

State Street Bank
Luxembourg S.C.A.

Pillar 3 Disclosure Report

as of 31 December 2018

In accordance with the requirements
of Regulation 2013/575/EU



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1 Introduction

1.1 Background

The regulatory framework concerning capital adequacy of internationally active banks (“Basel II”) published by the Basel Committee on Banking Supervision in 2004 outlines three mutually supporting pillars to ensure stability of the national and international banking systems.

The framework establishes a more risk-sensitive approach to capital management and is composed of three pillars:

- Pillar 1 establishes rules for the calculation of minimum capital requirements for credit, market and operational risk;
- Pillar 2 requires firms and supervisors to take a view on whether a firm needs to hold additional capital against risks not adequately covered in Pillar 1 or not covered at all;
- Pillar 3 complements the other pillars and effects market discipline through public disclosure. Expanded disclosure about capital and risk enables interested parties to gauge the capital and liquidity adequacy and risk profile of individual banks and to make comparisons.

Legal requirements on disclosure have been enhanced with the European implementation of Basel III, more specifically the Regulation EU No. 575/2013 on prudential requirements for credit institutions and investment firms (“CRR”), as well as the Directive 2013/36/EU on access to the activity of credit institutions, the prudential supervision of credit institutions and investment firms (“CRD IV”) which became effective on 1 January 2014.

Part 8 of the CRR is dedicated to the disclosure requirements of banks and requires State Street Bank Luxembourg S.C.A. (“the Bank” or “SSBL”) to publish qualitative and quantitative information in respect to own funds, the risks taken, and the risk management processes applied including the internal methodologies used in accordance with Art. 143 CRR, the methods used to mitigate credit risk, information on liquidity coverage ratio, encumbered and unencumbered assets, securitization transactions and information on remuneration.

This Pillar 3 Disclosure Report has been prepared by SSBL and is intended to provide market participants with key information with respect to the risk exposures, risk assessment processes and capital and liquidity adequacy of SSBL as of 31 December 2018.

The following regulatory references have been considered in the preparation of the Pillar 3 Disclosure Report:

- Implementing Technical Standards (“ITS”) on Disclosure for Own Funds: Commission Implementing Regulation (EU) No 1423/2013 of 20 December 2013 laying down implementing technical standards with regard to disclosure of own funds requirements for institutions according to Regulation (EU) No 575/2013 of the European Parliament and of the Council;
- Commission Implementing Regulation (EU) 2016/200 of 15 February 2016 laying down implementing technical standards with regard to disclosure of the leverage ratio for institutions, according to Regulation (EU) No 575/2013 of the European Parliament and of the Council;
- Commission Delegated Regulation (EU) 2015/1555 of 28 May 2015 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for the disclosure of information in relation to the compliance of institutions with the requirement for a countercyclical capital buffer in accordance with Art. 440;
- Guidelines on Disclosure of Encumbered and Unencumbered Assets EBA/GL/2014/03 of 27 June 2014;
- CSSF Circular 17/673 referring to Guidelines on Disclosure requirements under part eight of Regulation (EU) of 14 December 2016 as amended on 9 June 2017;
- CSSF Circular 18/676 referring to Guidelines on LCR Disclosure to complement the disclosure of Liquidity Risk Management under Article 435 of Regulation (EU) No 575/2013 EBA/GL/2017/01 of 8 March 2017.

1.2 State Street Bank Luxembourg S.C.A.

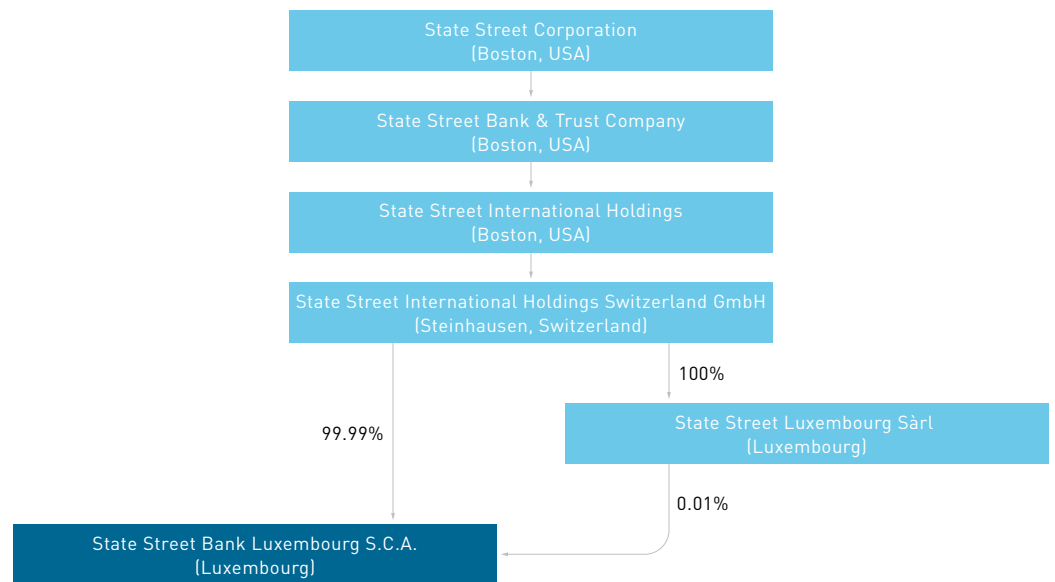
State Street Bank Luxembourg (“SSBL” or “the Bank”) was established in 1990 before notary, as a public company limited by shares (“société anonyme”) under Luxembourg law and registered in the “Registre de Commerce et des Sociétés à Luxembourg”. The Bank is headquartered in Luxembourg (Grand Duchy of Luxembourg) and its registered office is located at 49, avenue J.F. Kennedy, 1855 Luxembourg. SSBL has a long history of providing Custody, Depositary, Transfer Agency and Fund Administration services in Luxembourg. SSBL is an indirect, wholly-owned subsidiary of State Street Corporation (“SSC”) and State Street Bank and Trust Company (“SSBT”) and is a subsidiary of State Street International Holdings Switzerland GmbH (99.99%) and State Street Luxembourg Sàrl (0.01%).

SSC, SSBT and State Street International Holdings are subject to the supervision and regulation by the Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation, among other US regulatory authorities. State Street has to ensure that SSBL satisfies certain US laws and regulations as a subsidiary of a U.S. bank. This compliance requirement is in addition to the laws and regulations of Luxembourg.

SSBL is a credit institution formed under the law of 5 April 1993 of Luxembourg and is subject to primary supervision and regulation by the Commission de Surveillance du Secteur Financier (“CSSF”) and the Banque Centrale du Luxembourg (“BCL”).

The SSBL organizational structure as of 31 December 2018 is accordingly the following:

Exhibit 1-1:
State Street Bank
Luxembourg S.C.A
Shareholding
Structure as of
31 December 2018



2 Scope

2.1 Application of Disclosure Requirements (Art. 13 CRR)

As a less significant supervised entity which is not part of a significant supervised group (at European level), SSBL provides regulatory reporting to the CSSF on an individual basis as a credit institution established under Luxembourg law (without branches) and complies with all requirements of Regulation EU No. 575/2013 and Directive 2013/36/EU.

SSBL has no European parent institution producing a Pillar 3 Disclosure Report and therefore produces a Pillar 3 Disclosure Report at its individual level as per Art. 13 CRR.

2.2 Frequency and Means of Disclosure (Art. 433 and 434 CRR)

SSBL publishes the Pillar 3 Disclosure Report in accordance with Art. 433 CRR on an annual basis. The report is made available according to Art. 434 CRR on the website of SSBL at <http://www.statestreet.com/utility/luxembourg/legal-disclosure.html>.

2.3 Scope of Application (Art. 436 CRR)

This report includes only State Street Bank Luxembourg S.C.A. This legal entity has no subsidiaries or branches. All information in this report is disclosed in Euro being the legal entity accounting and reporting currency.

2.4 Indicators of Global Systemic Importance (Art. 441 CRR)

As per the 2018 update of the list of global systemically important banks (“G-SIBs”) published on 16 November 2018 by the Financial Stability Board (“FSB”) in consultation with the Basel Committee on Banking Supervision (“BCBS”)¹, State Street Bank (group level) has been allocated to the 1% bucket corresponding to required level of additional loss absorbency. Consequently SSBL in the context of its Risk Appetite has considered a systemic risk buffer of 1% to its internal capital requirements as per Art. 131.8 CRD IV.

¹ <http://www.fsb.org/wp-content/uploads/P161118-1.pdf>.

2.5 Supervisory Review and Evaluation Process (“SREP”) Buffer Requirements

As per CSSF letter dated from 14 November 2017, SSBL has no obligation to hold own funds in excess of the capital requirements set out in Art. 92(1) of Regulation (EU) No. 575/2013 and in Part III, Chapter 5 of the law of 5 April 1993 on the financial sector with effect from 1 January 2018. This decision overrules the previous decision from ECB (communicated by letter dated 20 November 2015), setting an additional requirement of 1.25% with effect from 1 January 2016.

2.6 Institution-specific Countercyclical Capital Buffer

As of 31 December 2018, the institution-specific countercyclical capital buffer to be considered amounts to zero.

3 Own Funds

3.1 Structure of Own Funds (Art. 437 CRR)

Own funds are calculated pursuant to Art. 72 CRR: own funds consist of the sum of Tier 1 capital (Common Equity Tier 1 ("CET1") and Additional Tier 1 capital) and Tier 2 capital.

The nature and amounts of prudential filters, deductions, restrictions applied to the calculation of own funds in accordance with Art. 437 (1) lit. d and e CRR follows Annex VI of Commission Implementing Regulation (EU) No. 1423/2013:

Exhibit 3-1: Transitional Own Funds Disclosure Template (in kEUR)

Common Equity Tier 1 Capital: Instruments and Reserves		
1	Capital instruments and the related share premium accounts	65,001
2	Retained earnings	508,996
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	573,997
Common Equity Tier 1 (CET1) Capital: Regulatory Adjustments		
8	Intangible assets (net of related tax liability) (negative amount)	(250,242)
28	Total regulatory adjustments to Common equity Tier 1 (CET1)	(250,242)
29	Common Equity Tier 1 (CET1) capital	323,755
Additional Tier 1 (AT1) Capital: Instruments		
36	Additional Tier 1 (AT1) capital before regulatory adjustments	-
Additional Tier 1 (AT1) Capital: Regulatory Adjustments		
43	Total regulatory adjustments to Additional Tier 1 (AT1) capital	-
44	Additional Tier 1 (AT1) capital	-
45	Tier 1 capital (T1 = CET1 + AT1)	323,755
Tier 2 (T2) Capital: Instruments and Provisions		
51	Tier 2 (T2) capital before regulatory adjustments	-
Tier 2 (T2) Capital: Regulatory Adjustments		
57	Total regulatory adjustments to Tier 2 (T2) capital	-
58	Tier 2 (T2) capital	-
59	Total capital (TC = T1 + T2)	323,755
59a	Risk weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e., CRR residual amounts)	923,755
60	Total risk weighted assets	923,755

Exhibit 3-1: Transitional Own Funds Disclosure Template (in kEUR) (continued)**Capital Ratios and Buffers**

61	Common Equity Tier 1 (as a percentage of risk exposure amount)	35.05%
62	Tier 1 (as a percentage of risk exposure amount)	35.05%
63	Total capital (as a percentage of risk exposure amount)	35.05%
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer (G-SII or O-SII buffer), expressed as a percentage of risk exposure amount)	2.50%
65	of which: capital conservation buffer requirement	2.50%
66	of which: countercyclical buffer requirement	0.00%
67	of which: systemic risk buffer requirement	0.00%
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	0.00%

As of 31 December 2018, SSBL own funds are only made of Common Equity Tier 1 instruments. The main features of the CET1 instruments are summarized following Annex II of the Commission Implementing Regulation (EU) No. 1423/2013:

Exhibit 3-2: Capital Instruments Main Features**Capital instruments main features template pursuant to Art. 437 (1) (b) CRR in conjunction with Article 3 of Commission Implementing Regulation (EU) No 1423/2013**

No.	Capital instruments main features template	Capital Instrument 1
1	Issuer	State Street Bank Luxembourg S.C.A.
2	Unique identifier (e.g., CUSIP, ISIN or Bloomberg identifier for private placement)	Not Applicable
3	Governing law(s) of the instrument	Luxembourg
Regulatory Treatment		
4	Transitional CRR rules	Common Equity Tier 1
5	Post-transitional CRR rules	Common Equity Tier 1
6	Eligible at solo/(sub-)consolidated/solo & (sub-)consolidated	Solo
7	Instrument type (types to be specified by each jurisdiction)	Capital
8	Amount recognized in regulatory capital	65,001,138 €
9	Nominal amount of instrument	65,001,138 €
9a	Issue price	162.5 €
9b	Redemption price	Not Applicable
10	Accounting classification	Shareholder's equity
11	Original date of issuance	Not Applicable
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	Not Applicable
16	Subsequent call dates, if applicable	Not Applicable
Coupons/dividends		Not Applicable

SSBL capital (subscribed and paid-in capital amounts) amounts to EUR 65,001,138 divided into 400,007 shares, each fully paid-up.

