholder. It also discussed and approved the revised Group Investment Policy.

As part of a broad review to implement CSDR carried out by the group in 2017, the Group has adjusted its group governance arrangements and framework, including its organisational structure, risk management framework and processes to identify and manage conflicts of interest, as well as the material intra group outsourcing arrangement in place between Euroclear SA/NV and its CSDs.

The updated group governance framework aims at striking an appropriate balance between group oversight and increased operational independence, accountability and ownership within the CSDs.

Pursuant to those objectives, a number of decisions regarding CSD Board composition have been taken which will result in a more robust governance for the Group including with respect to decreasing the potential for conflicts of interest including moving to an independent director chairing the CSD boards and a comprehensive review and reform of the risk management framework.

During 2017, the Euroclear SA/NV Board dedicated much time to further defining the strategic landscape and objectives for the Group with management building on its previous view. The Board also intensified its oversight of the CSDR filing process and implementation in the Group.

Finally, the Board also discussed and developed the group risk profile and risk appetite statement, the tool by which it ensures it is tracking and managing the key risks arising the Group.

This year, the Euroclear SA/NV Risk Committee further monitored the transformation of the group's risk management framework including recommending an updated Risk Management Charter, a more robust operational risk board policy as well as a new initiative, product and pricing board policy. The Committee followed up on management's revised strategy on cyber resilience with the help of the dedicated adviser on cyber, challenged management's readiness for the implementation of CSDR across the group and dedicated much time to the group recovery plan and business continuity strategy. This was in addition to the more cyclical work of the Committee in monitoring the risk assessments, the risk dashboards, the group's risk profile and risk framework throughout the course of the year.

The Audit Committee and Risk Committee continued joint work on enhancing the Group's internal control framework and capital planning, making their recommendation to the Board for the purposes of its Internal Control Systems (ICS) and Internal Capital Adequacy Assessment Process (ICAAP) approval.

The Audit Committee continued to monitor our governance, risk and compliance framework as well as the ICS for the group. In support of the Board of ESA, it dedicated special attention to ICAAP and the appointment of a new statutory auditor for the group. It further monitored the Internal Audit Transformation program and commissioned an independent party to do a full review of Euroclear's Transfer Pricing. It provided recommendations to the Board on various topics such as the restructuring of the real estate portfolio, and on policies such as the group investment policy, and the Compliance & Ethics charter.

The Remuneration Committee reviewed the Compensation Policy as well as Euroclear pension plans in light of recent legal and regulatory developments. It reviewed and recommended to the Board a change to non–executive director compensation and structure as well as the annual executive compensation approvals having taken advice from the Risk Committee to ensure that its approach and recommendations were in line with the group risk appetite.

During 2017, the Nominations and Governance Committee led the Board's work with regard to reinforcing both the group's policy and procedures on identifying and managing conflicts of interest, including at Board level, and the group's policy on outsourcing, with particular focus on the governance of intra–group outsourcing. The Committee further focused on reviewing board and board committee composition, succession planning, board evaluation as well as the group's governance memorandum.

Details of the Euroclear plc Board, its committees and the attendance at meetings throughout 2017 are set out on page 9 and further information and terms of reference can be found on www.euroclear.com.

Our Management
The Euroclear SA/NV Board has delegated to the Management Committee the responsibility for the management of the Company within the strategic framework defined by the Board.

In May 2017 the composition of the Management Committee (MC) was reduced from 8 to 5 members (CEO, Chief Business Officer, Chief Administrative Officer, Chief Risk Officer, Chief Information Technology Officer) to create a more focused management body with clearer lines of responsibility. The details and profiles of the Management Committee members is set out on page 11.

Political donations

No political donations were made during the year.

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 Strategic Report. The group also continued investing in market research in line with its mission to provide increasingly commoditised market infrastructure services.

Our responsibility

Please refer to the strategic report for an overview of our mission and values, our commitment to our people and our corporate responsibility.

Non–audit services

The amount of fees charged to Euroclear plc and its subsidiaries for non–statutory audit services amounted to €784,000, the largest part of it 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.

Disclosure of information to the auditors

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as each director is aware, there is no relevant audit information of which the group's auditors are unaware; and
- the director has taken all steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the group's auditors are aware of that information.

On behalf of the Board

Marc Antoine Autheman
Chairman of the Board
22 February 2018

Statement of directors' responsibilities

In relation to the financial statements

The following statement, which should be read in conjunction with the independent "auditor's" report, is made with the purpose of distinguishing for shareholders the responsibilities of the directors from those of the auditors in relation to the financial statements.

The directors are required by the Companies Act 2006 to prepare financial statements for each financial year. Under that law the directors have prepared the group and parent company financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. In preparing the group financial statements, the directors have also elected to comply with IFRS issued by the International Accounting Standards Board (IASB). The financial statements are required by law to give a true and fair view of the state of affairs of the group and the parent company at the end of the financial period and of the profit or loss of the group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the financial statements comply with IFRS as adopted by the European Union and IFRS issued by IASB; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the group will continue in business.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy and at any time the financial position of the group and the parent company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the parent company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each person who is a director at the date of approval of this report confirms that:

- so far as each director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- each director has taken all steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418(2) of the Companies Act 2006.

On behalf of the Board

Marc Antoine Autheman
Chairman of the Board
22 February 2018

Euroclear plc Board and Committees – composition

As at 31 December 2017

Members	Euroclear plc Board	Audit Committee	Nominations & Governance Committee	Remuneration Committee	Operations Committee
Marc Antoine Autheman (Chairman)	6(6)		6(6)	5(5) (chair)	3(3) (chair)
Nils-Fredrik Nyblaeus (Deputy Chairman as from 19 July 2017)	6(6)		4(4)	2(2)	3(3)
Michel Berthezène (resigned 2 May 2017)	1(2)		1(1)		
Ingeborg Boets	5(6)	5(5) (chair)			3(3)
Cian Burke	4(6)	4(5)			0(2)
Andrew Butcher (appointed 19 July 2017)	3(3)	2(2)			
Anthony Carey	5(6)				
Patrick Colle	6(6)	4(5)			
John Devine (resigned 13 October 2017)	5(6)	3(4)			
Xiaomei Fan	4(6)	3(5)			
Eilis Ferran (appointed 7 December 2017)	0(0)				
Harold Finders (appointed 7 December 2017)	1(1)				
Mark S. Garvin	5(6)		5(6) (chair)	4(5)	2(3)
Isabelle Hennebelle (resigned 14 April 2017)	1(1)				
Thomas Isaac	4(6)				
Masashi Kurabe (resigned 23 July 2017)	3(3)		2(2)	3(3)	
Catherine Langlais (appointed 19 July 2017)	4(4)		4(4)	2(2)	
Francis La Salla	5(6)		6(6)	4(5)	
Francois Marion	5(6)	3(5)			3(3)
Mostrey, Lieve (appointed 7 December 2017)	1(1)				
Franco Passacantando	5(6)				
Bruno Prigent	5(6)				
Satvinder Singh (resigned 14 December 2017)	5(6)				
Sota Suzuki (appointed 7 December 2017)	1(1)		1(1)	0(0)	
Tsutomu Suzuki	6(6)	5(5)			
Clare Woodman	4(6)		4(6)	2(5)	
Eddy Wymeersch (resigned 19 July 2017)	1(3)		1(2)	2(3)	

( ) the figure in brackets indicates the maximum number of meetings the director could have attended

Consolidated income statement

For the year ended 31 December 2017

(€'000)	Notes	2016	2017
Interest income	VI	164,169	223,337
Interest expense	VI	(41,229)	(70,318)
Net interest income		**122,940**	**153,019**
Fee and commission income	VII	1,393,148	1,482,137
Fee and commission expense	VII	(408,473)	(476,329)
Net fee and commission income		**984,675**	**1,005,808**
Net interest and fee income		**1,107,615**	**1,158,827**
Dividend income		6,944	8,052
Realised gains/(losses) on investment securities	VIII	2,516	–
Net gains /(losses) on financial assets and liabilities held for trading	IX	27,947	40,313
Net gains /(losses) on foreign exchange		5,253	5,167
Other operating income		11,673	10,287
Operating income		**1,161,948**	**1,222,646**
Administrative expenses	X	(778,465)	(804,240)
Share of the profit /(loss) of investments accounted for using equity method	I	(7,069)	(17,977)
Operating profit /(loss) before impairment and taxation		**376,414**	**400,429**
Impairment	XI	(2,997)	(1,436)
Operating profit /(loss) before taxation		**373,417**	**398,993**
Taxation	XII, XIII	(75,225)	(163,004)
Profit /(loss) for the year		**298,192**	**235,989**

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

(€'000)	Notes	2016 Gross	2016 Tax	2016 Net	2017 Gross	2017 Tax	2017 Net
Changes in other comprehensive income							
– Available–for–sale financial assets	XIV, XXII	(45,642)	(65)	(45,707)	66,190	1,205	67,395
– Cash flow hedges	XVI, XXII	(1,997)	679	(1,318)	512	(172)	340
– Foreign currency translation reserve	XXII	(28,792)	–	(28,792)	(10,807)	–	(10,807)
Recyclable subsequently to profit/(loss)		(76,431)	614	(75,817)	55,895	1,033	56,928
– Defined benefit plans	XX	(29,907)	9,573	(20,334)	(407)	(4,781)	(5,188)
Not recyclable to profit/(loss)		(29,907)	9,573	(20,334)	(407)	(4,781)	(5,188)
Other comprehensive income for the year		**(106,338)**	**10,187**	**(96,151)**	**55,488**	**(3,748)**	**51,740**
Profits/(loss) for the year		**373,417**	**(75,225)**	**298,192**	**398,993**	**(163,004)**	**235,989**
Total comprehensive income for the year		**267,079**	**(65,038)**	**202,041**	**454,481**	**(166,752)**	**287,729**

