State Street Bank Luxembourg S.A.

Pillar 3 Disclosure Statement

Year ended December 31, 2014

STATE STREET

Contents

1 Scope of application (Art. 436 CRR)

1.1 Objective

This disclosure statement (the Statement) has been prepared by State Street Bank Luxembourg, S.A. (SSBL or the Bank) to comply with the disclosure requirements of the Capital Requirement Regulation (EU) No 575/2013 of the European Parliament and of the Council (henceforth "CRR"). The Statement is intended to allow market participants to assess key information with respect to the risk exposure, risk assessment processes and capital adequacy of SSBL on a consolidated level as of 31 December 2014. This Statement does not contain a discussion of all matters that may affect the capital adequacy of SSBL. Rather, information has been omitted from this Statement on the basis of materiality, i.e., if in the opinion of the management of SSBL such information would not change or influence the assessment or decision of a market participant or other user of this Statement.

Copies of this Statement are available at SSBL's main office located at 49, avenue J.F. Kennedy, 1855 Luxembourg

1.2 Organizational Structure

SSBL is a credit institution formed under the law of 5 April 1993 of Luxembourg and subject to primary supervision and regulation by the Commission de Surveillance du Secteur Financier (CSSF). Moreover, SSBL, as a significant supervised group pursuant to Art. 2, point (22) of the SSM Framework Regulation (Regulation (EU) No 468/2014 of the European Central Bank), is directly supervised by the ECB.

SSBL is an indirect, wholly-owned subsidiary of State Street Corporation ('SSC') and State Street Bank and Trust Company ('SSBT') and is a direct wholly-owned subsidiary of State Street International Holdings Switzerland GmbH ('SSIHS') which is itself a direct wholly-owned subsidiary of State Street International Holdings ('SSIH').

The Bank indirectly and wholly owns as a subsidiary State Street Bank GmbH, Germany ('SSB GmbH'), via the direct participation in State Street Holdings GmbH ('SSHG'). SSB GmbH owns various branches and two subsidiaries: State Street Holding Italy S.r.l. ("SSHI") in Italy and State Street Fondsleitung A.G. ("SSFL AG") in Switzerland. SSB GmbH holds a direct stake in SSHI (90% voting rights and 97% shares) and, via these, an indirect majority stake in State Street Bank S.p.A. ("SSB S.p.A.").

The Bank holds 124 shares of State Street Management S.A., a Luxembourg company, representing 99% of the paid-in capital of the company. The purpose of State Street Management S.A. is the administration and management service for a limited number of Luxembourg investment funds.

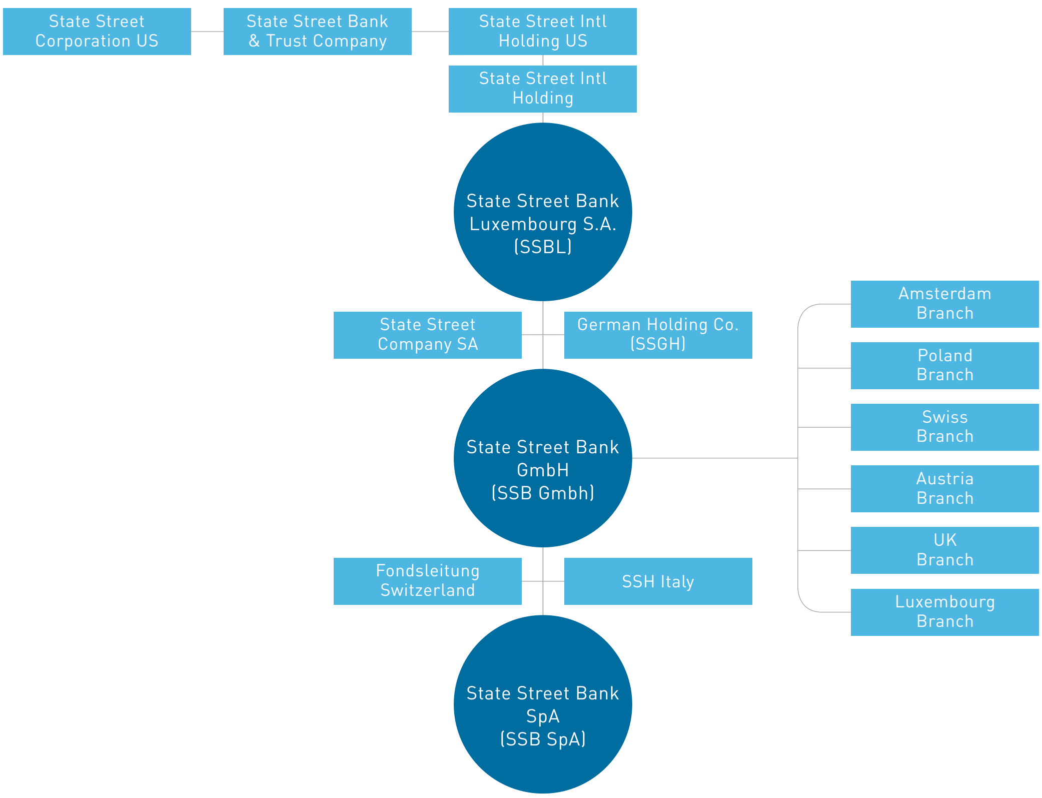
On 22 December 2014, State Street Management S.A. was renamed into State Street Company S.A. and the corporate object was changed to a holding company. The company has a dormant status as of 31 December 2014.