As per Annex I of the Commission Implementing Regulation (EU) No. 1423/2013, SSBL has defined the following method to reconcile own funds with the audited balance sheet of 31 December 2018:

- Total Equity Breakdown;
- Equity elements not considered in own funds calculation;
- Deductions and Adjustments Breakdown.

The sum of all above mentioned elements must reconcile with the total own funds as reported to the regulator.

Exhibit 3-3: Balance Sheet Reconciliation Methodology

Own Funds reconciliation	in kEUR
Total Equity breakdown	727,294
Subscribed and paid up capital	65,001
Reserves including retained earnings	508,996
Income from current year	153,297
(-) Equity elements not considered	(153,297)
(-) Part of interim or year-end profit not eligible	(153,297)
(-) Deductions breakdown	(250,242)
(-) Goodwill accounted for as intangible asset	(164,854)
Deferred tax liabilities associated to goodwill	3,535
(-) Other intangible assets gross amount	(108,679)
Deferred tax liabilities associated to other intangible assets	19,755
Total Common Equity Tier 1 Capital	323,755
Total Tier 1 Capital	323,755
Total Own Funds	323,755

3.2 Leverage Ratio

As of 31 December 2018, the Leverage Ratio is 59.32% using the fully phased-in definition of Tier 1, which exceeds the regulatory minimum requirements of 3%. SSBL high leverage ratio percentage is explained by a high Tier 1 capital compared to the total balance sheet size.

Exhibit 3-4: CRR Leverage Ratio – Disclosure Template (in kEUR)

Table LRSum: Summary Reconciliation of Accounting Assets and Leverage Ratio Exposures		Applicable Amounts
1	Total assets as per published financial statements	787,702
6	Adjustment for off-balance sheet items (i.e., conversion to credit equivalent amounts of off-balance sheet exposures)	8,339
7	Other adjustments	(250,242)
8	Total leverage ratio exposure	545,799
Table LRCom: Leverage Ratio Common Disclosure		CRR leverage ratio exposures
On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	787,702
2	(Asset amounts deducted in determining Tier 1 capital)	(250,242)
3	Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)	537,460
Other Off-Balance Sheet Exposures		
17	Off-balance sheet exposures at gross notional amount	8,339
19	Other off-balance sheet exposures (sum of lines 17 to 18)	8,339
Capital and Total Exposures		
20	Tier 1 capital	323,755
21	Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)	545,799
Leverage Ratio		
22	Leverage ratio	59.32%
Choice on Transitional Arrangements and Amount of Derecognized Fiduciary Items		
EU-23	Choice on transitional arrangements for the definition of the capital measure	Fully Phased

Exhibit 3-5: CRR Leverage Ratio – Quality Review

Table Leverage Ratio Quality		
1	Description of the processes used to manage the risk of excessive leverage.	Monitoring of Balance Sheet evolution and Assets/Liabilities Management.
2	Description of the factors that had an impact on the leverage Ratio during the period to which the disclosed leverage Ratio refers.	Over the reference period, the leverage ratio was mainly influenced by the balance sheet organic growth and the Net Income Before Tax increase.

3.3 Capital Adequacy

Regulatory and economic capital management both use key metrics evaluated by management to ensure that SSBL's actual level of capital is commensurate with its risk profile, is in compliance with all regulatory requirements, and is sufficient to provide SSBL with the financial flexibility to undertake future strategic business initiatives.

SSBL uses the Standardized Approach for credit risk, market risk and operational risk to determine its minimum capital requirements, in accordance with the CRR.

3.3.1 Internal Capital Adequacy Assessment Process ("ICAAP")

SSBL conducts an ICAAP for measuring the risks to which SSBL is exposed and for monitoring the adequacy of its capital over the three-year projected period. The ICAAP process, in which the Internal Liquidity Assessment Process ("ILAAP") has been integrated, is intended to confirm SSBL's capital adequacy and liquidity by demonstrating the appropriateness of its risk management practices which are employed to manage all risks related to achieving the SSBL's business objectives. The purpose of the ICAAP is to provide confidence around SSBL's sound business and risk management practices. The ICAAP is reviewed at least annually as part of the business planning cycle or following any significant change to the business strategy and/or the risk profile.

Risk management and capital planning are established disciplines at SSBL and the regulatory requirements are complied with by regularly enhancing these existing processes. The ICAAP methodology adopted by SSBL also complies with corporate and local guidelines and procedures.

3.3.2 Regulatory Requirement for Credit Risk (Art. 438c & Art. 444 CRR)

SSBL uses the Standardized Approach for credit risk to determine its minimum capital requirements, in accordance with the CRR.

The following table sets forth SSBL's Pillar 1 capital requirement expressed as the 8% risk-weighted exposure amounts for each of the applicable standardized credit risk exposure classes as of 31 December 2018.

Exhibit 3-6: Credit Risk Requirements

Exposure class	Balance Sheet Exposure amounts in kEUR	Risk Weighted Exposure amounts in kEUR	Capital Requirements in kEUR
Standardized Approach (SA)			
Central governments or central banks	316,355	–	–
Institutions	34,193	6,838	547
Corporates	165	165	13
Other Items	173,592	108,012	8,641
Total Regulatory Requirement for Credit Risk	524,305	115,015	9,201

To determine the risk weighting for credit risk applying the Standardized Approach, the Bank has nominated Standard & Poor's Ratings Services for exposure classes mentioned in the above table.

As of 31 December 2018, the institution-specific countercyclical capital buffer rate to be applied to SSBL's assets is 0% since SSBL has exposure to countries where the countercyclical capital buffer rate is 0% as outlined in the table below. In addition, as presented below, the institution-specific countercyclical capital buffer rate is also 0% since Luxembourg's rate applied is 0%.

Exhibit 3-7: Countercyclical Capital Buffer

Table 1 : Geographical Distribution of Credit Exposures Relevant for the Calculation of the Countercyclical Capital Buffer in kEUR

Row	General credit exposures		Trading book exposure		Securitization exposure		Own funds requirements			Total	Own funds requirement weights	Countercyclical capital buffer rate
	Exposure value for SA	Exposure value IRB	Sum of long and short position of trading book	Value of trading book exposure for internal models	Exposure value for SA	Exposure value for IRB	Of which: General credit exposures	Of which: Trading book exposures	Of which: Securitization exposures			
	10	20	30	40	50	60	70	80	90	100	110	120
10	Breakdown by country											
	Germany	165	-	-	-	-	13	-	-	13	0.15%	0%
	Luxembourg	173,592	-	-	-	-	8,641	-	-	8,641	99.85%	0%
	Total	173,757	-	-	-	-	8,654	-	-	8,654		0%

Table 2: Amount of Institution-specific Countercyclical Capital Buffer in kEUR

Row	Column 10
10	Total risk exposure amount
20	Institution specific countercyclical buffer rate
30	Institution specific countercyclical buffer requirement
Total	923,755

3.3.3 Regulatory Requirement for Market Risk (Art. 445 and 438e CRR)

SSBL uses the Standardized Approach for market risk to determine its minimum capital requirements, in accordance with the CRR.

Currently SSBL is only exposed to Foreign Exchange (“FX”) risk for which the Standardized Approach is used. FX risk arises as a result of movements and balances in relative values of various currencies. As per Art. 352 CRR, if the overall net currency position exceeds 2% of the credit institution’s own funds, capital requirement shall be applied in respect of FX risk.

As of 31 December 2018, the net currency position considered for FX risk is a short position of EUR 73.1 Mio, which is above the 2% of Eligible Own Funds threshold (EUR 6.5 Mio) and represents a capital charge of EUR 5.8 Mio.

The capital requirement for market risk in accordance with Art. 445 CRR amounts to:

Exhibit 3-8: Market Risk Requirements

Risk type	Risk Weighted Exposure amounts in kEUR	Capital Requirements in kEUR
Foreign Exchange	73,061	5,845
Total Regulatory Requirement for Market Risk	73,061	5,845

3.3.4 Regulatory Requirement for Operational Risk (Art. 446 CRR)

SSBL uses the Standardized Approach for operational risk to determine its minimum capital requirements, in accordance with the CRR.

As of 31 December 2018, the only applicable business line involved in the operational risk charge calculation is Agency services (15 percent of risk weight). The capital requirement for operational risk as per the Standardized Approach in accordance with Art. 317 CRR amounts to:

Exhibit 3-9: Operational Risk Requirements

Risk type	Risk Weighted Exposure amounts in kEUR	Capital Requirements in kEUR
Operational risk	735,678	58,854
Total Regulatory Requirement for Operational Risk	735,678	58,854

3.3.5 Total Regulatory Capital Requirements

The overall regulatory capital requirement for all risk types of Pillar 1 in accordance with Art. 92 CRR are illustrated as follows:

Exhibit 3-10: Overview of Global Requirements

Risk type	Risk Weighted Exposure amounts in kEUR	Capital Requirements in kEUR
Credit risk (excluding counterparty credit risk)	115,015	9,201
Of which Standardized Approach (SA)	115,015	9,201
Market risk	73,061	5,845
Of which Standardized Approach (SA)	73,061	5,845
Operational risk	735,678	58,854
Of which Standardized Approach (SA)	735,678	58,854
Total Regulatory Requirement	923,755	73,900

3.3.6 CET Tier 1, Tier 1 and Total Capital Ratios and Buffers (Art. 440 CRR)

The Common Equity Tier 1, the Tier 1 and Total Capital Ratios of SSBL as of 31 December 2018 are as follows:

Exhibit 3-11: Capital Ratios

Ratio	Required Min 2018	Combined Buffer 2018	SREP Add on 2018	Required Ratio 2018	SSBL 2018
CET1 Capital ratio	4.50%	2.50%	0.00%	7.00%	35.05%
T1 Capital ratio	6.00%	2.50%	0.00%	8.50%	35.05%
Total Capital Ratio (%)	8.00%	2.50%	0.00%	10.50%	35.05%

As of 31 December 2018, the combined buffer requirement is 2.50% (including the Capital Conservation buffer (2.50%) and the SSBL's specific countercyclical capital buffer (0%)).

As per CSSF letter dated from 14 November 2017, SSBL has no obligation to hold own funds in excess of the capital requirements set out in Art. 92(1) of Regulation (EU) No. 575/2013 and in Part III, Chapter 5 of the law of 5 April 1993 on the financial sector with effect from 1 January 2018. SSBL has consequently no SREP add-on requirement (for more information see Section 2.5).

4 Risk Management

4.1 Structure and Organization of Risk Management (Art. 435 CRR)

4.1.1 Board of Directors

The Board of Directors has the overall responsibility for the strategic decisions and management of SSBL. The Board of Directors of SSBL is responsible for approving and overseeing the implementation of strategic objectives of SSBL, and for exercising their business judgment in what it believes to be in the best interests of SSBL and its shareholders.

As per SSBL's Corporate Governance Policy, the Directors are selected based on their skills and experience, taking the needs of the Bank into consideration. Each member was duly authorized to act as director by the CSSF, which assessed their professional standing, experience and reputation in accordance with the law of 5 April 1993 on the financial sector, as amended. Based on its self-assessment, the Board of Directors considers it is of sufficient size, independence and technical expertise to conduct its activities effectively. When a Director is to be elected (in replacement of a resigning Director or as an additional Director), the Chairman proposes the name of the new Director to all the Board Members at a Board meeting and explains why, given the expertise, experience and skills, that person would bring added value in discussions and decisions process. The Board Member suitability assessment includes both individual and collective assessments as set forth by applicable regulation and SSBL's internal policies. The Directors approve new Director(s) via co-optation process. The election is ratified at the next shareholders meeting. The Chairman ensures that Finance, Legal and Risk Management are represented at the Board of Directors meetings.

The Authorized Managers are in charge of the effective, sound and prudent day-to-day business and inherent risk management which is exercised in compliance with the strategies and guiding principles laid down by the Board of Directors and the existing regulations, taking into account and safeguarding SSBL's long-term financial interests, solvency and liquidity situation.