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	Capital redemption reserve	Other reserves	Retained earnings	Total equity
At 1 January 2017		3,228	143,223	603	1,022,613	2,390,719	3,560,386
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	–	–	–	(10,807)	–	(10,807)
– Defined benefit plans		–	–	–	–	(5,188)	(5,188)
Transfer to legal reserve	XXII	–	–	–	105	(105)	–
Profit/(loss) for the year		–	–	–	–	235,989	235,989
Share buyback	XXII	(81)	–	81	–	(58,000)	(58,000)
Dividends paid	XXIII	–	–	–	–	(119,446)	(119,446)
At 31 December 2017		**3,147**	**143,223**	**684**	**1,079,646**	**2,443,969**	**3,670,669**

At 1 January 2016		3,228	143,223	603	1,088,525	2,239,952	3,475,531
Changes in other comprehensive income							
– Available–for–sale financial assets	XXII	–	–	–	(45,707)	–	(45,707)
– Cash flow hedges	XXII	–	–	–	(1,318)	–	(1,318)
– Foreign currency translation reserve	XXII	–	–	–	(28,792)	–	(28,792)
– Defined benefit plans		–	–	–	–	(20,334)	(20,334)
Transfer to legal reserve	XXII	–	–	–	9,905	(9,905)	–
Profit/(loss) for the year		–	–	–	–	298,192	298,192
Dividends paid	XXIII	–	–	–		(117,186)	(117,186)
At 31 December 2016		**3,228**	**143,223**	**603**	**1,022,613**	**2,390,719**	**3,560,386**

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

Consolidated statement of financial position

As at 31 December 2017

(€'000)	Notes	2016	2017
Assets			
Cash and balances with central banks	IV	5,639,674	3,582,756
Loans and advances	IV	12,758,291	11,493,338
Available–for–sale financial assets	XIV	2,840,759	5,363,273
Financial assets held for trading	XV	40,153	8,415
Derivatives used for hedging	XVI	568	453
Current income tax assets		11,836	8,750
Deferred income tax assets	XIII	154,149	115,002
Other assets		164,341	165,797
Pre–payments and accrued income		147,825	149,088
Pension asset	XX	540	541
Property, plant and equipment	XVII	101,137	93,514
Goodwill and intangible assets	XVIII	999,845	1,012,067
Investments in subsidiaries and joint ventures	I	17,274	15,272
Total assets		**22,876,392**	**22,008,266**
Liabilities			
Deposits from central banks	IV	1,165,106	900,382
Deposits from banks and customers	IV	17,314,996	16,580,880
Financial liabilities held for trading	XV	32,382	23,860
Derivatives used for hedging	XVI	1,026	400
Other liabilities		284,721	339,994
Accruals and deferred income		223,451	244,558
Current income tax liabilities		116,246	87,746
Deferred income tax liabilities	XIII	5,975	4,720
Provisions for liabilities and charges	XIX	46,451	21,236
Pension deficit	XX	125,652	133,821
Total liabilities		**19,316,006**	**18,337,597**
Shareholders' equity			
Called up share capital	XXI	3,228	3,147
Share premium account		143,223	143,223
Capital redemption reserve	XXI	603	684
Other reserves	XXII	1,022,613	1,079,646
Retained earnings		2,390,719	2,443,969
Total shareholders' equity		**3,560,386**	**3,670,669**
Total liabilities and shareholders' equity		**22,876,392**	**22,008,266**

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	2016	2017
Profit / (loss) before taxation		**373,417**	**398,993**
Adjustments for:			
– Depreciation and amortisation	XVII, XVIII	32,999	37,671
– Impairment	XI	2,997	1,436
– Interest on unsecured senior debt issue		–	7,332
– Interest on cash and balances with central banks and loans and advances	VI	(164,156)	(221,326)
– Interest on deposits from central banks and banks and customers	VI	31,233	43,145
– Dividends received	VI	(6,944)	(8,052)
– Realised gains on investment securities		(2,516)	–
– Provisions for liabilities and charges	VIII	36,748	(7,152)
– Share of the (profit)/loss of investments accounted for using equity method		7,069	17,977
Other non–cash movements		52,051	(184,531)
of which effect of exchange rate changes		28,842	(287,399)
– Interest received on cash and balances with central banks and loans and advances		163,270	214,607
– Interest paid on deposits from central banks and banks and customers		(30,662)	(42,539)
Cash flows from operating profit/loss before changes in operating assets / liabilities		**495,506**	**257,561**
Net increase / (decrease) in deposits from banks and customers		(91,518)	278,351
Net (increase)/decrease in monetary reserve	IV	25	–
Net (increase)/decrease in loans and advances	IV	1,135,361	306,977
Net (increase)/decrease in other assets		(39,359)	(2,153)
Net increase/(decrease) in other liabilities		(6,281)	55,273
Net cash inflow/(outflow) from operating activities		**1,493,734**	**896,009**
Tax paid		(44,024)	(151,738)
Net cash from operating activities		**1,449,710**	**744,271**
Cash flows from investing activities			
Investments in subsidiaries and joint ventures	I	(9,096)	(17,244)
Purchase of available–for–sale financial assets	XIV	(6,263,183)	(14,815,991)
Redemption and disposals of available–for–sale financial assets	XIV	5,798,640	12,307,545
Purchase of property, plant and equipment	XVII	(14,288)	(28,822)
Purchase of intangible assets	XVIII	(44,924)	(33,287)
Sale of property, plant and equipment		2	–
Dividends received		6,944	8,052
Net cash from/(used in) investing activities		**(525,905)**	**(2,579,747)**
Cash flows from financing activities			
Interest paid on unsecured senior debt issue		–	(6,750)
Proceeds from unsecured senior debt issue		598,536	–
Share buy back	IV	–	(58,000)
Equity dividends paid		(117,186)	(119,446)
Net cash from/(used in) financing activities		**481,350**	**(184,196)**
Net increase / (decrease) in cash and cash equivalents		**1,405,155**	**(2,019,672)**
Cash and cash equivalents at beginning of year		15,115,194	16,608,666
Effect of exchange rate changes on cash and cash equivalents		88,317	(902,723)
Cash and cash equivalents at end of year		**16,608,666**	**13,686,271**
Cash and cash equivalents at end of year comprise:			
Cash and balances with central banks	IV	5,639,674	3,582,756
Loans and advances	IV	12,758,291	11,493,338
Excluding loans and advances with initial maturity above three months		(1,789,299)	(1,389,823)
Cash and cash equivalents at end of year		**16,608,666**	**13,686,271**

Reconciliation of liabilities arising from financing activities

(€'000)	2016	Cash flows	Non-Cash Changes	2017
Unsecured senior debt issue	593,851	(6,750)	7,332	594,433

Notes to the consolidated financial statements

I. Interests in other entities

I.1. General information

Euroclear plc (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 plc is a limited liability company and is incorporated in the United Kingdom. The address of its registered office is:
Euroclear plc
33 Cannon Street
London EC4M 5SB
United Kingdom

Copies of the Euroclear plc and Euroclear SA/NV consolidated financial statements can be obtained at the same address or checked on www.euroclear.com.

The company is domiciled in Switzerland, with its executive office located at:
Baarermatte
6340 Baar
Switzerland

I.2. Subsidiaries

The full list of subsidiaries of the group can be found in Note II to the parent company financial statements.

In June 2017, Euroclear SA/NV took a stake of 35% in Quantessence Limited (€1,299,000) with control over the entity. 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 Limited 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.

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.

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 a 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 new 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%**	**–**

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

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

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

Reconciliation of summarised financial information (€'000)	**2016**	**2017**
Opening net assets 1 January	17,714	21,960
Capital injection	18,192	27,335
Profit/(loss) for the year	(14,138)	(35,954)
Effect of exchange rate changes	192	(2,538)
Closing net assets at 31 December	**21,960**	**10,803**
Interest in joint venture at 50%		
Carrying value	**10,980**	**5,401**

II. Accounting policies

II.1. Basis of preparation

The consolidated and parent company financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU), IFRIC Interpretations and the Companies Act 2006 applicable to companies reporting under IFRS.

These 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 or parent'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 (see note XXV on operating lease commitments for high level assessment of impact).

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 remeasured, 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.

After initial recognition, other intangible assets are carried at cost less accumulated depreciation (if applicable), and any accumulated impairment losses.

For each asset, the expected useful life is 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.

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 the 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 remeasurement 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, etc) 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.

Information Security & Business Continuity

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 situations. 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

These 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 overleaf 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.

Financial assets (€'000)	Notes	2016	2017
At 31 December			
– Cash and balances with central banks		5,639,674	3,582,756
– Loans and advances		12,758,291	11,493,338
– Available–for–sale financial assets	XIV	2,840,759	5,363,273
– Financial assets held for trading	XV	40,153	8,415
– Derivatives used for hedging	XVI	568	453
Total financial assets		**21,279,445**	**20,448,235**
Securities lending indemnifications	XXIV	**28,298,635**	**25,912,288**
Total		**49,578,080**	**46,360,523**

At 31 December 2017, secured exposure amounted to €34,994,559,000 (2016: €39,288,690,000) including €8,032,760,000 of reverse repo transactions (2016: €10,179,992,000). Unsecured exposure amounted to €11,365,964,000 (2016: €10,289,390,000) 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 %)	2016	2017
At 31 December		
– Eaaa	31%	24%
– Eaa	28%	36%
– Ea	33%	32%
– Ebbb+ and Ebbb	7%	6%
– Ebbb– and below	1%	2%
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 %)	2016	2017
At 31 December		
– AAA	8%	26%
– AA+	22%	29%
– AA	48%	32%
– AA–	22%	13%
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 activities 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 of 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 limited 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 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.