SSC, SSBT and SSIH are subject to supervision and regulation by the Board of Governors of the Federal Reserve System, among other US regulatory authorities. As a subsidiary of a US Bank, SSBL must comply with certain US laws and regulations applicable to subsidiaries of a US Bank in addition to the laws and regulations of the jurisdictions where it engages in business.

Applicable laws/statutory provisions of its branches and subsidiaries arising from the respective national regulations, which are relevant for performing banking and securities services, such as anti-money-laundering provisions, code of conduct and market standards, capital management and liquidity management are fully being adhered to.

SSBL provides specialized custody, accounting, recordkeeping, administration and reporting services to the institutional clients of SSC, as part of SSC's global business strategy. In particular, SSBL engages directly in central administration and custody services for investment funds domiciled in Luxembourg.

Please find below the shareholding structure for SSBL as of 31 December 2014.



1.3 Business Model

SSC is one of the world's leading financial services specialists focused on meeting the needs of sophisticated investors throughout Luxembourg and the world.
The Bank divides its solutions in the investment process to the following four capabilities, which are documented in its Business Strategy.

Investment Servicing

The Bank offers specialized, customized, scalable solutions and information such as investment manager services or shareholder recordkeeping that enables the client to focus on running their businesses. The consultative approach is leveraged to asset servicing and the strength of the integrated global network.

Trading Services

Herewith the Bank characterizes its services relating to trade execution.
The trading activities are solely based on client orders. Due to the business model only SSB GmbH has significant investment activities. Any potential investments of the Bank have to comply with its conservative and documented investment strategy.

Research and Analytics

The Bank analyzes proprietary data derived from portfolio holdings to set new performance standards, deliver optimum investment strategies and facilitate complex investment processes for its clients.

Investment Management

Due to the Bank's experience across all asset classes, risk strategies and investment approaches the Bank combines its experience in global financial markets and alliances with other industry leaders to deliver innovative investment products and services to its clients.

The Bank and its group entities provide only general information to their clients and do not act as investment management advisor in any names.

1.4 Consolidation

As of 31 December 2014 the regulatory scope of consolidation (hereafter named "The Group") comprises the following entities:

- State Street Bank Luxembourg S.A., Luxembourg
- State Street Bank GmbH, Germany
- State Street Holdings GmbH, Germany
- State Street Fondsleitung AG, Switzerland
- State Street Holdings Italy s.r.l, Italy
- State Street Bank S.p.A., Italy

All companies are fully consolidated and held for strategic reasons. Based on a CSSF approval, the participation in State Street Company S.A. is not consolidated nor deducted from own funds as it is not regarded as significant.

As per Art. 436 (d), the actual own funds of State Street Company SA (subsidiary not included in the scope of consolidation) are more than required.

The statutory accounts of SSBL are based on local GAAP (Lux-GAAP) which significantly differs from the regulatory prudential reporting based on IFRS. Hence the differences for regulatory and statutory accounting purposes arise from different accounting standards.