As of 31 December 2018, the Board of Directors is composed of the following persons:

Fabienne Baker	number of directorships: 2
Michael Fontaine	number of directorships: 3
Didier Delvaux	number of directorships: 2
Stefan Gmuer	number of directorships: 6
Riccardo Lamanna	number of directorships: 1
David Suetens	number of directorships: 5
Kris Wulteputte	number of directorships: 3

4.1.2 Risk and Compliance Committee

The Risk and Compliance Committee is established by and among the Board of Directors to properly align with management in its risk management program. The primary responsibility of the Committee is to oversee and approve the Bank-wide risk management and compliance practices to assist the Board of Directors in:

- Overseeing that the executive team has identified and assessed all the risks and compliance requirements that the organization faces and has established a risk management infrastructure and a compliance management infrastructure capable of addressing those risks and requirements;
- Overseeing, in conjunction with the Board of Directors, the applicable risks such as operational, strategic, credit, market, liquidity, concentration, reputational, and other risks;
- In conjunction with the Board of Directors, approving the Bank's enterprise wide risk management framework and compliance framework.

Each Committee member meets the applicable standards of independence and the determination of independence is made by the Board of Directors. Each member has an understanding of risk management and compliance requirements commensurate with the Bank's size, complexity, nature of activities and capital structure. The Committee members are appointed by the Board of Directors during an occurrence of the quarterly Board of Directors meeting. Changes to the composition of the Committee are effected by approval of the Board of Directors.

4.1.3 Additional Governance Arrangements

As part of the State Street organization, SSBL is subject to the Enterprise Risk Management and Compliance Management Policies. SSBL is also subject to regular internal audit reviews as part of the local pluri-annual Audit Plan and State Street Corporate Audit program, external audits, as well as to examination by the Federal Reserve System and other regulators.

Consistent with the Articles of Association ("les statuts coordonnés"), the statutory bodies of the Bank are the Assembly General Meeting of Shareholders and the Board of Directors. The annual Long Form Report submitted to the CSSF identifies the individuals who are designated to serve as Chief Operating Officer, the Chief Risk Officer, Chief Compliance Officer, Chief Financial Officer, the Head of Legal, the Head of Internal Audit, the Information Technology Officer, the Information Security Officer and the Money Laundering Reporting Officer of SSBL. In addition, all SSC policies specifically recognized by the Board of Directors in SSBL's own policies or, which, by their terms are made applicable to SSBL, are recognized to the extent permitted by and consistent with the laws and regulations applicable to SSBL.

Each business area is primarily responsible for managing the risks relevant for their activities. Therefore the first line of defense consists of the business units that take or acquire risks. Along with the Compliance Department, the Risk Management Department acts as a second line of defense and performs independent risk assessment and produces risk reporting, utilizing specific programs and tools, amongst which are the Material Risk Identification Program, the Target Risk Assessments, the monitoring and regular analysis of operational loss and the monthly review of Operational Key Risk Indicators.

For a more detailed exposition of the different reports with which various risk topics are brought to the attention of the Management Board and other members of Senior Management, please refer to the subsection “Risk Reporting” of this Disclosure Report. The Risk Management Department’s authority comprises the following:

- Assist in the formulation of the risk policies and procedures.
- Assist in the identification and quantification of risks associated with the Internal Capital Adequacy Assessment Process (“ICAAP”) and the Recovery Plan (“RP”), including the Stress Testing Program.
- Assist with the documentation and maintenance of the Risk Strategy, the Risk Appetite Statement and related risk management policies and procedures, which outline the methodology for identifying, measuring, managing, controlling and reporting of the risks to which SSBL is exposed.
- Monitor risk issues and report significant ones and other relevant information to the Management Board, which will inform the Board of Directors, as appropriate. The Chief Risk Officer has the right to directly and on his/her own initiative contact the Chairman of the Board of Directors or its relevant Committees and, where appropriate, the CSSF.
- Identify, escalate and oversee the resolution of exceptions to risk management policies and guidelines.

Internal Audit is a further component of the internal control process and acts as a third line of defense. The department is organizationally independent and reports directly to the SSBL Authorized Managers. The Head of Internal Audit also has direct access to the chairman of the SSBL Board of Directors.

In addition, SSBL manages compliance with its own and all applicable corporate risk policies and guidelines, including those governing credit risk, operational risk, market risk, liquidity risk and new business and new product approvals. These policies and guidelines assist SSBL in the identification of material risks, including potential risks to which it may be exposed, and the implementation of strategies and controls to mitigate those risks.

4.1.4 Risk Reporting

The risk situation of the Bank is communicated via a comprehensive reporting system to Senior Management and other relevant persons and any material risk situation is escalated to the Board of Directors.

Reporting to Senior Management includes:

- MIS reports and *ad hoc* analysis on operational risk;
- Audit observations and remedial action plans;
- Compliance report;
- Risk and Compliance Committee report;
- Common Reporting (“COREP”) and Large Exposures reports.

This regular reporting is completed by *ad hoc* and exception-based information in case of a major market or client event, triggering specific monitoring.

4.2 Fundamental Strategies and Organizational Guidelines

The purpose of the risk identification phase is to identify the risks to which the Bank is (or will be) exposed, taking into consideration its business operations and the markets in which it operates. SSBL strives to maintain its strong Tier 1 capital ratio (currently 35.05%) that exceeds the regulatory minimum requirements as defined in Art. 92 CRR. The maintenance shall be established by strict tolerance (thresholds) for each material risk category together with an elaborated monitoring process in place.

The risk and capital management processes of SSBL are strengthened by the inclusion of the ICAAP as an integral part of these processes. The Board of Directors and Senior Management use the ICAAP to maintain an effective link between SSBL's risk profile and its capital, thus ensuring that SSBL has adequate capital and liquidity levels to cover its risks and operate effectively within its capital and liquidity framework. In particular, the Board of Directors via the Risk and Compliance Committee, and the Management Board will perform a quarterly review of SSBL's capital and liquidity adequacy as outlined in the Risk Appetite Statement, following any significant changes to the business profile and strategy of SSBL. Future restructurings, the introduction of new products or the acquisition of significant clients are examples of events that will be taken into account in evaluating potential changes to the ICAAP. Moreover, SSBL performs stress testing and scenario analysis exercises as outlined in the ICAAP statement in determining its capital needs. Three-year projections will be assessed at least annually and recalculated following any significant changes to the business profile and strategy (including those changes outlined above).

The results of the ICAAP exercise provide comfort to SSBL's Senior Management of the adequacy of its capital and liquidity with its risk appetite limits, considering the projected risk profile for the three next years.

The Recovery Plan is also a value-added exercise for SSBL's Senior Management and Board of Directors, as it informs on the situations that could lead the bank to a "near-default" status and the recovery options that are available to remedy such status.

In order to define and document the business activities and associated processes, the Bank has established appropriate strategies and organizational guidelines. The relevant strategies and organizational guidelines for risk management are outlined in the following documents:

- Business Strategy;
- Risk Strategy and Risk Appetite Statement;
- Enterprise Risk Management Policy;
- Compliance Policy;
- Capital and Liquidity Management Policy;
- Remuneration Policy;
- Pillar 3 Disclosure Policy;
- Pillar 3 Disclosure Report;
- ICAAP Policy;
- ICAAP Statement;
- Recovery Plan.

All of the strategies, guidelines and organizational guidelines are reviewed at least on an annual basis and amended if necessary. SSBL considers the risk management arrangements in place to be adequate given SSBL's profile and strategy.

The Bank's infrastructure in terms of Human Resources, Management Team and Systems have been strengthened over the last five years and remain a key focus as the Bank expands its operations.

The Directors and Senior Management of SSBL are committed to having a strong risk management function and control environment throughout the organization and a stringent recruitment of employees including:

- Appropriate caliber and background of recruited staff;
- Extensive training programs for staff and management;
- Organization structure with clear lines of responsibilities and adequate segregation of duties;
- Regular weekly, monthly and quarterly management reporting mechanisms and meetings;
- Stringent governance process to track the proper and timely resolution of corrective actions related to audit reviews, regulatory exams and self-identified issues.

The Directors and Senior Management of SSBL have acknowledged that the risk management function and the system of internal controls were operating with sufficient effectiveness to provide reasonable, but not absolute, assurance that the Bank's risk management and internal control objectives were achieved during the period from 1 January 2018 to 31 December 2018.

4.2.1 Risk Identification and Quantification

The risk identification and quantification approach adopted is considered thorough and proportionate to the size and complexity of the Bank's businesses. Management has assessed the impact of various stressed risk events and severe business and economic scenarios to assess the financial viability and capital and liquidity adequacy of the Bank and its underlying businesses.

Risks for SSBL arise from the core and secondary business segments of investment servicing. The relevant risk types as per SSBL Risk Taxonomy are:

- Interest Rate Risk;
- Trading Risk;
- Credit Risk;
- Liquidity Risk;
- Operational Execution Risk*;
- Technology and Resiliency Risk*;
- Business Conduct and Compliance Risk*;
- Strategic Risk;
- Model Risk;
- Reputational Risk;
- Concentration risk.

Amongst the above list, the risks deemed material for SSBL are listed below:

- Strategic Risk;
- Concentration Risk;
- Operational Risks;
- Reputational Risk.

* Together the "Operational Risks".

4.2.2 Risk Appetite Approach

Further to the risk identification and quantification methodology, the Bank has also articulated a risk appetite to demonstrate and enforce its commitment in ensuring that clients and shareholders are protected and that all businesses within the Bank are adequately capitalized. At present, all of SSBL's capital is held as Tier 1 capital resources.

SSBL's risk appetite has been considered as appropriate to the business and to the risk profile of the Bank. The risk appetite is based on the Bank's capital obligations to ensure that the Bank and each of its underlying businesses are adequately capitalized at all times and that the Bank avails of sufficient liquidity.

SSBL's Board of Directors reviews the risk appetite on an annual basis in line with the ICAAP and the Business Strategy. The Board of Directors reviews quarterly the Bank's compliance with its risk appetite and makes any necessary amendments to its business plans, budgets, policies or risk appetite, as deemed appropriate.

4.2.3 Stress and Scenario Testing

In addition to the bottom-up risk identification and quantification approach, Management has further analyzed the impact of the operational, strategic, concentration and reputational risks, which are the main risks to which the Bank is exposed. By taking into consideration global events and experience, the Bank's ability to sustain losses resulting from the occurrence of extreme events outside the control of the Bank was assessed. Management has identified three risk scenarios used to evaluate the Bank's capital and liquidity adequacy under each circumstance. These scenarios include extreme macroeconomic events, operational and strategic risks. The impact of these scenarios was assessed across the various types of risks, including capital and liquidity level, indirect business consequences and reputation issues. The objective of such assessment was to ensure that under severely distressed conditions, the Bank is still able to adequately meet its Pillar 1 and Pillar 2 capital and liquidity requirements. Based on the latest scenarios, the income-generating capacity of the Bank remains strong over the three-year forecasted period and the analysis concludes that the business would be able to sustain losses over this period under the stressed scenarios considered.

4.3 Relevant Risk Types

4.3.1 Interest Rate Risk

Risk Definition

Interest rate risk is defined as the risk that changes in interest rates can negatively impact the firm's profitability, capital adequacy and the economic value of the firm's assets and liabilities. Interest rate risk is inherent in the potential re-pricing mismatches between the firm's assets and liabilities, which can adversely affect net interest revenue and shareholders' equity. Interest rate risk also arises due to potential adverse changes in interest-sensitive income and expenses in the firm's core business lines.

Disclosure requirements are outlined within Art. 448 CRR.

Risk Situation, Strategy and Management

SSBL only has the following interest-bearing assets positions:

- Excess of cash placement at the Central Bank of Luxembourg bearing negative interest rates;
- Operational Nostro accounts balances.

Single-name concentration exists with the Central Bank of Luxembourg. No intra-risk or inter-risk concentration exists.

Risk Quantification

The Finance department is responsible for monitoring the risk due to changes in interest rates. The interest income and expense ledger is controlled using a present value model. In the process, as well as the prescribed regulatory interest rate shocks (parallel shift in the interest curve by: +200 bps, -200 bps), some additional interest rate shocks (+/-50 bps, +/-100 bps, +/-200 bps and +/-300 bps) are used for internal monitoring processes.