Geographical concentration of financial assets and liabilities (€'000)	European Union	Europe (other)	Americas	Asia	Rest of the world	Total
At 31 December 2017						
Total financial assets	**18,362,376**	**862,718**	**497,746**	**684,097**	**41,298**	**20,448,235**
Total financial liabilites	**8,268,289**	**1,025,386**	**2,494,611**	**5,179,225**	**538,011**	**17,505,522**
At 31 December 2016						
Total financial assets	**19,105,817**	**562,594**	**939,385**	**664,914**	**6,735**	**21,279,445**
Total financial liabilites	**8,531,175**	**976,017**	**3,409,518**	**5,050,240**	**546,560**	**18,513,510**

IV.3.2. Liquidity risk
Liquidity risk is the risk of loss arising from Euroclear being unable to settle a cash or securities obligation when due. Liquidity risks does not imply that Euroclear is insolvent since it may be able to settle the required debit obligations at some unspecified time thereafter.

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 interbank 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.

Example 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 €15.4 billion in committed foreign exchange 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.

Financial liabilities (€'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 2017									
– Deposits from central banks		900,382	-	-	-	-	-	**900,382**	**900,382**
– Deposits from banks and customers		15,570,145	404,425	10,475	6,750	27,018	626,816	**16,645,629**	**16,580,880**
– Financial liabilities held for trading	XV	8,463	15,365	-	-	32	-	**23,860**	**23,860**
– Derivatives used for hedging	XVI	-	101	102	197	-	-	**400**	**400**
Total financial liabilites		**16,478,990**	**419,891**	**10,577**	**6,947**	**27,050**	**626,816**	**17,570,271**	**17,505,522**

At 31 December 2016									
– Deposits from central banks		1,165,106	-	-	-	-	-	**1,165,106**	**1,165,106**
– Deposits from banks and customers		16,433,406	275,851	10,479	6,750	27,018	633,750	**17,387,254**	**17,314,996**
– Financial liabilities held for trading	XV	24,765	7,533	-	-	84	-	**32,382**	**32,382**
– Derivatives used for hedging	XVI	-	248	258	520	-	-	**1,026**	**1,026**
Total financial liabilities		**17,623,277**	**283,632**	**10,737**	**7,270**	**27,103**	**633,750**	**18,585,768**	**18,513,510**

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**
– Stock options		–	32	–	**32**
Derivatives used for hedging	XVI				
– Forward foreign exchange		–	453	–	**453**
Total financial assets		**5,347,571**	**8,868**	**15,702**	**5,372,141**
Financial liabilities					
Financial liabilities held for trading	XV				
– Forward foreign exchange		–	23,828	–	**23,828**
– Stock options		–	32	–	**32**
Derivatives used for hedging	XVI				
– Forward foreign exchange		–	400	–	**400**
Total financial liabilities		**–**	**24,260**	**–**	**24,260**

(€'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**
– Stock options		–	90	–	**90**
Derivatives used for hedging	XVI				
– Forward foreign exchange		–	568	–	**568**
Total financial assets		**2,826,191**	**40,721**	**14,568**	**2,881,480**
Financial liabilities					
Financial liabilities held for trading	XV				
– Forward foreign exchange		–	32,292	–	**32,292**
– Stock options		–	90	–	**90**
Derivatives used for hedging	XVI				
– Forward foreign exchange		–	1,026	–	1,026
Total financial liabilities		**–**	**33,408**	**–**	**33,408**

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

- 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 share 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:

Financial assets (€'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
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**

Financial assets (€'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
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 are used to measure interest rate and currency risk. 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. 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 borrowing amounting to €600,000,000 issued by Euroclear Investments SA to enhance the group funding flexibility and strengthen the recovery capacity of operating entities, is included in the interest rate risk of the Banking Book 2017 economic value calculation. At the level of Euroclear Bank, 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).

Interest rate increase / (decrease), in basis points (€'000)	Economic value of banking book	Interest result Effective 2017	Income sensitivity Interest result Expected 2018
300	2,491,015		450,691
200	2,494,731		333,076
100	2,497,217		213,967
–	2,498,327	153,019	93,326
(100)	2,497,901		42,495
(200)	2,495,758		6,560
(300)	2,491,697		–6,751

Interest rate increase / (decrease), in basis points (€'000)	Economic value of banking book	Interest result Effective 2016	Income sensitivity Interest result Expected 2017
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

2016 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.

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	3,582,498	–	–	–	–	–	258	3,582,756
– Loans and advances	9,021,933	1,068,321	1,330,280	11,493	43,082	–	18,229	11,493,338
– 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	–	–	32	–	–	8,415
– Derivatives used for hedging	–	111	112	230	–	–	–	453
– Other assets	–	–	–	–	–	–	1,560,031	1,560,031
Total assets	**12,610,986**	**4,228,981**	**2,264,604**	**678,587**	**331,089**	**–**	**1,894,019**	**22,008,266**
Liabilities								
– Deposits from central banks	900,381	–	–	–	–	–	1	900,382
– Deposits from banks and customers	15,568,970	404,806	10,500	–	–	594,895	1,709	16,580,880
– Financial liabilities held for trading	8,565	15,263	–	–	32	–	–	23,860
– Derivatives used for hedging	–	101	102	197	–	–	–	400
– Other liabilities	–	–	–	–	–	–	832,075	832,075
Shareholders' equity	–	–	–	–	–	–	3,670,669	3,670,669
Total liabilities and shareholders' equity	**16,477,916**	**420,170**	**10,602**	**197**	**32**	**594,895**	**4,504,454**	**22,008,266**
Total interest sensitivity gap	**(3,866,930)**	**3,808,811**	**2,254,002**	**678,390**	**331,057**	**(594,895)**	**(2,610,435)**	**–**
Cumulative gap	**(3,866,930)**	**(58,119)**	**2,195,883**	**2,874,273**	**3,205,330**	**2,610,435**	**–**	**–**

(€'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	9,852,589	1,166,066	1,684,441	8,446	35,988	–	10,761	12,758,291
– Available–for–sale financial assets	–	1,429,197	453,444	267,291	449,664	–	241,163	2,840,759
– Financial assets held for trading	1,931	37,376	762	–	84	–	–	40,153
– Derivatives used for hedging	–	136	141	290	–	–	–	568
– Other assets	–	–	–	–	–	–	1,596,947	1,596,947
Total assets	**15,493,984**	**2,632,775**	**2,138,788**	**276,027**	**485,736**	**–**	**1,849,082**	**22,876,392**
Liabilities								
– Deposits from central banks	1,165,106	–	–	–	–	–	–	1,165,106
– Deposits from banks and customers	16,432,814	276,466	10,500	–	–	594,113	1,103	17,314,996
– Financial liabilities held for trading	24,765	7,533	–	–	84	–	–	32,382
– Derivatives used for hedging	–	248	258	521	–	–	–	1,026
– Other liabilities	–	–	–	–	–	–	802,495	802,496
Shareholders' equity	–	–	–	–	–	–	3,560,386	3,560,386
Total liabilities and shareholders' equity	**17,622,685**	**284,246**	**10,758**	**521**	**84**	**594,113**	**4,363,984**	**22,876,392**
Total interest sensitivity gap	**(2,128,701)**	**2,348,529**	**2,128,031**	**275,506**	**485,652**	**(594,113)**	**(2,514,902)**	**–**
Cumulative gap	**(2,128,701)**	**219,827**	**2,347,858**	**2,623,364**	**3,109,016**	**2,514,903**	**–**	**–**

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)	2016	2017
At 31 December		
Cash in hand	27	24
Loans and advances	5,639,647	3,582,732
Total cash and balances with central banks	**5,639,674**	**3,582,756**

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)	2016	2017
Surplus funds	11,940,667	10,425,280
Loans and advances	817,624	1,068,058
Total	**12,758,291**	**11,493,338**

The fair value of the loans and advances with an initial maturity greater than one year at 31 December 2017 was €48,610,000 (2016: €74,571,000) The following table (audited) analyses the nature of deposits from banks and clients:

(€'000)	2016	2017
Deposits	15,861,808	14,913,337
Other borrowings	1,453,188	1,667,543
– of which long term funding	594,313	594,895
Total	**17,314,996**	**16,580,880**

On 7 December 2016, Euroclear Investments SA issued a senior, unsecured and unsubordinated Eurobond on the Euronext Amsterdam stock exchange for an amount up to €600,000,000 (10 year maturity – fixed coupon). The issue is deemed to enhance the group funding flexibility over the next 10–year period, maintain a suitable level of investment capacity in the group and strengthen the recovery capacity of operating entities. The issue was realised at a re–offer price slightly below par (€598,536,000), leading to a re–offer yield of 1.151% or 2.6 bps above the annual interest rate. A combined management and underwriting commission of 0.55% was levied on the nominal amount of the securities. The fees (€3,300,000), together with other transactions costs (€1,219,000), are amortised on an actuarial basis.