SSBL may transfer funds to or be the recipient of funds from its parent companies or subsidiaries from time to time as the need arises or circumstances warrant. In any case, SSBL's ability to transfer such funds or the ability of SSBL's parent companies and subsidiaries, as applicable, to transfer such funds to SSBL may be limited by regulatory capital requirements or other legal obligations or restrictions imposed on SSBL, its parent companies or subsidiaries, as applicable. For example, SSC and SSBT are limited in their ability to invest funds in international entities such as SSIH, SSBL's direct parent holding company, which may in turn limit the ability of SSIH to transfer funds to SSBL. SSIH is also limited in its ability to invest funds, on an entity-by-entity basis, in its subsidiaries.

Additional restrictions to transfer funds within the Group are driven by CRR requirements to meet large exposures and liquidity limits. Funds can only be transferred when any relevant conditions are not violated.

2 Capital

2.1 Own Funds (Art. 437 CRR)

SSBL determines its own funds pursuant to Art. 72 CRR: own funds consist of the sum of Tier 1 capital and Tier 2 capital.

As per Annex I of 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 2014:

- 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.

Table 1 Balance Sheet Reconciliation Methodology

Own Funds reconciliation	in kEUR	in kEUR
Total Equity breakdown	**3,107,882**	
Subscribed and paid up capital	65,001	
Share premium	2,066,411	
Revaluation reserves	1,470	
of which Afs revaluation reserves		20,694
Reserves including retained earnings	721,441	
of which Provision forfaitaire		18,587
of which AGDL provision		680
Income from current year	233,326	
Minority Interest	20,233	
(-) Equity elements not considered	**(254,239)**	
(-) Part of interim or year-end profit not eligible	(233,326)	
(-) Minority Interests	(20,233)	
(-) CET1 capital elements or deductions – other	(680)	
(-) Deductions breakdown	**(1,312,673)**	
(-) Goodwill accounted for as intangible asset	(952,563)	
Deferred tax liabilities associated to goodwill	32,844	
(-) Other intangible assets gross amount	(555,629)	
Deferred tax liabilities associated to other intangible assets	162,675	
(-) Adjustments breakdown	**(15,101)**	
(-) Deferred tax assets that rely on future profitability and do not arise from temporary differences 100%	(15,101)	
(-) Other transitional adjustments to CET1 Capital	**(8,613)**	
(-) Unrealised gains and losses 100%	(20,694)	
(-) Deferred tax assets that rely on future profitability and do not arise from temporary differences 80%	12,081	
Total Common Equity Tier 1 Capital	1,517,257	
Total Tier 1 Capital	1,517,257	
Total Own Funds	**1,517,257**	

As of 31 December 2014, SSBL own funds are only made of Common Equity Tier 1 instruments. The main features of the CET1 instruments are summarized in the table below (Annex II of Commission Implementing Regulation (EU) No 1423/2013):

Table 2 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.A.
2	Unique identifier (eg 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 & Consolidated
7	Instrument type (types to be specified by each jurisdiction)	Capital
8	Amount recognised in regulatory capital	65,000,975 €
9	Nominal amount of instrument	65,000,975 €
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**

The corporate capital (Bank's subscribed and paid-up capital amounts) is set at €65,000,975 divided into 400,006 shares without nominal value, each fully paid-up.

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 from the table below (Annex VI of Commission Implementing Regulation (EU) No 1423/2013):

Table 3 Transitional own funds disclosure template

	Common Equity Tier 1 capital: instruments and reserves	
1	Capital instruments and the related share premium accounts	2,131,412
2	Retained earnings	720,761
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	2,150
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**2,854,324**
	Common Equity Tier 1 (CET1) capital: regulatory adjustments	
8	Intangible assets (net of related tax liability) (negative amount)	(1,312,673)
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Art. 38 (3) are met) (negative amount)	(3,020)
26a	Regulatory adjustments relating to unrealised gains and losses pursuant to Art. 467 and 468	(20,694)
28	**Total regulatory adjustments to Common equity Tier 1 (CET1)**	**1,337,067**
29	**Common Equity Tier 1 (CET1) capital**	**1,517,257**
	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)**	**1,517,257**
	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)**	**1,517,257**
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)	6,254,043
	Of which: ...items not deducted from CET1 (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Deferred tax assets that rely on future profitability net of related tax liablity, indirect holdings of own CET1, etc)	12,081
	Of which: ...items not deducted from AT1 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Reciprocal cross holdings in T2 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc)	154
60	**Total risk weighted assets**	**6,254,043**