The impact of the interest rate shocks in accordance with the CSSF Circular 08/338 as amended by Circular CSSF 16/642 as of 31 December 2018 is as follows:

Exhibit 4-1: Interest Rate Risk

Present value change	Interest rate risk	
	Interest rate shock – parallel shift of the yield curve	
	+200 BP	-200 BP
in EUR	(38,019)	–
in % of the own funds	-0.01%	0.00%

Note that negative interest rates – if any after an interest rate shock – lead to a value of zero as per Chapter 3, Point 9 of CSSF Circular 08/338 as amended by Circular CSSF 16/642.

4.3.2 Trading Risk

Risk Definition

Trading Risk is the risk that movements in market prices will adversely affect the performance or condition of State Street trading positions. Trading risk arises when changes in foreign exchange rates, interest rates, equity prices, option volatilities or other relevant parameters affect the valuation of financial instruments. State Street presently assumes trading risk in the execution of trading activities within State Street Global Markets and State Street Global Treasury. The level of trading risk that State Street assumes is a function of its overall objectives and liquidity needs, customer requirements and market volatility.

Foreign Exchange (“FX”) Risk is part of the Trading Risk and is defined as the current or prospective risk to earnings and capital arising from adverse movements in currency exchange rates.

Risk Situation, Strategy and Management

The Bank can be exposed to trading risk through its limited balances denominated in foreign currencies on proprietary cash accounts, which derive from service fees received in such currencies, and on client fee and commission receivables or un-billed. These proprietary positions are closed by executing mainly FX transactions with SSBT and BNP Paribas. All these deals are spot transactions.

The FX exposure arising from transactions for the account of the Bank are subject to a system of limits for which the compliance is monitored daily. Actively adopting trading risk positions is not a core element of the Bank’s risk strategy but is necessary for the efficient management of assets.

Risk Quantification

As an immaterial risk, the risk is quantified using the methods according to Art. 352 CRR. In addition, the Bank assesses the impact of foreign exchange rates shocks on a quarterly basis.

4.3.3 Credit Risk

Risk Definition

State Street defines Credit Risk as the risk of financial loss if a counterparty, borrower or obligor, collectively referred to as counterparty, is either unable or unwilling to repay borrowings or settle a transaction in accordance with underlying contractual terms. State Street assumes credit risk in its traditional lending activities, such as loans and standby letters of credit, in its investment securities portfolio, and in its direct and indirect trading activities, such as principal securities lending and foreign exchange, and indemnified agency securities lending. State Street also assumes credit risk in its day-to-day treasury, securities and other settlement operations, in the form of deposit placements and other cash balances, whether with central banks or private institutions.

Credit Risk – On-Balance Sheet

Risk Situation

SSBL assumes credit risk in the normal course of its business activities mainly related to billing and the collection of commission income from the funds it services, but also to the operational cash held on nostro balances and excess cash being placed at the Central Bank.

Given the Bank's business mix, SSBL has a natural concentration of exposures to major financial counterparties. Its philosophy is to do business with higher-rated counterparties, to reduce counterparty risk through enforceable netting arrangements and to mitigate residual risk, to the extent desirable, through the use of collateral agreements or the use of lien on assets for recouping commissions unpaid. Single name concentration exists with the Central Bank of Luxembourg, but is considered as a low risk. Other concentration can result from fees to be received from the clients, but this risk is generally mitigated by the contractual lien on assets, which allows SSBL to sell assets of the funds to cover unpaid invoices. No intra-risk or inter-risk concentration exists.

Risk Strategy

SSBL's goal is to minimize credit risk resulting from its business activities and to fully comply with all regulatory requirements. Additionally, SSBL's risk strategy aims to limit undue credit risk concentration by monitoring potential concentration risk by industry, geography and credit product. SSBL credit risk is managed through adherence to its Credit Risk Policy and Credit Risk Guidelines and risk approval authorities. The underlying risk strategy consists of monitoring and observing a comprehensive system of limits in addition to monitoring and researching any breaches of these limits. Establishing internal limits and monitoring compliance with these guidelines is a critical component of the Bank's risk strategy. The Bank does not make any lending commitments to third parties. All limits are of a purely internal nature and are not promised to the creditor.

Risk Quantification

To measure the degree to which default risks are covered by capital, SSBL is applying the Standardized Approach pursuant to Chapter 2, Title II, Part Three CRR. To quantify credit risk applying the Standardized Approach, the Credit Risk Exposure Values or Exposures at Default (hereafter CRSA position values and EAD) are weighted by risk weights determined by the type of counterparty and respective external rating (see provided by CRR (Art. 114 to 134 CRR)).

Credit Risk – Off-Balance Sheet/Derivatives (Art. 439 CRR)

Risk Situation

As of 31 December 2018, SSBL had rental guarantees issued in favor of State Street Bank International GmbH Italy and Poland Branches, to support the lease of its business premises in Milan and Torino (Italy) and Gdansk (Poland).

The combined value of the rental guarantees is EUR 8,338,818.

Risk Strategy

Credit risks resulting from off-balance sheet positions are subject to a regular and centralized monitoring process which aims to minimize risk of significant incidents.

Risk Quantification

The following tables set forth the required quantitative disclosure requirements for the credit risk exposures and the information required when using methods to reduce credit risk.

- a) A summary of the total amount of exposures broken down by significant receivable types:

Exhibit 4-2: Credit Risk Exposures by Exposure Type

Exposure type	Gross exposure in kEUR
Credits, commitments and other non-derivative off-balance sheet positions	524,305
Total	524,305

b) An analysis of exposures by geographic region:

Exhibit 4-3: Credit Risk Exposures by Region

Exposure class	Europe in kEUR	North America in kEUR	Total in kEUR
Central governments or central banks	316,355	0	316,355
Institutions	33,818	375	34,193
Corporates	165	0	165
Other items	173,592	0	173,592
Total	523,930	375	524,305

c) An analysis of exposures by industry type/economic sector:

Exhibit 4-4: Credit Risk Exposures by Economic Sector

Exposure class	Banks in kEUR	Other services in kEUR	Total in kEUR
Central governments or central banks	316,355	–	316,355
Institutions	34,193	–	34,193
Corporates	–	165	165
Other items	–	173,592	173,592
Total	350,548	173,757	524,305

d) An analysis of exposures by residual contract maturity

Exhibit 4-5: Credit Risk Exposures by Maturity

Exposure class	< 1 year in kEUR	≥ 1 year and < 5 years in kEUR	≥ 5 years in kEUR	Total in kEUR
Central governments or central banks	316,355	–	–	316,355
Institutions	34,193	–	–	34,193
Corporates	165	–	–	165
Other items	173,592	–	–	173,592
Total	524,305	–	–	524,305

e) An analysis of total credit exposures for each regulatory approach is not provided.

As all exposures are treated by applying the Standardized Approach for credit risk in accordance with Chapter 2, Title II, Part Three CRR, no further segregation is necessary for disclosure purposes.

- f) An analysis of total outstanding exposures subject to the Standardized Approach by risk weight:

Exhibit 4-6: Credit Risk Exposures by Risk Weight

Risk weight	Total of CRSA position values Before CRM (in kEUR)	Total of CRSA position values After CRM (in kEUR)
0%	316,355	316,355
2%	-	-
4%	-	-
10%	-	-
20%	116,169	116,169
35%	-	-
50%	-	-
70%	-	-
75%	-	-
100%	91,781	91,781
150%	-	-
250%	-	-
370%	-	-
1,250%	-	-
Other risk weights	-	-
Total	524,305	524,305

Definition of Default

Following the implementation of IFRS 9 in Luxembourg with the CSSF Circular 18/685 and 18/678 updating Circular CSSF 14/593 as amended by Circulars CSSF 15/613, CSSF 15/621, CSSF 16/640 and CSSF 17/663 on supervisory reporting requirements applicable to credit institutions as of 1 January 2018, a financial instrument is in default when it becomes probable that State Street will be unable to collect all amounts due (including principal and interest) according to the contractual terms of the financial instrument.

For SSBL balance sheet exposures, corporate exposures (fees receivables) will be considered as in default when a customer invoice has to be written off with a revenue reversal due to fund liquidation (without accrual to cover the fees receivables), client departure, client bankruptcy or similar situations.

As of 31 December 2018, none of SSBL customers' receivable exposures amounts were assigned to the default exposure class and SSBL does not have any forborne or non-performing exposures on its balance sheet.

Risk Provision

As part of the early warning process implemented by the Bank, lending commitments are reviewed using predefined indicators for any increase in risk content. Depending on the results, these are assigned a suitable form of care – intensive care, restructuring or liquidation.

If they are assigned to restructuring or liquidation with an associated loss in value of the receivable, an individual risk provision would be made. The amount of the respective individual provision is calculated individually per lending commitment. In the case of a loss in value, if it is determined that there is no full expectation of a recovery rate, the receivable would be written off accordingly, taking into account the individual provision which has already been made.

Under IFRS 9, since 1 January 2018 regarding corporate exposures (fees receivables), the Bank uses a simplified approach (life time credit loss approach). This new method led to a Expected Credit Loss amount (< 3k EUR over 2018) which fully replaced the former IAS 39 provision.

4.3.4 Liquidity Risk

Risk Definition

Liquidity Risk is the risk to an institution's financial condition or safety and soundness arising from its inability, whether real or perceived, to meet its contractual obligations. The assessment of liquidity risk prospectively measures the need for available funding to meet obligations, and ensures the availability of cash or collateral to fulfill those needs at the appropriate time by managing the various sources of funds available to the Bank under normal and stressed conditions. State Street's liquidity management practices utilize internally defined quantitative liquidity standards, as well as those set forth by the relevant regulators in the jurisdictions in which State Street operates, including the Liquidity Coverage Ratio and Recovery and Resolution liquidity scenarios.

Risk Situation, Strategy and Management

Adequate liquidity for SSBL is mainly related to ensuring sufficient level of operational cash at all time to meet vendors' commitments and salaries payment, and also minimum regulatory requirements.

From a Balance Sheet point of view, Other Assets include among others all client fees un-billed and receivables while Other Liabilities include among others all provisions to bear the costs linked to business.

Unless distributed, the excess of cash generated by SSBL business activities will be placed at the Banque Centrale de Luxembourg.

Liquidity risk is currently not material to SSBL, and involves the timing mismatches on payables and receivables. SSBL is highly liquid, based upon current and future business and the nature of the services SSBL provides. SSBL manages its liquidity risk by forecasting cash flows and anticipated investing and financing activities, and by the active involvement of Senior Management in the review and approval of planned expenditures.

The investment strategy of the Bank allows maintaining a minimum liquidity buffer at all times, including in periods of stress. The liquidity management process also provides that, should a disruptive market event occur, the Bank is prepared to execute Board-approved liquidity contingency plans.

Risk Quantification

The Liquidity Coverage Ratio ("LCR") is intended to measure the amount of High Quality Liquid Assets ("HQLA") held by the entity in relation to estimated net liquidity outflows within a 30-day calendar stress period.

SSBL calculates the LCR in significant foreign currencies in accordance with Art. 415 (2) CRR when the corresponding 5% threshold is exceeded (a LCR-report has to be made if the aggregate liabilities in a currency different from the reporting currency amount or exceed 5% of the institution's total liabilities) .

At the disclosure date, the EUR was defined as significant currency only. As of 31 December 2018, the LCR in EUR was 3337.20% and the LCR Total 2952.25%, which is significantly above the regulatory requirements of 100% from 1 January 2018.

Exhibit 4-7: Disclosure on Year-end LCR

Level of consolidation: solo in kEUR Quarter ending on 31 December 2018		Total unweighted value	Total weighted value
High-quality Liquid Assets			
1	Total high-quality liquid assets (HQLA)		316,355
Cash-outflows			
14	Other contractual funding obligations	60,048	34,524
15	Other contingent funding obligations	8,339	8,339
16	Total Cash Outflows		42,863
Cash-inflows			
18	Inflows from fully performing exposures	25,855	25,855
19	Other cash inflows	35,388	35,388
20	Total Cash Inflows	61,243	61,243
EU-20c	Inflows Subject to 75% Cap	61,243	61,243
Total Adjusted Value			
21	Liquidity Buffer		316,355
22	Total Net Cash Outflows		10,716
23	Liquidity Coverage Ratio (%)		2,952.25%

The following information is published in accordance with Art. 435 CRR and the presentation of Annex II of EBA/GL/2017/01 in the form of simplified disclosure of the LCR.

The values presented are calculated as the average of the last twelve month end values in relation to the end of the quarter (the average ratio disclosed is calculated as a simple average over the 12 data points used and not as a formula of liquidity buffer divided by total net cash outflows).