The fair value of the long term debt at 31 December 2017 was €607,854,000 (2016: 603,240,000).

There are no deposits with an initial maturity greater than one year at 31 December 2017.

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

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

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:

Functional currency of the operation involved (€'000)	Net investments in non–euro operations	Currency hedges other than borrowings	Remaining structural currency exposures
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	**11,004,702**	**7,854,929**	**515,337**	**903,633**	**1,729,665**	**22,008,266**
Total liabilities and shareholders' equity	**9,312,242**	**8,051,888**	**231,846**	**1,496,120**	**2,916,171**	**22,008,266**
Net balance sheet position	**1,692,460**	**(196,959)**	**283,491**	**(592,487)**	**(1,186,506)**	**–**

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	**12,862,455**	**7,110,512**	**398,826**	**933,075**	**1,571,524**	**22,876,392**
Total liabilities and shareholders' equity	**9,827,109**	**8,747,191**	**618,024**	**1,333,108**	**2,350,959**	**22,876,392**
Net balance sheet position	**3,035,346**	**(1,636,679)**	**(219,198)**	**(400,033)**	**(779,435)**	**–**

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).

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

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.

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 covers operational risk, credit risk, and market risk. In addition, Euroclear Bank maintains a model that estimates 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 (not applicable to Euroclear plc consolidated). 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, Euroclear Bank 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

(€'000)	2016	2017
Risk–weighted assets[1]	**6,658,788**	**6,792,627**
Capital requirement	**532,703**	**543,411**
– Credit risk	172,113	178,358
– Market risk	28,027	28,198
– Operational risk	332,563	336,855
Capital base[2]	**2,438,220**	**2,479,937**
– Tier 1	2,438,220	2,479,937
– Tier 2	–	–
Solvency ratio		
– Tier 1	36.6%	36.5%
– Total	36.6%	36.5%

(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 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 the parent companies, a reinsurance company, Euroclear Market Solutions Limited and two property companies whose buildings are leased almost entirely to Euroclear SA/NV. 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.

2017

(€'000)	Notes	Euroclear Bank	Euroclear SA/NV	Euroclear UK & Ireland	ESES CSDs	Nordics	Other	Eliminations	Group
Net interest income	VI	153,655	(1,256)	136	(104)	(399)	987	–	153,019
Net fee and commission income	VII	618,082	(12)	121,913	168,667	97,154	32	(28)	1,005,808
Intra–group recharges		1,877	542,144	51	240	196	1,221	(545,729)	–
Other income		82,533	100,536	173	10,021	(272)	10,154	(139,326)	63,819
Operating income		**856,147**	**641,412**	**122,273**	**178,824**	**96,679**	**12,394**	**(685,083)**	**1,222,646**
Staff costs	X	(125,736)	(251,237)	(9,196)	(20,023)	(19,855)	(871)	–	(426,918)
Other direct costs	X	(32,410)	(264,471)	(9,119)	(4,685)	(32,880)	(7,603)	11,517	(339,651)
Depreciation and amortisation	XVII, XVIII	(1,154)	(30,883)	(41)	(728)	(2,436)	(2,429)	–	(37,671)
Royalty fees		(3,537)	–	(484)	(579)	(339)	–	4,939	–
Group non–operational and Administrative support services		(354,375)	(1,739)	(67,081)	(100,246)	(19,561)	(2,727)	545,729	–
Share of result in joint venture		–	(17,977)	–	–	–	–	–	(17,977)
Operating profit/(loss) before impairment and taxation		**338,935**	**75,105**	**36,352**	**52,563**	**21,608**	**(1,236)**	**(122,898)**	**400,429**
Impairment	XI	(288)	(109)	(331)	55	(756)	(7)	–	(1,436)
Operating profit/(loss) before taxation		**338,647**	**74,996**	**36,021**	**52,618**	**20,852**	**(1,243)**	**(122,898)**	**398,993**
Taxation	XII	(103,204)	(32,902)	(6,763)	(15,494)	(4,455)	(186)	–	(163,004)
Profit/(loss) for the year		**235,443**	**42,094**	**29,258**	**37,124**	**16,397**	**(1,429)**	**(122,898)**	**235,989**
External revenues		1,354,108	12,135	131,885	174,018	94,091	1,056	–	1,767,293
Revenues from other segments		47,767	631,140	957	35,787	4,602	20,264	(740,517)	–
Total revenues		**1,401,875**	**643,275**	**132,842**	**209,805**	**98,693**	**21,320**	**(740,517)**	**1,767,293**
Segment assets		19,418,932	1,446,597	131,564	254,237	370,660	386,276	–	22,008,266
Segment liabilities		17,399,849	225,962	9,620	52,456	48,717	600,993	–	18,337,597

									2016
(€'000)	Notes	Euroclear Bank	Euroclear SA/NV	Euroclear UK & Ireland	ESES CSDs	Nordics	Other	Eliminations	Group
Net interest income	VI	122,614	341	431	411	(459)	(398)	–	122,940
Net fee and commission income	VII	590,599	(10)	129,208	170,618	94,284	5	(29)	984,675
Intra–group recharges		1,010	505,856	15	391	475	1,113	(508,860)	–
Other income		42,400	87,351	134	3,607	235	260,843	(340,237)	54,333
Operating income		**756,623**	**593,538**	**129,788**	**175,027**	**94,535**	**261,563**	**(849,126)**	**1,161,948**
Staff costs	X	(124,312)	(254,894)	(9,007)	(19,139)	(18,208)	(963)	–	(426,523)
Other direct costs	X	(159,970)	(261,152)	(5,575)	(10,054)	(20,717)	(6,954)	145,479	(318,943)
Depreciation and amortisation	XVII, XVIII	(1,730)	(25,335)	(48)	(803)	(2,809)	(2,274)	–	(32,999)
Royalty fees		(27,275)	–	(492)	(621)	(333)	–	28,721	–
Group non–operational and Administrative support services		(307,674)	(1,447)	(54,601)	(124,169)	(17,642)	(3,328)	508,861	–
Share of result in joint venture		–	(7,069)	–	–	–	–	–	(7,069)
Operating profit/(loss) before impairment and taxation		**135,662**	**43,641**	**60,065**	**20,241**	**34,826**	**248,044**	**(166,065)**	**376,414**
Impairment	XI	322	(2,572)	(198)	(209)	(340)	–	–	(2,997)
Operating profit/(loss) before taxation		**135,984**	**41,069**	**59,867**	**20,032**	**34,486**	**248,044**	**(166,065)**	**373,417**
Taxation	XII	(39,902)	6,144	(11,883)	(5,936)	(7,345)	(16,303)	–	(75,225)
Profit/(loss) for the year		**96,082**	**47,213**	**47,984**	**14,096**	**27,141**	**231,741**	**(166,065)**	**298,192**
External revenues		1,203,639	12,995	137,695	163,619	91,884	1,818	–	1,611,650
Revenues from other segments		17,661	581,583	963	27,242	4,654	129,599	(761,702)	–
Total revenues		**1,221,300**	**594,578**	**138,658**	**190,861**	**96,538**	**131,417**	**(761,702)**	**1,611,650**
Segment assets		20,118,552	1,363,106	146,150	207,909	374,270	666,405	–	22,876,392
Segment liabilities		18,360,468	221,731	12,159	45,452	58,412	617,784	–	19,316,006

The €122,898,000 remaining in the Eliminations column in 2017 includes €84,299,000 dividends received from companies within the group (2016: €166,065,000) but also to specific intragroup transactions (sale of Calar Belgium shares by Euroclear Bank to Euroclear investments and sale of the Bry building by Euroclear France to Euroclear Properties France).

VI. Net interest income

(€'000)	Notes	2016	2017
Interest income on financial instruments			
– Cash and balances with central banks		4,065	2,951
– Loans and advances		160,091	218,375
– Loans and advances		–	2,002
Interest income on defined benefit plans	XX	13	9
Total interest income		**164,169**	**223,337**
Interest expense on financial instruments			
– Deposits from central banks		(10,161)	(6,487)
– Deposits from banks and customers		(21,072)	(36,658)
– Available–for–sale financial assets		(8,234)	(25,018)
Interest expense on defined benefit plans	XX	(1,762)	(2,155)
Total interest expense		**(41,229)**	**(70,318)**
Net interest income		**122,940**	**153,019**

VII. Net fee and commission income

(€'000)	2016	2017
Fee and commission income		
Clearing and settlement	405,714	451,420
Safekeeping	643,551	683,045
Other	343,883	347,672
Total fee and commission income	**1,393,148**	**1,482,137**
Fee and commission expense		
Clearing and settlement	(80,444)	(101,563)
Safekeeping	(184,352)	(206,166)
Other	(143,677)	(168,600)
Total fee and commission expense	**(408,473)**	**(476,329)**
Net fee and commission income	**984,675**	**1,005,808**

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 HM 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)	2016	2017
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)	2016	2017
Foreign exchange trading	27,947	40,313
Total	**27,947**	**40,313**

The net gains on foreign exchange trading 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	2016	2017
Staff costs			
– Wages and salaries		309,427	302,830
– Social security costs		70,739	70,006
– Defined benefit plans	XX	18,536	24,336
– Defined contribution plans		6,122	6,073
– Other staff costs		21,699	23,673
Auditor's remuneration		2,569	2,266
Consultants' fees		168,501	206,461
Occupancy		38,344	40,890
Maintenance and repairs		40,346	48,834
Travel and training		17,530	16,962
Communications		8,024	8,078
Rent and non-capitalised purchases		13,255	12,403
Other taxes		6,260	9,623
Depreciation and amortisation	XVII, XVIII	32,999	37,671
Other administrative expenses		27,602	27,059
Provisions for liabilities and charges	XIX	36,748	(7,152)
Capitalised expenses		(40,236)	(25,773)
Total		**778,465**	**804,240**

The average number of persons employed by the group during the year was 3,924 (2016: 3,944).