Table 3 Transitional own funds disclosure template

	Capital ratios and buffers	
61	Common Equity Tier 1 (as a percentage of risk exposure amount)	24.26%
62	Tier 1 (as a percentage of risk exposure amount)	24.26%
63	Total capital (as a percentage of risk exposure amount)	24.26%
64	Institution specific buffer requirement (CET1 requirement in accordance with Art. 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%
	Amounts below the thresholds for deduction (before risk weighting)	
73	Direct and indirect holdings by the institution of the CET 1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	154
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Art. 38 (3) are met)	42,761
	Applicable caps on the inclusion of provisions in Tier 2	
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022)	
80	Current cap on CET1 instruments subject to phase out arrangements	3,020
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	12,081

2.2 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.

Capital adequacy is assessed on a stand-alone and consolidated basis. The Bank adopted the standardised approach for both the credit risk and operational risk, to determine its minimum capital requirements, in accordance with the requirements from the CRR.

Liquidity adequacy is assessed on a stand-alone basis for each entity of the Group and on a consolidated basis for the Group. The investment strategy of the Bank allows maintaining a minimum liquidity buffer at all time, including in period 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.

Internal Capital Adequacy Assessment Process (ICAAP)

SSBL maintains 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 and of its liquidity on a short, medium and long term basis. The ICAAP process is intended to affirm 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 the 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 its 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.

An integral part of the ICAAP is the control of current risks and limits set by assigned internal capital. Currently the following limits are in place:

Table 4 Limits

Type of transaction		in k
Foreign Exchange	- Overall Trading Limit (SSB GmbH only)	$1,000,000
	- Net FX Overnight position (per entity – SSB SpA excluded)	$1,216
Money Market	- Counterparty Limit (unsecured)	$28,500,000
Repurchase Agreement		$67,594,500
Investment Portfolio		€ 9,200,000

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 adequacy and liquidity of the Bank and its underlying businesses.

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. Our 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.

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

Stress and Scenario Testing

In addition to the bottom-up risk identification and quantification approach, Management has further analysed the impact of the operational, business/strategy, credit, concentration and liquidity risks, which are the main risks to which the Bank is exposed. By taking into consideration actual 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 eight risk scenarios used to evaluate the Bank's capital adequacy under each circumstance. These scenarios include extreme macro-economic events, operational, credit and concentration risks. The impact of all of these scenarios was assessed across the various types of risks, including capital and liquidity level, indirect 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. 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.

The information in sections 2.2.1 to 2.2.3 discloses SSBL's capital requirements by risk class.

2.2.1 Group's Regulatory Requirement for Credit Risk (Art. 442 and 438c CRR)

The following table sets forth SSBL's Pillar 1 capital requirement expressed as the 8 percent risk-weighted exposure amounts for each of the applicable standardised credit risk exposure classes as of 31 December 2014.

Table 5 Credit Risk Requirements

Asset Class	RWA in kEUR	Capital Requirements in kEUR
Standardised approach (SA)		
Central governments or central banks	69,001	5,520
Institutions	1,143,186	91,455
Corporates	1,246,432	99,715
Covered bonds	123,731	9,898
Collective investments undertakings (CIU)	3,730	298
Equity	340	27
Other Items	252,534	20,203
Securitisation positions SA	1,812,127	144,970
Risk exposure amount for contributions to the default fund of a CCP	8,304	664
Total Regulatory Requirement for Credit Risk	**4,659,383**	**372,751**

2.2.2 Group's Regulatory Requirement for Market Risk (Art. 445 and 438e CRR)

Currently the Group is exposed to

- FX risk for which the Standardized Approach is used. FX risk arises as a result of movements in relative values of various currencies. As per Art. 352 CRR if the overall net currency position exceeds 2 percent of the credit institution's own funds, capital requirement shall be applied in respect of FX risk.

  As of 31 December 2014, the net currency position considered for FX risk is a short consolidated position of €61.182 million which is above the 2 percent of Eligible Own Funds threshold (€30.35 million).

- Traded debt instruments exposures for which the market risk is calculated according to Art. 339 CRR (maturity based calculation) and the capital requirements of 10%, for matched positions are based on Art. 339 (9a) CRR.

- Commodities exposures for which the market risk are calculated according to Art. 359 CRR (Maturity ladder approach) do not lead to any capital charge.