Exhibit 4-8: Disclosure on LCR Average Data Points

Level of consolidation: solo in kEUR		31 March 2018	30 June 2018	30 September 2018	31 December 2018
Number of data points used in the calculation of averages		12	12	12	12
21	Liquidity Buffer	305,749	308,363	310,553	291,491
22	Total Net Cash Outflows	13,118	14,832	16,705	17,458
23	Liquidity Coverage Ratio (%)	2.315%	2.108%	1.913%	1.749%

The LCR average data points of SSBL proves that the liquidity buffer and the available refinancing funds are sufficient over the required period of time to meet the Bank's payment obligations.

4.3.5 Operational Execution Risk

Risk Definition

State Street recognizes that Operational Execution Risk is intrinsic to State Street's business and cannot be managed to zero. State Street seeks to manage Operational Execution Risk to a level consistent with achieving its strategic, financial and operational objectives with the goal of having an effectively designed and well-controlled operating environment within its established appetite. Accordingly, State Street defines Operational Execution Risk as the risk of errors or omissions arising from inadequate or failed internal processes with the potential for financial, reputational or franchise harm.

Risk Situation

Operational Execution Risk can be found mainly in the services and products which the Bank supplies and sells in the frame of the Global Services (i.e., custodian/depository activities and fund administration activities).

It can also originate from specific relationships related to our core business such as with sub-custodian agents and with outsourcing providers.

Sub-custodian risk exists in the selection and day-to-day relation with a network of banks located worldwide and contracted to provide local custodian services. It is however considered as strongly mitigated due to the measures followed by the SSBT Network Management Department, which is responsible for the selection and the monitoring of the sub-custodians for all the State Street sites. This risk has been considered with a higher focus since the introduction of regulations increasing depository liabilities (i.e., Alternative Investment Fund Managers Directive and UCITS V Directive).

Outsourcing risk is part of the Operational Execution Risk that is inherent in the services and products performed by the external and internal services providers, the technology used and the processes themselves. The Bank, as outsourcer, is exposed to an outsourcing risk due to the dependence on the timely and accurate supply of services by the internal and external service providers. State Street Policies and Guidelines apply to all outsourced entities, in particular in terms of system security and maintenance, data confidentiality, authentication and Business Contingency Plans. Local Outsourcing Policy and Guidelines are in place and address the specific requirements of the CSSF Circular 12/552 as amended, and of CSSF Circulars 16/644, 17/654 and 18/697, mainly in terms of governance, oversight and repatriation of functions from the delegated entity to the donor site.

Risk Strategy

The Bank's goal is to minimize operational risk resulting from its business activities and to fully comply with all regulatory requirements. The risk strategy approach is to identify potential operational risk exposures at an early stage and to ensure the adequacy of the necessary risk mitigation measures. SSBL addresses operational risk by identifying, collecting and analyzing operational risk data, utilizing the data to quantify its risk exposure, and by implementing a comprehensive operational risk governance structure.

Risk Quantification

To measure the degree to which operational risks are covered by capital, SSBL has applied the Standardized Approach pursuant to the Art. 317 CRR. Internal capital requirements to cover operational risks are defined for the ICAAP by the means of scenario analysis and stress test. The secure capital adequacy amount assumes the unexpected loss, which is regularly compared to actual operating losses.

Risks are quantified by reviewing the banking risks inventory during operational risk workshops, the results of which are enriched and verified by other data sources. Operating gains and losses are recorded in a structured fashion in a loss database and monitored closely. The review of operating losses can result in specific measures to avoid the risks in the future. At account/portfolio level, qualitative risk ratings are prepared to assess operating and contractual risks, risks related to the performance and account agent activities and the risks of money laundering.

Risk Management

Extensive risk mitigation measures are used to manage operational risks. The measures that are inherent to the processes include recognition of potential operational risks and comparison with the risk appetite before the Bank is actually exposed to the risk (taking a selective approach) and also analysis, management and monitoring of existing operational risks. Controls that are independent of processes consist of the internal audit reviews and a comprehensive program of monitoring and auditing measures conducted by the Compliance department.

4.3.6 Technology and Resiliency Risk

Risk Definition

State Street manages information technology with the intention to operate within its regulatory and contractual obligations, fiduciary and other legal duties, policies and standards, strategic and operational objectives as well as to meet client commitments. It achieves this objective by establishing information technology policies, controls and operating procedures as well as implementing governance, monitoring and assurance functions.

Risk Situation

Technology and Resilience Risk, including Cyber Security Risk and System Resiliency, is considered as a component of the Bank's operational risk framework.

Risk Strategy

SSBL's manages information technology by establishing policies, controls and operating procedures as well as implementing governance, monitoring and assurance functions. SSBL recognizes that technology risk is intrinsic to its business and can never be completely eliminated. Management's goal is not to reduce technology risk to zero but to strike an appropriate balance between risk versus cost and effort required in eliminating the risk. Accordingly, SSBL defines technology risk as the inability to materially achieve the above objectives due to issues arising from the use, ownership, operation, involvement, influence and adoption of information technology. This includes technology products and services provided by third parties, provided by internal IT teams or provided by non-IT personnel.

Risk Quantification

Following the Basel classification, the Technology and Resilience Risk is part of the Operational Risk. Therefore the quantification follows the same methodology as the one mentioned in the Operational Execution Risk.

Risk Management

The Technology Risk Policy and the Technology Risk Appetite are defined at SSBT level.

The Policy establishes key categories for the measurement and control of technology risk and aligns with the Technology Risk Appetite Framework. The key risks identified by the risk appetite framework are: Third Party Vendor Risk, Business Disruption and Technology Resiliency Risk, Cyber and Information Security Risk, Technology Asset and Configuration Risk, Technology Change Management Risk, Technology Obsolescence Risk.

4.3.7 Business Conduct and Compliance Risk

Risk Definition

Business Conduct and Compliance Risk is defined as the failure to meet the regulatory and contractual obligations, fiduciary and other legal duties, policies and standards, corporate culture and standards of ethical business conduct that is expected by its clients, shareholders, regulators and other stakeholders. Implicit within this definition is Fiduciary Risk defined as the risk that the firm fails to properly exercise its fiduciary duties in its provision of products or services to clients. Similarly overlapping with the foundational components of Business Conduct Risk, Legal Risk is defined as the risk of loss resulting from failure to comply with laws and contractual obligations as well as prudent ethical standards in addition to exposure to litigation from all aspects of the Bank's activities.

Risk Situation

For SSBL, the fiduciary risks are mainly related to the depositary duties introduced by the Alternative Investment Fund Managers Directive ("AIFMD") and by the UCITS V Directive. Those duties are however considered as "quasi-fiduciary".

As part of the Compliance Risk, the AML and Sanction Risk are considered as paramount for SSBL. SSBL is committed to complying with all applicable laws, rules, regulations and supervisory guidance. SSBL will not tolerate money laundering, fraud activities or facilitate sanctioned activities. Additionally, SSBL will not knowingly conduct business with individuals or entities it believes are engaging in inappropriate behavior.

Risk Strategy

The Business Conduct and Compliance Risk is considered as a component of the Operational Risk as per the Basel classification. Therefore it follows the same approach as the one described in the Operational Execution Risk.

Risk Quantification

Following the Basel classification, the Business Conduct and Compliance Risk is part of the Operational Risk. Therefore the quantification follows the same methodology as the one mentioned in the Operational Execution Risk.

Risk Management

All contractual documents are based on worldwide standards set by the Legal Department. There are corresponding escalation processes in place to authorize any deviation from these standards.

The Compliance Department monitors and secures compliance with the relevant laws and regulations as well as with State Street Corporation's and locally specific internal requirements. Compliance with the required controls is monitored by a comprehensive testing program. The future development of the legal and regulatory environment is analyzed in a structured manner, both at the European and national level and at the European level in the sense of an early warning system. In this latter case, this analysis is used to identify any need for action in the short to mid-term.

4.3.8 Strategic Risk

Risk Definition

In the pursuit of its strategy, SSBL maintains a variety of financial performance goals. These goals are established by SSBL's Board of Directors through its long term planning process and are annually approved through budgets designed to meet its financial goals while balancing the needs of all of its constituents. In addition, SSBL seeks to avoid extreme earnings volatility. It strives to meet this objective by seeking diversified opportunities in businesses that produce a steady stream of income, including: fund administration, transfer agency services, custody, depository and ancillary services (e.g., shareholder tax reporting, tax reporting, key investor information documents reporting) for institutional clients. SSBL also strives to avoid undue exposure and risk concentrations in its activities in the ordinary course of business and in the event of geopolitical, macroeconomic and market shocks. SSBL's diversification across businesses, geographies, and risk types is an important consideration in managing risk and reducing earnings volatility.

Risk Situation, Strategy and Management

For SSBL, this risk is mainly related to the ability to generate consistent and sustainable earnings. Factors influencing strategic risks include, but are not limited to, adverse changes in the competitive or regulatory environment, changes in the economics of SSBL's business activities and the failure or poor execution of strategic decisions.

For instance, the Bank considers its exposure to strategic risks in case the Bank decides to enter into a new market whereas this one is heading into a downturn, or a macroeconomic risk where most of the Bank's revenues are based on market-dependent factors, such as the assets under administration and custody. These risks can expose SSBL to a potential mismatch of costs and revenues in case an external adverse event such a market crash and can lead to a strong drop in the Bank's revenues.

The risk strategy approach is to early identify potential business exposure and to ensure the adequacy of the implemented risk mitigation measures, to the extent possible, given the nature of business risk.

Management and monitoring of this risk are performed through various means across the Bank and their oversight by the Management Board is performed monthly. Information about the clients won and lost during the month and relationships viewed as “at risk” are provided to the Management Board. Clients’ satisfaction, clients at risk of departing and fee concessions are also reported.

The strategic risks are managed through early identification of potential business exposures and related implementation of risk mitigation measures.

For new services/new products, the risk identification and remedial action plan are facilitated by the New Business and Product Risk Assessment (“NBPRA”) that provides a dialogue platform for the various stakeholders involved in all three lines of defense of the Bank.

Risks related to new client relationships are assessed via the New Business Acceptance Process, which offers a forum to discuss operational risks, documentary risks and fiduciary risks.

Risks related to client relationships are also regularly assessed using the corporate-wide credit risk rating methodology. The methodology is based on an internal 15-grade rating scale. The system is used for initial, regular and *ad hoc* assessments. The internal ratings are subject to an annual review process. Further to that, the annual client review process and the three-month review, both owned by the Risk Management Department, ensure regular review of client relationships. Both strategic and macroeconomic risks are subject to specific stress scenarios.

Risk Quantification

There is no Pillar 1 requirement for this risk.

In terms of Pillar 2 capital adequacy assessment, interviews with the Head of Sales and Client Relationship Management were held to identify one or several important clients, which could, under adverse assumptions leave the Bank in 2019.

In addition to this assumptions destined to set capital aside for a likely client departure, a scenario analysis was run to assess the impacts (strategic, reputation, operational) of clients’ departure. Additionally, a macro-economic down-turn generating a fee reduction was also considered.

4.3.9 Model Risk

Risk Definition

Model Risk refers to the potential for adverse consequences from decisions based on incorrect or misused models and may arise from a number of sources, including that (i) the model may not be conceptually sound or may produce outputs inconsistent with the design objective and intended business uses; (ii) errors can occur at any point from design through implementation; (iii) the model may be used incorrectly or inappropriately; and (iv) a group of models that individually present little model risk, but which in aggregate present a larger risk to the enterprise.

Risk Situation, Strategy and Management

SSBL's exposure on model risk is limited.

The Model Risk Framework is very stringent and addresses model risk by specifying the requirements, roles, and responsibilities for governing the development, validation, implementation, approval and use, ongoing monitoring, periodic review and validation, as well as risk aggregation and reporting of model risk.

Risk Quantification

There is no Pillar 1 requirement for this risk and since it is deemed not material, no Pillar 2 is computed.

4.3.10 Reputational Risk

Risk Definition

SSBL recognizes that its brand value is its most valuable and irreplaceable asset. Reputational damage caused directly or indirectly by SSBL's activities or external factors can result in revenue impairment, declines in shareholder value, customer attrition and loss of trust with all stakeholders. For these reasons, SSBL strives to conduct its activities in a manner which is consistent with the highest standards of professionalism, fairness, ethics and integrity.

Risk Situation, Strategy and Management

SSBL is exposed to reputational risk as a result the other above mentioned risks. It is also potentially exposed in case of an event impacting another State Street entity.