The auditors' remuneration for Euroclear plc and its subsidiary undertakings was as follows:

(€'000)	2016	2017
Fees payable to the Company's auditor and its associates for the audit of the parent company and consolidated financial statements	118	126
Fees payable to the Company's auditor and its associates for other services:		
– The audit of the Company's subsidiaries	1,292	1,332
– Audit related assurance services	64	24
– Taxation advisory services	5	–
– Other assurance services (including ISAE 3402)	962	697
– Other non–audit services	128	87
Fees included in the consolidated financial statements	2,569	2,266
Fees in respect of investments accounted for using the equity method	47	46
Fees in respect of audit of pension plan	6	11
Total	**2,622**	**2,323**

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	2016	2017
Impairment charges			
Property, plant and equipment	XVII	–	94
Goodwill and intangible assets	XVIII	2,713	607
Other assets		284	735
Total		**2,997**	**1,436**
Other assets impaired			
At 1 January		2,316	2,066
Charge to the income statement		284	735
Amounts used		(481)	(101)
Exchange differences		(53)	(38)
At 31 December		**2,066**	**2,662**

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

Euroclear plc is not a UK resident for UK tax purposes and has no taxable presence itself in the United Kingdom. The UK corporation tax charge relates to the group's subsidiaries Euroclear UK & Ireland, Euroclear Market Solutions and the UK branch of Euroclear SA/NV. The overseas tax charges arose in Belgium, Finland, France, Hong Kong, Luxembourg, Poland, Sweden, Switzerland and the Netherlands.

(€'000)	2016	2017
Current income tax expense	87,826	133,005
Adjustments to tax charge in respect of previous years	(401)	(4,314)
	87,425	**128,691**
Deferred tax charge/(income) relating to the origination and reversal of temporary differences	(12,221)	7,040
Deferred tax charge/(income) resulting from change in tax rate	21	27,273
Tax expense for the year	**75,225**	**163,004**

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)	2016	2017
Operating profit/(loss) before tax	**373,417**	**398,993**
At standard rate of tax[1]	75,244	163,004
Effects of:		
– Notional interest on capital	(5,821)	(1,225)
– Expenses not deductible for tax purposes	5,598	9,135
– Elimination of intercompany dividends	(2,129)	796
– Income not subject to tax	(6,570)	–
– Disposal of subsidiaries	–	137
– Share of net tax (profit)/loss of investments accounted for using equity method	2,403	6,110
– Different rates in the companies in the group	6,880	(38,283)
– Change of tax rate on deferred taxation	21	27,273
– Utilisation/reversals of past derecognised deferred tax assets	–	371
– Adjustments to tax charge in respect of previous years	(401)	(4,314)
Tax expense for the year	**75,225**	**163,004**

[1] A rate of 40.85% (2016: 20.15% before reversal of impairment) representing the effective tax rate 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 €8,751,000 at 31 December 2017 (2016: €11,836,000) 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	2,394	25	2,369
Tax loss carried forward	71,882	5,111	66,771
Other temporary differences	7,549	6,257	1,292
Total	**115,002**	**12,182**	**102,820**
Liabilities			
Defined benefit plans	(2,641)	–	(2,641)
Other temporary differences	4,402	1,095	3,307
Insurance reserve of Euroclear Re SA	2,959	–	2,959
Total	**4,720**	**1,095**	**3,625**

	Total	Maturity on or before 31 December 2017	Maturity after 31 December 2017
At 31 December 2016			
Assets			
Defined benefit plans	39,294	–	39,294
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	96,430	3,843	92,587
Other temporary differences	17,728	16,806	922
Total	**154,149**	**20,893**	**133,256**
Liabilities			
Defined benefit plans	(2,682)	–	(2,682)
Other temporary differences	5,620	1,082	4,538
Insurance reserve of Euroclear Re SA	3,037	–	3,037
Total	**5,975**	**1,082**	**4,893**

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 Re SA and 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	2016	2017
At 1 January		125,749	148,174
Income statement		12,200	(34,313)
Deferred tax relating to items (charged) or credited to equity			
– Defined benefit plans	XX	9,573	(4,781)
– Revaluation reserve on available–for–sale financial assets	XXII	(65)	1,205
– Cash flow hedging reserve	XXII	679	(172)
Exchange differences		38	169
At 31 December		**148,174**	**110,282**

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

(€'000)	Notes	2016	2017
Defined benefit plans	XX	5,309	(2,297)
Financial assets/(liabilities) held for trading		–	(32)
Software development		(32)	(22)
Property, plant and equipment		(24)	1,734
Tax losses carried forward		(5,790)	(24,177)
Reversal of impaired tax losses carried forward		–	(371)
Insurance reserve		(178)	79
Other temporary differences		12,915	(9,227)
Total		**12,200**	**(34,313)**

XIV. Available–for–sale financial assets

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

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 2016	**305,838**	**5,057,435**	**5,363,273**
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 2015	**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:

(€'000)	Fair value		Notional amount	
	Assets	Liabilities	Assets	Liabilities
At 31 December 2017 Foreign exchange derivatives				
– Forward foreign exchange	8,384	23,829	2,402,971	1,274,995
Stock options (Note V to Parent company financial statements)	31	31	57	57
Total	**8,415**	**23,860**	**2,403,028**	**1,275,052**
At 31 December 2016 Foreign exchange derivatives				
– Forward foreign exchange	40,063	32,292	3,949,805	1,647,929
Stock options (Note V to Parent company financial statements)	90	90	246	246
Total	**40,153**	**32,382**	**3,950,051**	**1,648,175**

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)	2016	2017
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		107,608	56,166	14,654	120,449	605	299,482
Additions		13,279	1,968	675	12,875	25	28,822
Capitalisation of dilapidation provision	XIX	–	259	–	–	–	259
Transfer and disposals		(12,190)	(1,763)	(1,814)	(5,846)	(32)	(21,645)
Exchange differences		–	(457)	(57)	(195)	(3)	(712)
At 31 December 2017		**108,697**	**56,173**	**13,458**	**127,283**	**595**	**306,206**
Accumulated depreciation							
At 1 January 2017		(65,906)	(38,997)	(9,418)	(83,909)	(115)	(198,345)
Depreciation charge		(3,104)	(3,661)	(1,400)	(15,804)	(31)	(24,000)
Impairment		–	–	–	(94)	–	(94)
Transfer and disposals		–	1,491	1,810	5,870	5	9,176
Exchange differences		–	311	68	184	8	571
At 31 December 2017		**(69,010)**	**(40,856)**	**(8,940)**	**(93,753)**	**(133)**	**(212,692)**
Net book value at 31 December 2017		**39,687**	**15,317**	**4,518**	**33,530**	**462**	**93,514**

(€'000)	Notes	Land and buildings	Leasehold improvements	Furniture and fixtures	IT equipment	Other equipment	Total
Cost							
At 1 January 2016		106,645	56,463	13,922	139,039	576	316,645
Additions		963	1,082	519	11,640	31	14,235
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		**107,608**	**56,166**	**14,654**	**120,449**	**605**	**299,482**
Accumulated depreciation							
At 1 January 2016		(62,845)	(34,905)	(8,241)	(98,207)	(85)	(204,283)
Depreciation charge		(3,059)	(4,404)	(1,334)	(15,845)	(29)	(24,671)
Transfer and disposals		(2)	6	–	29,692	–	29,696
Exchange differences		–	306	157	451	(1)	913
At 31 December 2016		**(65,906)**	**(38,997)**	**(9,418)**	**(83,909)**	**(115)**	**(198,345)**
Net book value at 31 December 2016		**41,702**	**17,169**	**5,236**	**36,540**	**490**	**101,137**

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

XVIII. Goodwill and intangible assets

(€'000)	Internally developed software	Purchased software	Know–how	Goodwill	Contractual customer relationship	Unpatented technology	Total
Cost							
At 1 January 2017	85,113	79,001	45,952	1,415,228	21,965	59,725	1,706,984
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**	**1,409,134**	**21,965**	**59,725**	**1,729,431**
Accumulated amortisation and impairment							
At 1 January 2017	(10,215)	(51,524)	(45,952)	(539,723)	–	(59,725)	(707,139)
Amortisation charges	(7,915)	(5,756)	–	–	–	–	(13,671)
Impairment charge	(607)	–	–	–	–	–	(607)
Transfer and disposals	3,319	2	–	–	–	–	3,321
Exchange differences	–	235	36	461	–	–	732
At 31 December 2017	**(15,418)**	**(57,043)**	**(45,916)**	**(539,262)**	–	**(59,725)**	**(717,364)**
Net book value at 31 December 2017	**86,468**	**33,762**	**–**	**869,872**	**21,965**	–	**1,012,067**

Cost							
At 1 January 2016	51,840	69,001	46,001	1,425,318	21,965	59,725	1,673,850
Additions	33,452	11,472	–	–	–	–	44,924
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**	**1,415,228**	**21,965**	**59,725**	**1,706,984**
Accumulated amortisation and impairment							
At 1 January 2016	(3,075)	(48,447)	(46,001)	(540,338)	–	(59,725)	(697,586)
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)**	**(539,723)**	–	**(59,725)**	**(707,139)**
Net book value at 31 December 2016	**74,898**	**27,477**	–	**875,505**	**21,965**	**–**	**999,845**

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)	2016	2017
Euroclear UK & Ireland	204,045	203,476
ESES	484,626	484,626
Nordics	208,799	203,735
	897,470	**891,837**

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:

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

XVIII.4. The 2016 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)	Notes	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 and Switzerland). 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 €133,821,000 (2016: €125,652,000) offset by a pension surplus of €541,000 (2016: €540,000). The valuation covered all the plans.