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

Table 6 Market Risk Requirements

Risk position	RWA in kEUR	Capital Requirements in kEUR
Traded debt instruments	30,679	2,454
Foreign Exchange	61,182	4,895
Commodities	0	0
Total Regulatory Requirement for Market Risk	**91,861**	**7,349**

2.2.3 Group's Regulatory Requirement for Operational Risk (Art. 446 CRR)

The Bank follows the Standardized Approach for the calculation and reporting of operational risk.

The following business lines and related risk weight are currently considered:

- Trading and sales (18 percent)
- Commercial banking (15 percent)
- Payment and settlement (18 percent)
- Agency services (15 percent)
- Asset management (12 percent)

The capital requirement for operational risk as per the standardized approach in accordance with the Art. 317 CRR amounts to:

Table 7 Operational Risk Requirements

Risk type	RWA in kEUR	Capital Requirements in kEUR
Operational risk	1,428,077	114,246
Total Regulatory Requirement for Operational Risk	**1,428,077**	**114,246**

2.2.4 Group's Regulatory Requirement for Credit Valuation Adjustment (Art. 384 CRR)

The capital requirements for CVA are calculated according to Art. 384 CRR (standardized method) and consider derivatives transactions towards clients and CCP`s. Transactions with a qualifying central counterparty (e.g. EUREX) are exempted from the CVA risk calculation.

Table 8 Credit Valuation Adjustment

Asset Type	RWA in kEUR	Capital Requirements in kEUR
Derivatives	74,721,143	5,977,691
Total Regulatory Requirement for CVA	**74,721,143**	**5,977,691**

2.2.5 Group's 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:

Table 9 Overview of RWA

Risk type	RWA in kEUR	Capital Requirements in kEUR
Credit risk (excluding counterparty credit risk) (CCR)	2,838,642	227,091
Of which standardised approach (SA)	2,838,642	227,091
Counterparty credit risk	83,025	6,642
Of which standardised approach for counterparty credit risk (SA-CCR)	83,025	6,642
Securitisation exposures in banking book	1,812,127	144,970
Of which SA/simplified supervisory formula approach (SSFA)	1,812,127	144,970
Market risk	91,861	7,349
Of which standardised approach (SA)	91,861	7,349
Operational risk	1,428,077	114,246
Of which Standardised Approach (SA)	1,428,077	114,246
Amounts below the thresholds for deduction (subject to 250% risk weight)	310	25
Total Regulatory Requirement	**6,254,043**	**500,323**

2.2.6 Group's 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 the Bank as of 31 December 2014 amount as follows:

Table 10 Capital Ratios

Ratio	Required Min 2014	Required Buffers 2014	Required Ratio 2014	SSBL Group 2014
CET1 Capital ratio	4.50%	2.50%	7.00%	24.26%
T1 Capital ratio	6.00%	2.50%	8.50%	24.26%
Total Capital Ratio (%)	**8.00%**	**2.50%**	**10.50%**	**24.26%**

As of 31 December 2014:

- The capital conservation buffer is 2.5%
- The countercyclical buffer amounts zero.

2.2.7 Group's Leverage ratio

As of 31 December 2014, the Leverage Ratio – using a transitional definition of Tier 1 is 8.37% and the Leverage Ratio – using a fully phased-in definition of Tier 1 is 8.49% which in both cases exceeds the regulatory minimum requirements of 3%.

3 Risk Management

3.1 Risk Profile and Strategy (Art. 435 CRR)

SSBL, in the course of its business, enters into transactions which predominantly lead to credit risk exposure, whereas market risk exposure constitutes only a minor portion of the total own funds requirements under regulatory Pillar 1. SSBL strives to maintain its strong Tier 1 capital ratio (currently 24.26% at group level) that significantly exceeds the regulatory minimum requirements as defined in Art. 92 CRR. The maintenance shall be established by strict tolerances (thresholds) for each material risk category together with an elaborated monitoring process in place.

The risk and capital management processes of SSBL have been enhanced through 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, the Management Board and the ALCCO will review quarterly SSBL's capital and liquidity adequacy as outlined in the ICAAP statement, following any significant changes to the business profile and strategy of SSBL. For instance, 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 assessment 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 with its risk appetite limits, considering the projected risk profile for the three next years.