SSBL is committed to fostering and maintaining business practices and controls that are consistent with a culture of excellence, high ethical standards and strong commitments to its employees, customers, regulators and the communities in which it operates. SSBL seeks to operate, at all levels of the organization, with a clear focus on ethics, personal accountability and a sense of empowerment – both in achieving its goals and in making the right decisions. In this environment, risks are escalated for review as and when identified, key assumptions are constructively challenged, and actual or potential returns are viewed in the context of risk.

SSBL seeks to avoid business relationships with individuals or business entities where its business involvement could damage State Street’s reputation. The Corporation maintains appropriate Bank Secrecy Act (“BSA”)/Anti-Money Laundering (“AML”) and Know Your Customer (“KYC”) procedures to verify its clients’ reputation and integrity.

All SSBL employees are expected to comply with all laws, regulations and codes of conduct which govern their activities.

Risk Quantification

There is no Pillar 1 requirement for this risk.

In terms of Pillar 2 capital adequacy assessment, in addition to the consideration of the reputational impact on the strategic risks mainly during scenario analysis, the Bank decided to hold an additional buffer of capital, to cover for inherent and unmitigated losses related to reputational impacts.

4.3.11 Concentration Risk

Risk Definition

Traditionally, concentration risk is considered as part of credit risk and includes (i) large (connected) individual exposures and (ii) significant exposures to groups of counterparts whose likelihood of default is driven by common underlying factors, e.g., sector, economy, geographical location, instrument type.

More broadly, concentration risk arises where there is any form of concentration in the business, including not just asset concentrations but also liability concentrations or operational risk and other business concentrations.

This risk therefore includes the exposure(s) that may arise within or across different risk categories throughout an institution with the potential to produce: (i) losses large enough to threaten the institution’s health or ability to maintain its core operations; or (ii) a material change in an institution’s risk profile.

Two relationships between risk concentrations are considered:

- Intra-risk concentration refers to risk concentrations that may arise from interactions between different risk exposures within a single risk category. This includes single-name concentration risk.
- Inter-risk concentration refers to risk concentrations that may arise from interactions between different risk exposures across different risk categories. The interactions between the different risk exposures may stem from a common underlying risk driver or from interacting risk drivers.

Risk Situation

In general, the Bank is exposed to a concentration of risks due to the fact that a certain volume of business is conducted with relatively few clients. However, it is not assumed that there is a concentration of default risks in this regard considering the nature of the Bank's clients. This assumption is based on the fact that each fund qualifies as a separate borrower rather than all the funds of one investment company being classified as one borrower (unit).

There are concentration risks related to large exposures with similarly sized clients/counterparties. In the depositary banking business there is a concentration on claims on investment funds. In the custodian business, there is a trend towards concentration on the banking and insurance sector that is based in the business model orientation towards institutional investors.

The dependency to SSBT for the IT systems and infrastructures, for the Custody Network and for the Operating Model (Centers of Excellence and Shared Services) is another important dependency, concentrated with the mother company.

Less material sources of risk stem from single counterpart, geographical and sector concentrations, mainly linked to the strategy of the Bank.

Risk Strategy

The overall SSBL concentration risk strategy is first to identify and raise awareness about existence of any risk concentrations within its activities and next to manage concentration risk to the most possible extent, given the business model of the Bank. Simultaneously any existing concentration risks exposures are to be monitored from a qualitative perspective, and wherever possible, also from a quantitative perspective.

SSBL strives to avoid undue exposure and risk concentrations in its activities in the ordinary course of business, with an increased attention in the event of geopolitical, macroeconomic and market shocks.

SSBL's diversification across businesses, geographies, and risk types is an important consideration in managing risk and reducing earnings volatility.

Given the Bank's book of business, SSBL has a natural concentration of exposures to major financial counterparties. The Bank's philosophy is to conduct business with higher-rated counterparties, to reduce counterparty risk through enforceable/contractual arrangements and to mitigate residual risk, to the extent possible, through the use of collateral agreements.

It is SSBL's policy that business units which engage in activities that create such risk will do so in accordance with policies, guidelines, thresholds and/or limits determined by the Bank, mainly in the Large Exposures Management Policy.

Risk Management

The process-related measures used to manage concentrations of risks include an analysis of potential concentrations of risks and comparison with the risk appetite before the Bank actually chooses to become exposed to the risk (taking a selective approach) and also analysis, management and monitoring of existing risk concentration limits.

Concentration risks are captured by limit systems established mainly driven by the material risks.

SSBL implemented several mitigation techniques, amongst which:

- Contractually, the large clients are bound to SSBL for a defined period and claw-back conditions apply in case of departure, except in case of gross negligence from SSBL.
- The Large Exposures regime is a backstop regime designed to limit the impact on an institution of a counterparty failing. The Large exposures regime on European level is now defined in the CRR/CRD IV.

Risk Quantification

In terms of Pillar 2 capital adequacy assessment, in addition to the consideration of the concentration aspects on the risks impacted by top-down scenarios, the Bank decided to hold an additional buffer of capital, to cover for inherent and unmitigated concentration risks.

4.4 Encumbered and Unencumbered Assets

Disclosure requirements are outlined within Art. 443 CRR.

The situation of Assets Encumbrance as of 31 December 2018 is as follows:

Exhibit 4-9: Disclosure on Assets Encumbrance

Template A – Assets in kEUR

		Carrying amount of encumbered assets 010	Fair value of encumbered assets 040	Carrying amount of unencumbered assets 060	Fair value of unencumbered assets 090
010	Assets of the reporting institution	-	-	787,702	-
020	Loans on demand	-	-	342,209	-
120	Total assets, collateral received and own debt securities	-	-	445,493	-

Template B – Collateral Received in kEUR

		Fair value of encumbered collateral received or own debt securities issued 010	Fair value of collateral received or own debt securities issued available for encumbrance 040
250	Total assets, collateral received and own debt securities	-	-

Template C – Encumbered Assets/Collateral Received and Associated Liabilities in kEUR

		Matching liabilities, contingent liabilities or securities lent 010	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered 030
010	Carrying amount of selected financial liabilities	-	-

Template D – Information on Importance of Encumbrance

SSBL does not have any encumbered assets as of 31 December 2018.

5 Remuneration Practices and Policies

5.1 Qualitative Information

Art. 450 (1) lit. a CRR

“Information concerning the decision-making process used for determining the remuneration policy, as well as the number of meetings held by the main body overseeing remuneration during the financial year, including, if applicable, information about the composition and the mandate of a remuneration committee, the external consultant whose services have been used for the determination of the remuneration policy and the role of the relevant stakeholders”

The Executive Compensation Committee (“ECC”) has ultimate oversight of the overall compensation system at State Street. The ECC operates under a charter which was approved by the Board of Directors and the charter is publicly available at State Street’s website. Under this charter, the ECC oversees all of State Street’s compensation plans, policies, and programs in which senior executives participate and incentive, retirement, health, welfare and equity plans in which senior executives and certain other employees of SSC participate. It also oversees the alignment of the incentive compensation arrangements with the State Street’s financial safety and soundness consistent with applicable related regulatory rules and guidance.

ECC members are senior professionals with strong financial/business knowledge, who are independent members of the Board of Directors of State Street Corporation (“SSC”), in accordance with the listing standards of the New York Stock Exchange. They are appointed by the Board on the recommendation of the Nominating and Corporate Governance Committee of the Board. At December 31, 2018, there were three (3) members of the ECC. During 2018, the Committee held eight (8) meetings.

State Street integrates the perspectives of its Risk Committee (RC) into compensation decisions made by the ECC. One member of the ECC is also a member of the Risk Committee of the Board, providing continuity between the committees. The RC is responsible for reviewing and discussing with management State Street’s assessment and management of risk. The ECC also reviews the recommendations of other committees of the Board with respect to the compensation of control function heads.

State Street has implemented a process pursuant to which a committee of our Board of Directors with oversight of an area managed by a selected control function specifically reviews the performance assessment and individual compensation recommendations for the heads of the relevant control function, as well as an overview of the performance and compensation for the entire control function. For example, our Examining and Audit Committee conducted these reviews with respect to our Chief Compliance Officer and our Compliance Department. This process is designed, among other things, to provide the relevant committee with additional perspective on the performance of the relevant control function and whether that function is being allocated appropriate resources and compensation.

The ECC has sole authority to:

- i) Retain and terminate any compensation consultants and other advisers used by the ECC to assist in the evaluation of compensation for the Chief Executive Officer (“CEO”) of SSC and/or other executive officers; and
- ii) Approve these consultants’ and advisers’ fees and other retention terms.

In this context, the ECC has engaged Meridian Compensation Partners, an executive compensation consulting firm, to provide compensation consulting as part of its review of executive compensation. In retaining its advisors, the ECC conducts an annual analysis of their independence under the New York Stock Exchange listing rules.

The ECC reviews and approves the CEO’s compensation in conjunction with other independent Directors of the Board. The CEO and the Chair of the ECC review annually incentive compensation allocations for all employees who have been designated as officers of the Company for purposes of Section 16 of the U.S. Securities Exchange Act of 1934, as amended, all State Street Executive Vice Presidents (“EVPs”) and all employees who receive at least USD \$1 million in total compensation.

The ECC approves the funding of the Incentive Compensation (“IC”) plan pool. The CEO allocates IC pools to business units and corporate functions based upon a variety of factors, which may include financial and risk management performance as well as other key goals. The final expenditure and overall allocation among current and deferred awards is then reviewed by the ECC prior to granting of awards for the performance year.

The discretionary business unit allocation process uses a business unit-level risk scorecard, which captures qualitative and quantitative data across Enterprise Risk Management (ERM), Audit, Compliance, Legal and Regulatory areas for every business unit and corporate function. The CEO/Chairman of SSC uses the results of the business unit-level risk scorecard as an input into the pool allocation process as well as the Management Committee (“MC”) sub-allocation process. Individual accountability below MC level (positive or negative) will be assessed as appropriate and may inform compensation decisions.

In its annual process, the ECC receives regular updates, including by its independent compensation consultant, on regulatory and governmental actions and initiatives concerning compensation and related risk management and governance considerations, particularly with respect to the financial services industry. These updates include rulemaking by the Board of Governors of the United States Federal Reserve System and other banking agencies regarding incentive compensation arrangements; rulemaking under the Dodd-Frank Act; proposed and final guidance and regulations from banking regulators in Europe (including the European Central Bank) and Asia concerning compensation and risk management principles; and specific actions and inquiries undertaken by state and federal and the EU’s national and supranational authorities concerning compensation practices. The ECC also receives updates on compensation actions, including publicly reported new design elements, taken by other major financial services firms in addition to general remuneration trends in the marketplace. These updates focus on developments in the alignment of incentive compensation with risk management principles, and they inform the decisions of the ECC in making its incentive compensation decisions.

State Street has established a separate UK Remuneration Committee (“UK RemCo”). This was done for a number of reasons, including to promote sound local remuneration governance practices, to address the increase in specific UK and EU regulatory requirements, to address specific regulatory feedback and to provide focused regional expertise in remuneration matters. The UK RemCo’s primary duties are:

- Oversight of the process for identifying and determining the remuneration of UK EU Identified Staff (EUIS);
- Oversight of decisions made by those with authority to determine the remuneration of EUIS in the UK; and
- Holistic oversight of non-UK EUIS remuneration matters, with a view to providing a central forum for consideration of issues and thereby enhancing consistency of approach across State Street EMEA.

The UK RemCo reports annually to the ECC for information purposes. While the UK RemCo is responsible for the review and approval of compensation for UK EUIS, it also provides oversight (to the extent permissible under its charter) of non-UK EUIS compensation matters. State Street's EMEA/International Heads of Enterprise Risk Management ("ERM"), Compliance, Legal and Finance provide input and attend UK RemCo meetings, as and when requested by the UK RemCo members.

State Street also established the Incentive Compensation Control Committee ("ICCC"), a committee on a global level (reporting to State Street's corporate Compliance and Ethics Committee ("CEC") with annual reporting to the ECC) of senior representatives of our ERM, Compliance, Internal Audit, Finance, Legal and Global Human Resources ("GHR") departments to serve as a forum for the risk management and internal control functions to formally review and provide their assessment of incentive compensation arrangements throughout the State Street Group. This review and assessment is intended to promote the consistency of State Street incentive compensation arrangements with the safety and soundness of State Street and its subsidiaries and the alignment of these arrangements with applicable regulatory guidance and regulations. The ICCC is supported by a working group comprised of GHR, Legal and other subject matter experts, which provides analytical and operational support to the ICCC. The ICCC meets on a regular monthly schedule and otherwise as needed. Based on the 2018 Annual Risk Review, as reviewed by the ICCC and presented to the ECC, all incentive compensation plans are balanced and do not encourage excessive risk-taking.