The pension cost in 2017 of €26,482,000 (2016: €20,285,000) 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 €18,282,000 (2016: €4,476,000).

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

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

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)	2016	2017
Present value of funded obligations	(366,558)	(392,493)
Fair value of plan assets	297,786	318,006
	(68,772)	**(74,487)**
Present value of unfunded obligations	(55,667)	(58,207)
Irrecoverable surplus	(673)	(586)
Net pension deficit	**(125,112)**	**(133,280)**

The value of assets in all plans was:

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

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:

		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 2017		**53,637**	**368,588**	**(297,786)**	**70,802**	**673**	**125,112**
Current service cost	X	2,334	21,786	–	21,786	–	24,120
Past service cost	X	216	–	–	–	–	216
Net Interest expense/(income)	VI	909	6,523	(5,286)	1,237	–	2,146
Income statement		**3,459**	**28,309**	**(5,286)**	**23,023**	**–**	**26,482**
Remeasurements							
Experience (gains)/losses		(1,906)	4,055	(8,274)	(4,219)	–	(6,125)
(Gains)/losses due to change in demographic assumptions		–	3,625	–	3,625	–	3,625
(Gains)/losses due to change in financial assumptions		1,305	1,689	–	1,689	–	2,994
Changes in asset ceiling		–	–	–	–	(87)	(87)
Statement of other comprehensive income		**(601)**	**9,369**	**(8,274)**	**1,095**	**(87)**	**407**
Employer's contributions		(407)	(31)	(17,844)	(17,875)	–	(18,282)
Exchange differences		–	(760)	321	(439)	–	(439)
Benefit payments		–	(10,863)	10,863	–	–	–
At 31 December 2017		**56,088**	**394,612**	**(318,006)**	**76,606**	**586**	**133,280**
At 1 January 2016		**44,895**	**280,086**	**(246,429)**	**33,657**	**952**	**79,504**
Current service cost	X	1,885	17,914	–	17,914	–	19,799
Past service cost	VI	–	(1,263)	–	(1,263)	–	(1,263)
Net interest expense/(income)		982	6,437	(5,670)	767	–	1,749
Income statement		**2,867**	**23,088**	**(5,670)**	**17,418**	**–**	**20,285**
Remeasurements							
Experience (gains)/losses		(2,039)	1,284	(4,389)	(3,105)	–	(5,144)
(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**	**72,990**	**(49,034)**	**23,956**	**(279)**	**29,907**
Employer's contributions		(355)	(37)	(4,084)	(4,121)	–	(4,476)
Exchange differences		–	(1,049)	941	(108)	–	(108)
Benefit payments		–	(6,490)	6,490	–	–	–
At 31 December 2016		**53,637**	**368,588**	**(297,786)**	**70,802**	673	**125,112**

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 €4,773,000.

The cumulative actuarial loss recognised in other comprehensive income as at 31 December 2017 was €81,766,000 (2016: €81,359,000).

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

(€'000)	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	2016	2017
Amount credited/(charged) through equity	XIII	9,573	(4,781)
Amount credited/(charged) through the income statement	XIII	5,309	(2,297)
Exchange differences		(91)	(87)
Increase/(decrease) in deferred tax asset		**14,791**	**(7,165)**

XXI. Share capital

Authorised share capital	4,000,000 shares of 1 euro each

Equity shares				Number of shares
Issued, allotted and fully paid share capital	**Ordinary**	**Class 'S'**	**Total**	**(€'000)**
At 1 January 2017	2,728,149	500,120	3,228,269	3,228
Share buy back	(80,806)	–	(80,806)	(81)
At 31 December 2017	2,647,343	500,120	3,147,463	3,147
At 1 January 2016	2,728,149	500,120	3,228,269	3,228
Share buy back	–	–	–	–
At 31 December 2016	2,728,149	500,120	3,228,269	3,228

At 31 December 2017 and 31 December 2016, there was no stock option plan on the shares of Euroclear plc or any subsidiary.

The ordinary shares have attached to them full voting, dividend and capital distribution rights, including on a winding up. They do not confer any rights of redemption.

The class S shares have attached to them voting and capital distribution rights, including on a winding up. They also entitle a simple majority of the holders to appoint and remove a number of 'S' Directors. The holders of the shares are disenfranchised from voting on the appointment of any director of the company other than an 'S' Director. New S shares must be offered to holders of S shares in proportion to their existing holdings. They do not confer any rights of redemption.

80,806 €–denominated ordinary shares with an aggregate nominal value of €80,806 were purchased in 2017. Distributable reserves have been reduced by €58,000,000, being the consideration paid for these shares. The shares have subsequently been cancelled and share capital has been reduced by the aggregate nominal value of the cancelled shares €80,806. The nominal value of the shares cancelled has been transferred to a share capital redemption reserve. No share buyback took place in 2016.

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	Other	Total
At 1 January 2017		115,481	(303)	18,238	(25,472)	114,452	800,217	1,022,613
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		–	–	–	(10,807)	–	–	(10,807)
Transfer to non–distributable reserves		–	–	–	–	105	–	105
At 31 December 2017		**182,876**	**37**	**18,238**	**(36,279)**	**114,557**	**800,217**	**1,079,646**
At 1 January 2016		161,188	1,015	18,238	3,320	104,547	800,217	1,088,525
Fair value adjustments	XIV, XVI	(45,642)	(1,997)	–	–	–	–	(47,639)
Deferred tax on fair value adjustments	XIII	(65)	679	–	–	–	–	614
Foreign currency translation differences		–	–	–	(28,792)	–	–	(28,792)
Transfer to non–distributable reserves		–	–	–	–	9,905	–	9,905
At 31 December 2016		**115,481**	**(303)**	**18,238**	**(25,472)**	**114,452**	**800,217**	**1,022,613**

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 when other group entities moved to the euro as their functional currency. The foreign currency translation reserve also 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.

Other reserves include:

- amounts previously classified as a merger reserve under UK Generally Accepted Accounting Principles (GAAP). Since merger relief accounting is no longer permitted under IFRS, this amount is now classified under Other reserves. As with the merger reserve under UK GAAP, any time there is an impairment charge relating to the goodwill of the relevant subsidiaries, there is a transfer to retained earnings from this reserve for an equal amount, only within Shareholders' equity. In 2010, a transfer of €250,000,000 was made to cover the goodwill impairment relating to Euroclear UK & Ireland. In 2009, the transfer amounted to €85,000,000 and covered the goodwill impairment relating to the Euroclear UK & Ireland and ESES CSD operating segments; and
- €22,267,000 relating to the acquisition of EMXCo in 2006.

XXIII. Dividends paid

€ per share	2016	2017
Equity paid	**36.30**	**37.00**
(€'000)		
Equity paid	**117,186**	**119,446**

See Note XXVII for details of the proposed 2017 equity dividend.

XXIV. Contingent liabilities and commitments

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

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

	2016		2017	
Group company as lessee (€'000)	**Property**	**Vehicles, plant and equipment**	**Property**	**Vehicles, plant and equipment**
Future aggregate minimum lease payments under non–cancellable operating leases:	117,148	38,244	103,665	68,899
– up to one year	18,972	16,555	18,137	18,108
– later than one year and not later than five years	53,272	21,689	47,351	50,791
– over five years	44,904	–	38,177	–
The total sublease payments receivables relating to the above operating leases amounted to €98,622 (2016:€210,619).				
Minimum lease payments recognised as an expense	**17,739**	**18,443**	**18,743**	**19,607**

XXVI. Related party disclosures

Euroclear plc, incorporated in the United Kingdom, is the ultimate parent and controlling party of the Euroclear group. Euroclear plc's investments in its subsidiaries are set out in Note II to the parent company financial statements.

Transactions with related parties, other than those between companies of the group eliminated on consolidation, principally relate to investments in subsidiaries and joint ventures and to key management compensation. Transactions between Euroclear plc, as parent company, and its subsidiaries are described in Note XI to the parent company financial statements.

Besides this, the group considers its Belgian pension fund 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 funds are presented in Note XX.

XXVI.1. Transactions with non–consolidated subsidiaries and joint venture

(€'000)	2016 Other group companies	2016 Joint ventures	2016 Total	2017 Other group companies	2017 Joint ventures	2017 Total
Assets						
Intercompany loan			–	351	–	351
Other assets	–	1,584	1,584	–	744	744
Prepayments and accrued income	–	–	–	3	262	265
Investments in subsidaries and joint ventures	6,294	10,980	17,274	9,871	5,401	15,272
Total assets	**6,294**	**12,564**	**18,858**	**10,225**	**6,407**	**16,632**
Liabilities						
Income statement						
Interest income	2	–	2	–	–	–
Fee and commission income			–	4	–	4
Other operating income	–	4,890	4,890	667	3,819	4,486
Total income statement	**2**	**4,890**	**4,892**	**671**	**3,819**	**4,490**
Off–balance sheet						
Liquidity facility given	(409)	–	(409)	(1,972)	–	(1,972)
Total off–balance sheet	**(409)**	**–**	(409)	**(1,972)**	**–**	**(1,972)**

XXVI.1.a. Administrative support

Certain administrative support costs are periodically recharged to and by other companies within the Euroclear group.