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

SSBL's Board of Directors is responsible for overseeing the sound management of SSBL and its subsidiaries and exercising its business judgement in what it believes to be in the best interests of SSBL and its shareholders. To ensure that the business affairs of SSBL are adequately monitored and controlled, specific responsibilities are allocated by the Management Board, including the Authorized Management approved in their capacity by the CSSF and their powers under the terms of Art. 7(2) of the law of 5 April 1993 as amended and the CSSF circular 12/552 as amended ("the four eyes principles"), and in accordance with internal guidelines and policies.

Board of Directors meetings are held on a quarterly basis.

The directors are selected on their skills and experience, taking the needs of the Board of Directors 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 modified. It is ensured that the Board is of sufficient size, independence and technical expertise to conduct its activities effectively. When a director is to be elected (to replace a resigning director or as an additional director), the Chairman of the Board proposes that the person becomes a new director during a Board meeting, explains why given the expertise, experience, skills that person would bring added value in discussions and decision process. The Directors approve the new director (co-optation process). The election is ratified at the next shareholders meeting. The Chairman ensures that Finance, Legal, Treasury and Operations are represented at the Board Meetings.

As of 31 December 2014, the Board of Directors is composed of the following persons:

Didier Delvaux:	Number of directorship: 1
Martin F. Dobbins:	Number of directorship: 4
Stefan Gmuer:	Number of directorship: 9
Peter O'Neill:	Number of directorship: 2
Willie Slattery:	Number of directorship: 8

As part of the State Street organisation, SSBL, including its subsidiaries, is subject to the Risk 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. Local Internal Audit is part of the annual ICAAP review.

The Surveillance Committee of the Bank is a non-executive committee of the Management Board and consists of senior executives representing local management, Treasury, Operations, Finance, Risk Management, Compliance, Internal Audit and Legal. It provides assistance to the Management Board to:

- Ensure compliance with SSC policies and relevant local regulations

- Regularly assess the way in which SSBL Senior Management is identifying, measuring, monitoring, controlling and reporting risks to which SSBL is exposed to

The Surveillance Committee is chaired by the Chief Risk Officer and it meets on a quarterly basis. During this meeting, a management report comprising of Key Risk Indicators from the various business lines and departments is presented and discussed. The meeting minutes are provided to the Management Board as well as a summary of the key discussion and escalation points.

The Bank has also established the following committees for overall (risk) control purposes:

- Deal-Team, taking care of new products and risk impact on a client relationship level
- Operational Risk Review Forum
- Asset, Liability and Capital Consolidated Committee, responsible for prudent balance sheet, asset, liability and capital management
- Oversight Steering Committee, for the surveillance of its main subsidiaries, SSB GmbH and SSB SpA

Consistent with the Articles of Association ('les status coordonnés'), the statutory bodies of the Bank are the Assembly General Meeting of Shareholders and the Board of Directors. The annual Long Form Report on stand-alone and consolidated level submitted to the CSSF identifies the individuals who are designated to serve as the chief risk officer, chief compliance officer, the chief finance officer, the legal manager, the head of internal audit and the money laundering reporting officer of SSBL. In addition, all SSC policies specifically recognized by the Board 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 (see section 3.2).

Each business area is primarily responsible for managing the risks relevant for their activities. The Risk Management Department comes as the second line of defense and performs independent risk assessment and produces risk reporting, utilizing specific programs and tools, amongst which are the Risk Management Self-Assessment Program, the Risk and Control Self-Assessment Program, the Material Risk Identification Program, the monitoring and regular analysis of operational loss and the monthly review of Key Risk Indicators and limits for the risks deemed material to the Bank.

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:

- Assists in the formulation of the risk policies and procedures
- Assists in the identification and quantification of risks associated with the Internal Capital Adequacy Assessment Process ("ICAAP") and in the development of the ICAAP, including the Stress Testing Program
- Assists with the documentation and maintenance of the Risk Strategy and 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
- Monitors reports on risk issues and reports significant risk issues and other relevant information to the Management Board, who 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 and the ECB
- Identifies, escalates and oversees the resolution of exceptions to risk management policies and guidelines

Internal Audit is a further component of the internal control process. The department is organizationally independent and reports directly to the SSBL Managing Directors. 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 SSC corporate risk policies and guidelines, including those governing credit risk, operational risk, trading and 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.