In addition to the integrated, systemic role that control functions have in incentive compensation practices through the ICCC, State Street's risk identification and assessment processes are managed by ERM. The corporate-multi-factor risk scorecard is also prepared by ERM and is subject to review and approval by the corporate RC before the ECC may use it to determine the appropriate level of IC pool funding for any compensation year. In addition, State Street group's Audit function completes an annual audit of GHR IC practices and compliance with regulatory guidance.

The RC evaluates annually the material risks applicable to State Street, as well as management actions during the year designed to mitigate those risks. The RC then makes recommendations to the ECC as to positive or negative factors to be considered in compensation decisions. These recommendations are presented to the ECC by the Chair of the RC, who is also a member of the ECC.

To avoid conflicts of interest for State Street's control functions, each control function has a reporting line which is independent from the business units which they support (i.e., each function has a reporting line which feeds into a European or Global Head of Department for the relevant control function). The global management for each respective control function is responsible for determining compensation to control function staff, within overall State Street guidelines. Funding and performance assessment for these employees is based on overall corporate results and not by reference to the business units which individual control function employees support.

EUIS Identification

In accordance with the requirements of Article 92(2) and 94(2) of EU the Capital Requirements Directive IV ("CRD IV"), the European Banking Authority ("EBA") introduced Regulatory Technical Standards ("RTS") to set out criteria to identify categories of staff whose professional activities have a material impact on the firm's risk profile (Regulation (EU) No 604/2014). These individuals are commonly referred to as Material Risk Takers ("MRTs"). Within State Street, they are known as EU Identified Staff ("EUIS").

State Street annually reviews the variable pay arrangements used to compensate these employees in light of identified risks relevant to their respective responsibilities and also annually reviews the design and governance of the incentive compensation plans applicable to all of employees for alignment with applicable regulatory guidance.

Governance

State Street has taken a robust approach to identifying EUIS within its business and subsidiaries across EMEA. There is an EUIS Working Group in place to consider positions and any regulatory changes and it is made up of representatives from the corporate and control functions. It provides recommendations to the EUIS Advisory Group, which is made up of senior EMEA or International Heads of those same functions. The EUIS Advisory Group will then make any proposed changes to EUIS positions to be approved by the SSBL S.C.A. Board of Directors.

Process

Qualitative Review of the EUIS identification

In recognition of the fact that individuals may be EUIS without meeting specific criteria under the EBA Regulatory Technical Standards (“RTS”)², Regulation (EU) No 604/2014 State Street applies a broad interpretation when identifying the list of individuals who may potentially be EUIS going beyond the minimum requirements of qualitative identification criteria. Having done this, a detailed process of review is performed for each individual, considering their role, responsibilities, independent authority, and potential ability to impact on main risks to determine if an individual should be EUIS, even if they did not meet a specific qualitative criterion. All decisions to consider someone as EUIS are documented and made as part of a multi-layered review and approval process with senior representations from the business, function, country and legal entity, as appropriate. Final approval of the EUIS list for Luxembourg is provided by the Luxembourg Country Managing Director.

Quantitative EUIS identification

The detailed qualitative identification review helps inform State Street’s quantitative identification approach for EUIS. In a number of cases, the individual’s role and responsibilities will already have been reviewed by the relevant business or function head and added as EUIS under the qualitative criteria. No quantitative exclusion under Article 4(1)(a) and (b) is applied so that anyone who meets these quantitative criteria becomes EUIS.

For those caught under Article 4(1)(c) of the RTS, a secondary review is then carried out with input from the business heads and State Street’s ERM department, where appropriate. The role and responsibilities of each individual are carefully reviewed and seniority, risk impact, the organization structure and control framework are specifically considered.

² Regulation (EU) No 604/2014.

Art. 450 (1) lit. b CRR

“Information on the link between pay and performance”

and

Art. 450 (1) lit. c CRR

“The most important design characteristics of the remuneration system, including information on the criteria used for performance measurement and risk adjustment, deferral policy and vesting criteria”

and

Art. 450 (1) lit. e CRR

“Information on the performance criteria on which the entitlement to shares, options or variable components of remuneration is based”

The policies and practices as set out below apply on a global basis to all State Street employees.

Introduction

State Street’s overall aim is to attract and retain high-performing employees via its compensation strategy. State Street recognizes that for the business to succeed, it must remain competitive and cultivate an environment that encourages employees to learn and grow in their careers.

The key remuneration principles that align State Street's remuneration system with the business strategy are:

- An emphasis on total rewards means a focus on the total value of all components of pay package, rather than on the value of each one individually;
- We target the aggregate annual value of our Total Rewards Program to be competitive with our business peers;
- Funding for our Total Rewards Program is subject to affordability and is designed to be flexible based on corporate performance;
- We differentiate pay based on performance;
- We align employees' interests with shareholders' interests;
- Our compensation plans are designed to comply with applicable regulations and related guidance, including prohibiting incentives to take excessive risks;
- We unequivocally support equal pay for work of equal value.

Base Salary and Benefits

Base Salary is one element of an employee's compensation. Salary reflects individual skills and abilities relative to role requirements as demonstrated by performance. Employees are also entitled to various benefits, which are generally consistent across all job grades in a market, although they may sometimes vary by job grade based on prevailing market practices.

Role Based Allowance ("RBA")

RBA are contractual elements of fixed remuneration for a small number of employees who fulfill pre-determined criteria. RBAs are designed to deliver compensation that is reflective of the competitive market place, an individual's role, responsibility, experience, and to be in compliance with regulatory obligations. RBA terms and conditions are reviewed per applicable regulatory requirements.

The key characteristics of State Street's RBAs are as follows:

- Contractual cash payment; i.e., non-discretionary;
- Not fixed term, i.e., continuous;
- Paid in equal installments;
- Not subject to deferral or performance conditions;
- Amount or receipt of an RBA subject to review only if there is a material change in role and responsibilities;
- Not subject to risk-based adjustment (e.g., malus/clawback).

Variable Remuneration, i.e., Incentive Compensation ("IC")

State Street operates a fully flexible, discretionary bonus policy (i.e., the amount of individual variable pay may fluctuate significantly from one year to the next, depending on performance and the other factors described below, and even could be reduced to zero for any given year). The discretionary bonus policy is structured so as to achieve a balance between fixed and variable components. Given that State Street's corporate IC plan is discretionary, no formal ratio between fixed and variable pay exists at an individual level. However, in practice, robust governance processes are in place to review and ensure that the maximum ratio under CRD IV between fixed and variable pay will not be exceeded. The relevant State Street entities operating in Luxembourg have obtained the relevant shareholder approvals for 2018 to extend the default maximum ratio from 1x fixed compensation to 2x fixed compensation, which has been notified to the relevant regulator.

For EUIS, the IC award can be delivered in two separate elements: the immediate non-deferred award (an "Immediate Cash" award delivered in cash and an "Immediate Equity" award delivered in equity) and the deferred award (delivered partly in equity and partly in cash that notionally tracks a money market instrument).

Immediate Award ("Immediate Cash" and "Immediate Equity")

This is the portion of the IC that is delivered immediately following the date of communication of the award to the employee. This typically takes place during the first quarter following the year to which the award relates. An Immediate Equity award received by EUIS immediately vests in full upon grant but can only be sold or transferred after a 12-month retention period.

Deferred Award

- All deferred equity is awarded in the form of Deferred Stock Awards (“DSAs”). DSAs are effectively a contractual right to receive, on each vesting date, a set number of shares in the common stock of SSC, subject to applicable recovery terms, which may include malus, clawback, forfeiture, restrictive covenants and other conditions. The number of shares to be delivered on each vesting date is set at the award date, but may be adjusted between the award date and each vesting date through ex-post performance adjustment measures. To comply with regulatory requirements, all Deferred Equity awarded to EUIS is generally subject to a 12-month retention period post-vest during which the recipient is prohibited from sale or other transfer of the Deferred Equity. Also for EUIS, DSAs vest on an annual pro-rata basis over four years following the award date.
- Deferred Cash is delivered in the form of a non-equity instrument, namely, Deferred Value Awards (“DVA”). DVAs notionally track the performance of a Money Market Fund and are delivered in cash on the vesting date. The earnings credited to the DVAs vary based on the actual performance of the SSGA Prime Money Market Fund; however, there is no ownership interest in the Fund or any other actual investment. Earnings generally result in the credit of additional notional units as the money market fund is managed to a \$1.00 unit share price. Similar to DSAs, DVAs may be adjusted between the award date and each vesting date through ex-post performance adjustment measures. DVAs vest on an annual basis over four years.

Note that for the 2018 performance year, a “proportionality” position could be taken such that these regulatory requirements do not apply, meaning that no Immediate Equity is provided to EUIS for Luxembourg and deferred awards vest in line with standard State Street IC design (i.e., on a quarterly pro-rata basis over four years with no retention period post-vest).

The use of IC targets provides additional structure for determining annual IC awards for State Street’s most senior executives, i.e., the MC and other EVPs. Annual and long-term targets are developed based upon an assessment of the executive’s role and responsibilities at State Street and relevant competitive and market factors.

- Annual Incentive. The annual incentive payout is designed to reflect the executive's performance for the specific performance year, including on a strategic, financial and risk management basis. Therefore, the amount of annual incentive actually awarded can be expected to vary from the target compensation level based on the company's and the executive's performance from year to year. The annual incentive actually awarded is bounded by a wide range, from 0% to 200% of target to reflect performance during the year.
- Long-Term Incentive. The long-term incentive awarded is designed to reflect State Street's long-term performance trend, as well as the core responsibilities associated with the executive's role over time. Therefore, the actual long-term incentive awarded can generally be expected to remain more consistent from year to year in comparison to the annual incentive, absent a change in (1) State Street's long-term performance trend, (2) the executive's responsibilities or (3) market practices. The potential for variation of the long-term incentive under ordinary circumstances (i.e., in the absence of any of these changes) is within a narrow range of 80% to 120% of the target. The actual amount ultimately awarded within the range is based on an assessment of leadership behaviors we believe to have a long-term impact, such as prioritizing cross-organization initiatives in support of State Street's business strategy, serving as an ethical role model, enhancing a culture of compliance and prudent risk-taking and ensuring that management practices, such as diversity and inclusion and employee engagement initiatives, are in place to deliver the required talent pipeline, as well as other considerations.
- The target serves as an expectation management tool to convey the range of incentive award payout levels that may result based on corporate and individual performance, measured across a number of dimensions including risk management. The target award level represents the expected incentive award payout if corporate and individual performance is consistent with the expectations of the CEO and the Board. The ECC has full discretion to determine the actual incentive award for each MC member and EVP; however the expectation in the normal course is that actual incentive awards will be delivered within the specified range.

Structured Incentive Plan ("SIP")

A small number of employees in sales and in other roles participate in SIPs, which aim to bring the variable compensation granted to plan participants in line with the financial results they generate. SIPs also take into account non-financial qualitative performance indicators in order to mitigate against potential incentives to take excessive risks. In addition, all SIP participants receive sufficiently high fixed compensation, which also aims to eliminate incentives for excessive risk taking. All SIPs are reviewed annually by State Street's ICC and an employee's eligibility to participate in a SIP, and all amounts paid under a SIP, are subject to management approval.

Bonus Pool and Individual Compensation

The corporate IC bonus pool is based on the overall profits of the entire State Street group of companies. The primary quantitative component in the calculation of the IC pool is operating-basis Net Income Before Tax and Incentive Compensation ("NIBTIC"), i.e., the IC pool is funded as a percentage of State Street's group-wide NIBTIC which percentage is determined by the ECC at the beginning of each performance year. The ECC reviews operating-basis NIBTIC calculations and identifies any applicable adjustments to reflect its assessment as to elements of revenues and expenses that should apply or should not apply for IC purposes.

The ECC has flexibility to adjust the overall global IC pool and, in doing so, evaluates a number of factors including (but not limited to) risk, business and other considerations.

Further, the allocation of the overall global bonus pool to each business unit is determined by the SSC's CEO/Chairman by reference to business unit performance and considers many factors including those considered by the ECC. A discretionary business unit allocation process exists through the use of a business unit-level risk scorecard, which captures qualitative and quantitative data across Enterprise Risk Management, Audit, Compliance, Legal and Regulatory areas for every business unit and corporate function. The CEO/Chairman of State Street Corporation uses the results of the business unit-level risk scorecard as an input into the pool allocation process as well as the MC sub-allocation process. Individual accountability below MC level (positive or negative) will be assessed as appropriate and may inform compensation decisions.