XXVI.1.b. Liquidity facility

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 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/NV 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.2. Key management compensation

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

(€'000)	2016	2017
Short–term employee benefits	17,717	20,529
Post–employment benefits	1,732	2,011
Other long–term benefits	2,562	1,850
Termination benefits	3,102	5,536
Total compensation of key management	**25,113**	**29,926**
Emoluments of non–executive directors	1,329	2,369
Total compensation of key management and directors	**26,442**	**32,295**
Emoluments of highest paid director	575	633

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.

Included in the fees of non–executive directors are fees paid directly to the respective employers of the Euroclear directors, amounting to €556,000 (2016: €139,000).

Seven directors waived the right to receive emoluments totalling €515,000 (2016: nine directors; €248,000).

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 €39.00 (2016: €37.00) per equity share, which will distribute €122,751,000 (2016: €119,446,000) of shareholders' equity. The dividend will be paid on 22 May 2018 to shareholders on the register on 3 April 2018.

Independent auditors' report

to the members of Euroclear plc

Report on the audit of the financial statements

Opinion

In our opinion, Euroclear plc's group financial statements (the "financial statements"):

- give a true and fair view of the state of the group's affairs as at 31 December 2017 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the Consolidated statement of financial position; the Consolidated income statement and Consolidated statement of comprehensive income, the Consolidated statement of cash flows, and the Consolidated statement of changes in equity; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

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

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report
In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements
As explained more fully in the Statement of directors' responsibilities set out on page 50, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

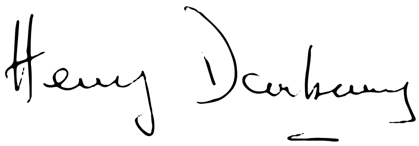
Use of this report
This report, including the opinions, has been prepared for and only for the parent company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- certain disclosures of directors' remuneration specified by law are not made.

We have no exceptions to report arising from this responsibility.



Henry Daubeney (Senior Statutory Auditor) for and on behalf of PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors
London
26 February 2018

Parent company statement of financial position

As at 31 December 2017

(€'000)	Notes	2016	2017
Assets			
Non–current assets			
Investment in subsidiary undertakings	II	1,562,921	1,562,921
Deferred income tax assets	III	67	–
Total non–current assets		**1,562,988**	**1,562,921**
Current assets			
Trade and other receivables	IV	7,369	197
Derivative financial instruments	V	90	31
Loans and advances		269,041	9,065
Current income tax assets		26	11
Total current assets		**276,526**	**9,304**
Total assets		**1,839,514**	**1,572,225**
Equity			
Capital and reserves attributable to equity holders of the parent			
Ordinary shares	VI	3,228	3,147
Share premium		143,223	143,223
Capital redemption reserve		603	684
Other reserves	VII	1,207,848	1,207,848
Retained earnings		368,462	186,378
Total equity		**1,723,364**	**1,541,280**
Liabilities			
Non–current liabilities			
Pension deficit	VIII	461	402
Total non–current liabilities		**461**	**402**
Current liabilities			
Trade and other payables	IX	373	501
Borrowings	XI	100,000	30,000
Current income tax liabilities		15,226	11
Derivative financial instruments	V	90	31
Total current liabilities		**115,689**	**30,543**
Total liabilities		**116,150**	**30,945**
Total equity and liabilities		**1,839,514**	**1,572,225**

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

Statement of changes in equity

(€'000)	Called up share capital	Share premium account	Capital redemption reserve	Other reserves	Retained earnings	Total equity
At 1 January 2017	**3,228**	**143,223**	**603**	**1,207,848**	**368,462**	**1,723,364**
Profit for the year (Note I)	–	–	–	–	(4,628)	(4,628)
Share buyback	(81)	–	81	–	(58,000)	(58,000)
Dividends paid (Note XXIII to Euroclear plc consolidated financial statements)	–	–	–	–	(119,446)	(119,446)
Pension reserve	–	–	–	–	(10)	(10)
At 31 December 2017	**3,147**	**143,223**	**684**	**1,207,848**	**186,378**	**1,541,280**

At 1 January 2016	**3,228**	**143,223**	**603**	**1,207,848**	**258,487**	**1,613,389**
Profit for the year (Note I)	–	–	–	–	227,172	227,172
Dividends paid (Note XXIII to Euroclear plc consolidated financial statements)	–	–	–	–	(117,186)	(117,186)
Pension reserve	–	–	–	–	(11)	(11)
At 31 December 2016	**3,228**	**143,223**	**603**	**1,207,848**	**368,462**	**1,723,364**

Statement of cash flows

(€'000)	Notes	2016	2017
Profit before income tax		**242,329**	**(4,392)**
Adjustments for:			
– Interest on redeemable preference shares		–	–
– Interest income		(48)	(73)
Other non–cash movements		(4)	(196)
– Interest received		51	203
Changes in working capital:			
– Trade and other receivables	IV	(940)	7,172
– Trade and other payables	IX	(852)	128
Cash generated from operations		**240,536**	**2,842**
Income tax paid		(3,564)	(15,372)
Net cash generated from operating activities		**236,972**	**(12,530)**
Cash flows from financing activities			
Net (increase)/decrease in loans and advances		(82,000)	115,000
Loans from related party		100,000	–
Reimbursement of loans from related party		–	(70,000)
Share buyback (Note XXII of Euroclear plc consolidated financial statements)		–	(58,000)
Dividends paid to the Company's shareholders (Note XXIII of Euroclear plc consolidated financial statements)		(117,186)	(119,446)
Net cash used in financing activities		**(99,186)**	**(132,446)**
Net (decrease) / increase in cash and cash equivalents		**137,786**	**(144,976)**
Cash and cash equivalents at beginning of the year		16,255	154,041
Cash and cash equivalents at end of the year		**154,041**	**9,065**
of which cash at bank and on hand		144,039	9,065
of which short–term bank deposits		10,002	–

Reconciliation of liabilities arising from financing activities

(€'000)	2016	Cash flows	2017
Borrowings	100,000	(70,000)	30,000

The amount placed with related parties at 31 December 2017 was €13,000 (2016: €9,000) (Note XI).

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

Notes to the parent company financial statements

I. Group profit dealt with in the accounts of Euroclear plc

For 2017, a loss after tax of €4,628,000 (2016: profit of €227,172,000) of the group's overall profit attributable to equity shareholders was recorded in the accounts of Euroclear plc. As permitted by Section 408 of the Companies Act 2006, the income statement of Euroclear plc has not been presented separately.

II. Investments in subsidiary undertakings

(€'000)	2016	2017
At 31 December	1,562,921	1,562,921

At 31 December 2017, Euroclear plc had the following interests in the issued ordinary share capital of subsidiary undertakings.

	Address of registered office	Nature of business	Proportions of voting rights and ordinary shares held
Consolidated subsidiaries			
Caisse interprofessionelle de dépôts et de virements de titres SA (1)	1 Boulevard du Roi Albert II, 1210 Brussels, Belgium	Central Securities Depository for Belgium	100%
Calar Belgium SA/NV (2)	1 Boulevard du Roi Albert II, 1210 Brussels, Belgium	Property Investment	100%
EMX Company Limited (1)	Watling House, 33 Cannon Street, EC4M5SB London, United Kingdom	Dormant	100%
Euroclear Bank SA/NV (1)	1 Boulevard du Roi Albert II, 1210 Brussels, Belgium	Banking, securities settlement and custody services	100%
Euroclear Finland Oy (1)	Urho Kekkosen katu 5 C, 00100 Helsinki, Finland	Central Securities Depository for Finland	100%
Euroclear France SA (1)	66 rue de la Victoire 75009 Paris, France	Central Securities Depository for France	100%
Euroclear International Services Limited (1)	Watling House, 33 Cannon Street, London EC4M 5SB, United Kingdom	Dormant	100%
Euroclear Investments	12 Rue Eugène Ruppert, 2453 Luxembourg,	Investment holding	100%
Euroclear Market Solution Limited (1)	Watling House, 33 Cannon Street, London EC4M 5SB, United Kingdom	Proprietary services	100%
Euroclear Properties France SAS (2)	66 rue de la Victoire 75009 Paris, France	Property Investment	100%
Euroclear Re SA (2)	12 rue Eugène Ruppert,, 2453 Luxembourg	Reinsurance	100%
Euroclear SA/NV (2)	1 Boulevard du Roi Albert II, 1210 Brussels, Belgium	(I)CSD holding company, ownership of share processing platforms and delivery of shared non–operational services	100%
Euroclear Sweden AB (1)	PO Box 7822, Regeringsgatan 65, 103 97 Stockholm, Sweden	Central Securities Depository for Sweden	100%
Euroclear UK & Ireland Limited (1)	Watling House, 33 Cannon Street, London EC4M 5SB, 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)	Herengracht 459–469, 1017 BS Amsterdam, The Netherlands	Central Securities Depository for the Netherlands	100%
Number of wholly owned subsidiaries			15
Number of non–wholly owned subsidiary			0
Total subsidiaries			**15**