3.3 Fundamental Strategies and Organizational Guidelines

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 and Trading Strategy
- Investment Portfolio Strategy
- Trading Policy and Guidelines
- Risk Strategy and Risk Appetite Statement
- Risk and Compliance Management Policy
- Corporate Compliance Policy
- Capital and Liquidity Management Policy
- Remuneration Policy
- COREP and Large Exposure policy
- ICAAP Statement

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

Following the review of reporting on the Risk Management Function requested by the CSSF Circular 12/552, the Authorized Management declares being aware of the various risks that changing financial markets and growing market complexity could represent for the Bank and is managing organizational and technology changes very closely. The Risk Management issues are managed satisfactorily.

The Bank's infrastructures in terms of Human Resources, the 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 and monthly 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

They 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 2014 to 31 December 2014.

3.4 Relevant Risk Types

Risks for the Group arise from the core and secondary business segments of investment servicing. The relevant risk types are:

- Credit risk
- Operational risk
- Market risk
- Concentration risk
- Liquidity risk
- Interest rate risk in the banking book
- Business/Strategic risk
- Investment risk (in the banking book)
- Securitisation risk
- Residual risk
- Pension obligation risk

3.4.1 Credit Risk

Risk Definition

The current or prospective risk to earnings and capital arising from an obligor's failure to meet the terms of any contract with the institution or its failure to perform as agreed. This risk includes residual risk, spread risk, credit risk in securitisation and cross border (or transfer) risk.

3.4.1.1 Credit Risk – On-Balance Sheet

Risk Situation

The Group is exposed to counterparty credit risk in the normal course of its business activities. Within the Group the risk originates with clients in custodial banking drawing on uncommitted lines of credit. In such cases, there is no security beyond the right to a pledge (if at all possible). Moreover, the Bank invests in the interbank market, in repo transactions and in its investment portfolio. With regard to its investment portfolio, the Bank is exposed to the risk of default by the issuers of the securities.

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. The Group's credit risk is managed through adherence to SSC's Credit and Counterparty Risk Policies and 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, the Group is applying the Standardized Approach pursuant to Chapter 2 Title II Part Three CRR and the financial collateral comprehensive method (with regard to repo transactions) pursuant to Art. 223 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, its external rating (see chapter 3.4.1.5. and tables provided by CRR (Art 114 to 134 CRR).

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

Risk situation

Off-balance sheet counterparty risk resulting from customer-driven foreign exchange contracts, the clearing of derivatives transactions and granted rent guarantees to an affiliated company. In addition, risks resulting from a guarantee against State Street Bank S.p.A. with respect to overdrafts of certain customers, a guarantee to a customer of State Street Bank S.p.A. as well as committed credit lines to two customers. In addition, potential off-balance sheet counterparty exposures due to loans which are not settled yet.

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, such as failure of borrowers.

Risk Quantification

The internal capital allocation for derivative transactions is based, from a regulatory point of view, on the Mark-to-Market Method in accordance with Art. 274 CRR.

Risk quantification is similar to the methodology for on-balance sheet counterparty risk. The details of the capital requirements for derivative counterparty risk as per 31 December 2014 can be found in the below table:

Table 11 Derivatives

	Gross positive fair value of contracts (in kEUR)	Netting benefits (in kEUR)	Netted current credit exposure (in kEUR)	Collateral held (in kEUR)	Net derivatives credit exposure (in kEUR)	RWA (in kEUR)	Capital requirements (in kEUR)
Institutions	136,006	128,454	412,437	2,159	410,278	46,357	3,709
Corporates	199,369	8,647	756,833	400,802	356,031	316,981	25,358
Total	**335,374**	**137,101**	**1,169,270**	**402,961**	**766,309**	**363,338**	**29,067**

Risk Management

Forward contracts with customers and the clearing of derivatives transactions are concluded only after granting of trading limits. These are determined by the individual ratings, as well as the respective securities volumes of customers. A possible deterioration in the credit quality of customers during the term of the contract would lead to a closer monitoring of the customer's situation and may possibly automatically lead to a cancellation of the transaction .

Risk management for further off-balance sheet credit risk is similar to the methodology for accounting counterparty risk.

3.4.1.3 Investment Portfolio – Securitisation (Art. 449 CRR)

Securitisation Risk Definition

Securitisation risk is the risk that the capital resources held by an institution in respect of assets which it has securitized are inadequate having regard to the economic substance of the transaction, including the degree of risk transfer achieved. In the process, the Group acted solely as an investor.