The sub-allocation of the business unit bonus pool to an individual is then also further determined by an individual's business manager with reference to the individual's performance measured on both financial and non-financial criteria, as outlined below.

Risk Adjustment

Individual incentive awards are completely discretionary. In addition to the formal two-pronged risk adjustment process (ex-ante and ex-post compensation adjustments), in making individual incentive awards, State Street permits the use of discretionary adjustments to award for both financial and non-financial criteria, including (but not limited to) compliance and risk management performance factors, such as non-compliance with internal policies and procedures or significant audit findings, instances where there is a significant downturn in the financial performance of, or a material risk management failure, in respect of State Street or a material business unit or subsidiary. The ECC may also exercise structured negative discretion based on these factors when making awards to members of the MC and other senior executives.

State Street applies both ex-ante and ex-post adjustments to its award process for identified material risk takers, including EUIS.

As a result of these reviews and processes, State Street believes that compensation policies and practices for employees do not create risks or incentivize inappropriate behaviors that exceed State Street's levels of tolerated risk. State Street will continue to monitor developments in this area and may, as appropriate, make related adjustments to compensation practices.

Ex-ante adjustments are done prior to grant of incentive compensation and represent downward adjustments made to the amount awarded, based upon a determination that the corporation, business or EUIS/material risk taker contributed to a poor risk environment or actual or potential risk outcome during a compensation year. These are guided by risk assessments developed and implemented by ERM and approved by the RC.

Moreover, poor risk management performance, including significant or repeated compliance or risk-related violations of State Street policies, such as the Standard of Conduct, may result in *ex ante* adjustments to employee incentive compensation as part of a progressive discipline structure to hold individual employees accountable for risk management performance. Furthermore, a general forfeiture provision applies to all employees where employment is terminated for gross misconduct and applies to the entire outstanding portion of deferred compensation awards made to deferred compensation-eligible employees.

To provide for *ex-post* adjustments (after grant of award), a malus-based forfeiture provision has been incorporated into the deferred IC awards for all material risk takers, including EUIS. The provision provides for the reduction or cancellation of the amount remaining to be paid under the relevant award in the event it is determined that the actions of the material risk taker or EUIS exposed State Street to inappropriate risk and that exposure has resulted or could reasonably be expected to result in a material loss or losses that are or would be substantial in relation to the revenue, capital and overall risk tolerance of SSC or a particular business of SSC. This forfeiture provision permits the application, as appropriate; of a risk adjustment to the compensation of the responsible material risk-taker after the compensation is awarded.

For members of SSC's MC and EVPs, forfeiture also may be triggered upon misconduct that was materially detrimental to the interests or business reputation of State Street or any of its businesses (determined in State Street's discretion). Shares already delivered or cash already paid under awards to MC members are subject to recoupment, or "clawback," in specified circumstances generally relating to fraud or willful misconduct by the executive that results in material harm to State Street or a material financial restatement.

Performance Management

State Street's Performance Management process has been updated from 2018. It involves a collaborative planning process and ongoing assessments, enabling flexibility to account for evolving business priorities, more opportunities for professional challenge and discussions on risk excellence, and better performance differentiation across our workforce.

Performance Management at State Street utilizes a four-stage approach:

1) Expectation Setting

The first stage takes place at the beginning of the year as a discussion about Job Expectations and, for certain employees, Performance Priorities. Job expectations are the tasks an employee is expected to accomplish on a day-to-day basis to meet the requirements of the job. They are set in partnership between the manager and employee. Performance Priorities are dynamic personalized goals – often shorter term in nature – that tie to a larger business or company goal and develop the employee’s skills beyond core responsibilities. Performance Priorities help ensure that an employee’s time is spent where it makes the biggest impact on the business and can be updated throughout the year.

2) Check-Ins

Stage two focuses on the facilitation of regular review and feedback between the employee and manager throughout the year. Ongoing performance discussions about job expectations and/or performance priorities take place as monthly check-ins throughout the year. Check-ins are coaching conversations between the manager and employee about progress towards job expectations and/or performance priorities. Employees have a regular opportunity to receive transparent feedback about performance, respond to feedback, and engage in career development and internal mobility discussions.

3) Snapshots

The third stage is the manager’s evaluation of employee performance three times per year (twice for 2018) using performance assessments called Snapshots. Snapshots enable managers to evaluate employee performance from the following perspectives: Job Expectations; Performance Priorities, where applicable; Performance vs. Peers; Risk Excellence; and Leadership Qualities.

4) Year-end Summary/Recap

The final stage is the Year-end Summary/Recap conversation between manager and employee. These discussions typically take place at the last Check-in of the year and recap performance feedback the manager provided the employee throughout the year. During this Year-end conversation, managers summarize performance by assigning a Performance Category to the employee designed to recap performance. Performance categories are set on a five-point scale (Frequently Exceeding, Sometimes Exceeding, Achieving, Under Performing, and Progressing/New to Role).

Results from the Snapshots generate Compensation Guidelines to help managers prioritize pool allocations to make Pay for Performance decisions. At the end of the year, Snapshot results are assessed and employees are prioritized into three Pay for Performance categories for Compensation Guideline decisions.

Both the Year End Performance Summary and the Snapshots inform compensation decisions. In addition to Snapshots, managers also consider business and company performance, an employee's competitive position relative to market data and the relevant salary range, affordability and any risk excellence considerations.

Art. 450 (1) lit. f CRR

"The main parameters and rationale for any variable component scheme and any other non-cash benefits"

For the 2018 performance year, IC awards consisted of deferred awards and immediate cash payments. The allocation of deferred compensation is formulaically-driven based on total value of an individual's 2018 IC. The proportions of individual IC awards that are awarded in each compensation vehicle will vary year-to-year and by variable pay level, with employees at higher variable pay levels being awarded a higher percentage of equity. Variable pay awards for EUIS are compliant with the relevant regulatory requirements.

Guaranteed Bonuses and Buy-out Awards

State Street applies a globally consistent policy on guaranteed bonuses and buy-out awards. For guarantees, where a strong business case can be made to justify such an award, this rationale will be reviewed along with the individual facts and circumstances of the award. Any such awards that are proposed must meet the following criteria:

- Awards must be only made to new hires;
- Awards must not last longer than 12 months;
- Awards may only be made in exceptional circumstances;
- At the time of payment, sufficient equity, liquidity and capital resources are available.

State Street may, from time to time, buy out existing awards for new hires. Where this is the case, State Street will, as far as possible, match but not exceed the quantum of existing awards and structure (including vesting schedule) of existing awards. Buy-outs are subject to the deferral requirements of the relevant regulations and appropriate evidence is sought of existing awards prior to the award of a buy-out.

Retention Awards

Additional variable remuneration may be awarded to retain employees and forms part of the variable remuneration. Retention awards must meet the following criteria:

- Awards may only be made if there is a strong business case, on an exceptional basis, and their payment is aligned with the applicable organizational and risk strategies;
- Awards are granted after the retention period/retention event has been achieved.

Recognition Awards

Certain employees with exemplary risk management performance are eligible for additional “top-up” awards in recognition of their contributions to our culture of Risk Excellence. These recognition awards form part of the variable remuneration. For 2019, all recognition and referral programs that are not administered centrally have been suspended.

Discretionary Pension Plans

State Street does not currently operate any discretionary pension schemes.

It should be noted that SSBL S.C.A is able to disapply a certain number of the specific remuneration requirements required under CSSF Circular 17/658 on the basis of the guidance issued by the CSSF in CSSF Circular 11/505.

It is hence on a voluntary basis that SSBL applies a certain number of the remuneration requirements, such as risk adjustment, deferral policy and vesting criteria, and the payment of part of the variable remuneration in financial instruments.

5.2 Quantitative Information

Art. 450 (1) lit. g CRR

“Aggregate quantitative information on remuneration, broken down by business area”

(Note: all EUIS for SSBL S.C.A are aligned with State Street’s Global Services business line.)

Art. 450 (1) lit. h CRR

“Aggregate quantitative information on remuneration, broken down by senior management and members of staff whose actions have a material impact on the risk profile of the credit institution, indicating the following:

- (i) the amounts of remuneration for the financial year, split into fixed and variable remuneration, and the number of beneficiaries;
- (v) new sign-on and severance payments made during the financial year, and the number of beneficiaries of such payments; and
- (vi) the amounts of severance payments awarded during the financial year, number of beneficiaries and highest such award to a single person.

Exhibit 5-1: Quantitative Information for Financial Year 2018 (in kEUR)

	Senior Management	Other EUIS	All EUIS
Number of EUIS	7	19	26
Total Fixed Remuneration	3,467	4,090	7,557
Total Variable Remuneration	2,442	2,081	4,523
Number of EUIS	0	0	0
Total Sign-on Payments	0	0	0
Number of EUIS	0	0	0
Total Severance Payments	0	0	0

Art. 450 (1) lit. i CRR

The number of individuals being remunerated EUR 1 million or more per financial year is as the following as displayed in the remuneration amount bands stipulated in Art. 450 para 1 lit i) CRR:

Exhibit 5-2: Number of EU Identified Staff by Range**Band 1**

Above 1.0 million not exceeding 5.0 million	3
Above 1.0 million not exceeding 1.5 million	3
Above 1.5 million not exceeding 2.0 million	0
Above 2.0 million not exceeding 2.5 million	0
Above 2.5 million not exceeding 3.0 million	0
Above 3.0 million not exceeding 3.5 million	0
Above 3.5 million not exceeding 4.0 million	0
Above 4.0 million not exceeding 4.5 million	0
Above 4.5 million not exceeding 5.0 million	0

Band 2

Above 5 million	0
Above 5.0 million not exceeding 6.0 million	0

Each individual for which a data point is included in the above table qualifies as EU Identified Staff within the meaning of the disclosure information pursuant to Art. 450 (1) lit. g) and h) CRR.

Art. 450 (1) lit. h CRR

“Aggregate quantitative information on remuneration, broken down by senior management and members of staff whose actions have a material impact on the risk profile of the credit institution, indicating the following:

(ii) the amounts and forms of variable remuneration, split into cash, shares, share-linked instruments and other types;

(iii) the amounts of outstanding deferred remuneration, split into vested and unvested portions;

(iv) the amounts of deferred remuneration awarded during the financial year, paid out and reduced through performance adjustments”

For the reasons described above (neutralization of certain requirements), no quantitative information has been provided under this section.

6 Glossary

AT1	Additional Tier 1 Capital
BCBS	Basel Committee on Banking Supervision
CRD	Capital Requirements Directives
CRR	Capital Requirements Regulation
CEO	Chief Executive Officer
CIUs	Collective Investment Undertakings
CSSF	Commission de Surveillance du Secteur Financier
CET1	Common Equity Tier 1 Capital
COREP	Common Reporting
CEC	Compliance and Ethics Committee
CRSA	Credit Risk Exposure Values
ERM	Enterprise Risk Management
EUIS	EU Identified Staff
EMEA	Europe, Middle East and Africa
ECAI	External Credit Assessment Institution
ECB	European Central Bank
ECC	Executive Compensation Committee
EVPs	Executive Vice Presidents
EAD	Exposures at Default
FSB	Financial Stability Board
FX	Foreign Exchange
GHR	Global Human Resources
G-SIBs	Global Systemically Important Banks
IC	Incentive Compensation
ICCC	Incentive Compensation Control Committee
IT	Information Technology
ICAAP	Internal Capital Adequacy Assessment Process
ILAAP	Internal Liquidity Adequacy Assessment Process
LCR	Liquidity Coverage Ratio
MC	Management Committee
NIBTIC	Net Income Before Tax and Incentive Compensation
NBPRA	New Business and Product Risk Assessment
O-SII	Other Systemically Important Institution
RC	Risk Committee of the Board
RBA	Role Based Allowance
SFTs	Securities Financing Transactions
SVP	Senior Vice President
SSM	Single Supervisory Mechanism
S.A.	Société Anonyme
S.C.A.	Société en Commandite par Actions
SA	Standardized Approach
SSBT	State Street Bank and Trust Company

SSBL	State Street Bank Luxembourg S.C.A.
SSC	State Street Corporation
SREP	Supervisory Review and Evaluation Process
TRDT	Talent and Reward Differentiation Tool
UK RemCo	UK Remuneration Committee

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*This figure is presented as of December 31, 2018 and includes approximately \$32.44 billion of assets with respect to SPDR products for which State Street Global Advisors Funds Distributors, LLC (SSGA FD) acts solely as the marketing agent. SSGA FD and State Street Global Advisors are affiliated.

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