(1) Held through Euroclear SA/NV

(2) Held through Euroclear Investments

	Address of registered office	Nature of business	Proportions of voting rights and ordinary shares held
Non–consolidated subsidiaries			
CIN(Belgium) Limited[1]	Watling House, 33 Cannon Street, London EC4M 5SB, United Kingdom	Nominee company	100%
CREST Client Tax Nominee(No.1) Limited[1]	Watling House, 33 Cannon Street, London EC4M 5SB, United Kingdom	Nominee company	100%
CREST USD Nominee Limited[1]	Watling House, 33 Cannon Street, London EC4M 5SB, United Kingdom	Nominee company	100%
CREST Depository Limited[2]	Watling House, 33 Cannon Street, London EC4M 5SB, United Kingdom	Nominee company	100%
CREST International Nominees Limited[1]	Watling House, 33 Cannon Street, London EC4M 5SB, United Kingdom	Nominee company	100%
CREST Stamp Nominee(No.1) Limited[2]	Watling House, 33 Cannon Street, London EC4M 5SB, United Kingdom	Nominee company	100%
CREST Stamp Nominee(No.2) Limited[2]	Watling House, 33 Cannon Street, London EC4M 5SB, United Kingdom	Nominee company	100%
CRESTCo Limited[2]	Watling House, 33 Cannon Street, London EC4M 5SB, United Kingdom	Nominee company	100%
EC Nominees Limited[3]	Watling House, 33 Cannon Street, London EC4M 5SB, United Kingdom	Nominee company	100%
ENL Nominee Limited[5]	Watling House, 33 Cannon Street, London EC4M 5SB, United Kingdom	Nominee company	100%
EOC Equity Limited[3]	Watling House, 33 Cannon Street, London EC4M 5SB, United Kingdom	Nominee company	100%
Euroclear Nominees Limited[3]	Watling House, 33 Cannon Street, London EC4M 5SB, United Kingdom	Nominee company	100%
Euroclear Treasury Nominee Limited[3]	Watling House, 33 Cannon Street, London EC4M 5SB, United Kingdom	Nominee company	100%
Fundsettle EOC Nominees Limited[3]	Watling House, 33 Cannon Street, London EC4M 5SB, United Kingdom	Nominee company	100%
Quantessence Limited4[4]	Watling House, 33 Cannon Street, London EC4M 5SB, United Kingdom	Proprietary services	50%–35%
Taskize Limited[4]	Watling House, 33 Cannon Street, London EC4M 5SB, United Kingdom	Proprietary services	76%
Trinity Nominees Limited[2]	Watling House, 33 Cannon Street, London EC4M 5SB, United Kingdom	Nominee company	100%

[1] Held through CREST Depository Limited
[2] Held through Euroclear UK & Ireland
[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. Euroclear SA/NV owns 35% of the shares, representing 50% of the voting rights with a casting vote. 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 €0.7 million.

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

III. Deferred income tax assets

(€'000)	2016	2017
Defined benefit plan	67	–
Total	**67**	**–**

A deferred tax asset has been recognised on the defined benefit plan liability (see Note III)

IV. Trade and other receivables

7,335	Notes	2016	2017
Non–current assets			
Current assets			
Accrued fee income from related parties	XI	7,335	134
Pre–payments		27	45
Other assets		7	18
Total		**7,369**	**197**

The fair value of the current trade and other receivables equals their carrying amount as at 31 December 2017. No trade and other receivables were impaired or past due as at 31 December 2017.

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivable mentioned above.

V. Derivative financial instruments

At 31 December 2017 and 31 December 2016, the fair value and the notional amounts of the Company's derivative financial instruments were as follows:

	Fair value		Notional amount	
(€'000)	**Assets**	**Liabilities**	**Assets**	**Liabilities**
At 31 December 2017 Stock options	31	31	57	57
Total	**31**	**31**	**57**	**57**
At 31 December 2016 Stock options	90	90	246	246
Total	**90**	**90**	**246**	**246**

All derivatives are classified as a current asset or liability held for trading as at 31 December 2017 and 31 December 2016.

The maximum exposure to credit risk at the reporting date is the fair value of the derivative assets on the balance sheet.

The Belgian–based members of the Euroclear SA/NV and Euroclear Bank Management Committees and certain members of senior management participate in a stock option scheme (not involving shares of any Euroclear group company) managed by the Board of Directors of Euroclear plc.

VI. Share capital

For details, see Note XXI to the Euroclear plc consolidated financial statements.

VII. Other reserves

(€'000)	Non– distributable capital reserve	Foreign currency translation reserve	Other reserves	Total
At 1 January 2017	10,752	(2,111)	1,199,207	1,207,848
At 31 December 2017	**10,752**	**(2,111)**	**1,199,207**	**1,207,848**
At 1 January 2016	10,752	(2,111)	1,199,207	1,207,848
At 31 December 2016	**10,752**	**(2,111)**	**1,199,207**	**1,207,848**

Other reserves include €1,176,940,000 classified as a merger reserve under UK Generally Accepted Accounting Principles (GAAP). Since merger relief accounting is no longer permitted under IFRS, this amount is now classified under Other reserves. The remaining €22,267,000 relates to the acquisition of Euroclear Belgium in 2006.

VIII. Pension deficit

(€'000)	2016	2017
Defined benefit plan	461	402
Total	**461**	**402**

The plan relates to annuity pensions payable to the spouse of a former Executive Secretary.

IX. Trade and other payables

(€'000)	Notes	2016	2017
Amounts due to related parties	XI	4	170
Social security and other taxes		92	120
Accruals and deferred income		75	198
Other liabilities		202	13
Total		**373**	**501**

X. Contingent liabilities and commitments

Commitments (contract amount) (€'000)	Notes	2016	2017
Liquidity facility provided to subsidiary – one year or less	XII	20,000	–

The Company had contractually committed to make a liquidity facility of up to €20,000,000 available to Euroclear SA/NV.

This facility was terminated in April 2017.

XI. Related–party transactions

Euroclear plc is the ultimate parent and the controlling party of the Euroclear group. Investments in its subsidiaries are set out in Note II.

The following is a summary of the balances relating to transactions with Euroclear plc's subsidiaries included in its financial statements:

(€'000)	Notes	2016	2017
Assets			
Non–current assets		**1,562,921**	**1,562,921**
Investment in subsidiaries	II	1,562,921	1,562,921
Current assets		**7,344**	**147**
Trade and other receivables	IV	7,335	134
Loans and deposits		9	13
Total assets		**1,570,265**	**1,563,068**
Liabilities			
Current liabilities			
Trade and other payables	IX	192	170
Borrowings		100,000	30,000
Total liabilities		**100,192**	**30,170**
Income statement			
Revenues		27,285	10
Administrative expenses		(2,039)	(1,331)
Other income		131,400	134
Finance income		87,459	61
Finance expense		–	(3)
Total income statement		**244,105**	**(1,129)**
Off–balance sheet			
Liquidity facility provided	X	20,000	–
Total off–balance sheet		**20,000**	**–**

Further details of the transactions with related parties and of key management compensation are provided overleaf.

XI.1. Transactions with subsidiaries

XI.1.a. Bank accounts and term deposits

Euroclear plc also has sight and unsecured short–term deposit accounts at Euroclear Bank. The deposits are remunerated at market rates of interest.

No provisions have been recognised in respect of these deposits.

XI.1.b. Intragroup borrowing

In December 2016, Euroclear Investments made a six–month loan amounting to €100,000,000 to Euroclear plc in order to ensure proper diversification of the proceeds stemming from the issue of the €600,000,000 unsecured senior debt instrument on the market. €70,000,000 have been reimbursed on 19 December 2017 and €30,000,000 has been extended until 19 June 2018.

XI.1.c. Administrative support

Certain administrative support costs are periodically recharged to and by other companies within the Euroclear group.

XI.1.d. 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 sublicence the Euroclear trademarks. 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 license 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.

XI.1.e. Liquidity facility

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.

XI.1.f. Joint venture

At 31 December 2017 and 2016, there was no related party transaction with DTCC–Euroclear Global Collateral Ltd.

XII.2. Key management compensation

The compensation of key management was as follows:

830	2016	2017
Short–term employee benefits	312	301
Post–employment benefits	51	50
	363	**351**
Fees of non–executive directors	467	890
Total	**830**	**1,241**

Further information relating to directors' emoluments can be found in Note XXVI to the Euroclear plc consolidated financial statements. No loans or similar transactions occurred with directors, key management or their close family members.

XII. Events after the balance sheet date

XII.1. Proposed dividend

On 22 February 2018, the directors resolved to propose a dividend in respect of the financial year ending 31 December 2017 of €39.00 (2016: €37.00) per equity share, which will distribute €122,751,000 (2016: €119,446,000) of shareholders' equity. The dividend will be paid on 22 May 2018 to shareholders on the register on 3 April 2018.

Independent auditors' report

to the members of Euroclear plc

Report on the audit of the financial statements

Our opinion

In our opinion, Euroclear plc's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the Parent company statement of financial position; the Statement of cash flows, the Statement of changes in equity; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

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

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.
In light of the knowledge and understanding of the company and its environment obtained in the course

of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities set out on page 50, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

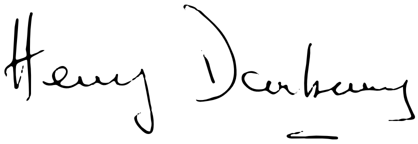
Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



Henry Daubeney (Senior Statutory Auditor) for and on behalf of PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors London

26 February 2018

euroclear.com

Euroclear is a carbon neutral company – PAS2060 certified

MA4130 – 2018