Credit Risk Situation and Quantification for the Investment Portfolio

In the period under review, the Bank has invested in stock of securities in order to optimize interest revenue, while taking into account the appropriate risk. The overall objective of this portfolio is to construct a well-diversified, high quality investment portfolio in accordance with the Trading Policy and Guidelines ('TPG'), as approved by the Board of Directors.

The risk-weighted exposure values in the credit risk standardized approach are calculated using the specifications of Part Three Capital Requirements \ Title II Credit Risk \ Chapter 2 Standardised Approach CRR. For this purpose the rating agencies, the McGraw-Hill Companies, Standard & Poor's Rating Services (S&P), Fitch Ratings and Moody's Investor Services, were nominated for the credit rating assessment related to the receivables category securitisations. To determine the risk weighting, the Bank used the relevant credit rating assessment in accordance with the table provided by Art. 251 of the CRR.

The following table shows the securities acquired by the Bank from its investor function broken down by exposure class and type of underlying receivables as of 31 December 2014.

Table 12 Investement Portfolio by exposure/asset class

Securitisation	CRSA Position Value (in kEUR)	CRSA Risk weight	Risk-weighted CRSA-position (in kEUR)
Residential mortgages	4,119,330.31	20%	823,866
	82,564	50%	41,282
	49,286	100%	49,286
	27,935	1250%	349,191
Car / auto loans	2,551,078	20%	510,216
Credit card receivables	48,694	20%	9,739
Collateralized Debt Obligation (CDO)	142,740	20%	28,548
Total Securitisation	**7,021,628**		**1,812,127**
Covered Bonds			
Covered Bonds	1,237,309	10%	123,731
Total Covered Bonds	**1,237,309**		**123,731**
Credit Institutions			
Covered Bonds	275,700	20%	55,140
Total Credit Institutions	**275,700**		**55,140**
Investment Portfolio			
Total	**8,534,637**		**1,990,998**

All securities are classified either Available for Sale (AfS) or Held-to-Maturity (HtM).

Liquidity Risk Situation and Quantification for the Investment Portfolio

Art. 449 (b) nature of other risks including liquidity risk inherent in securitised assets;

The liquidity risk of the investor activities of the Bank is due to the long-term retention of liquid assets in the securitisation positions held–to-maturity. However, since the majority of positions in Treasury according to the criteria of the European Central Bank as collateral at the Deutsche Bundesbank and at the Central Bank of Luxembourg, the Bank has no material liquidity risk related to the securitisation exposures. The expected maturities of held for trading securitisation are accordingly monitored continuously.

Furthermore the Bank identifies and monitors concentrations within the securitisation positions with respect to countries and product types.

Market Risk Situation and Quantification for the Investment Portfolio

Art. 449 (f) Processes for observing changes in credit and market risk

For observing changes of counterparty risk and market risk of securitisation positions pre-trade and regular post-trade monitoring processes were established. The pre-trade process aims to review all relevant information to the internal and regulatory requirements at an early stage. Here, a risk assessment of the new security is performed, which is also used as evidence pursuant to Art. 405 & 406 CRR.

Within the regular post-trade monitoring, extensive reporting and discussions take place in the monthly Surveillance Group Meeting in addition to a regular scenario-based stress test, which considers the risks for the entire investment portfolio. In addition, the quarterly held ALCCO is the decision making body regarding liquidity and investment matters of the Bank.

3.4.1.4 Hedging and Credit Risk Mitigation Techniques

Based on the business model and the resulting asset policy, the risk assets of the Bank are essentially restricted to client overdrafts, the Bank's own portfolio of securities, as well as unsecured and secured money market transactions (security sale and repurchase agreements).

Credit risk mitigation techniques are only used in relation to repurchase agreements conditional upon their original form. In this context, the pledged securities assigned by way of collateral are considered to be securities. For this purpose, the Bank applies the comprehensive method for financial securities.

From a regulatory point of view, only the financial securities which are considered as eligible pursuant to Art. 197 and 198 CRR are valued at their market value in accordance with the regulatory haircuts (maturity mismatch adjustment, market value volatility adjustment, currency volatility adjustment). As per national discretion, FNMA[1] securities, and FHLMC[2] securities, received financial collaterals are not considered as eligible and excluded from the credit risk mitigation process.

As part of the economic risk consideration when calculating the ability to bear risk, all of the securities are considered after deduction of an internal haircut, which as a general rule is conservative.

The legal bases for these transactions are the ISDA and GMRA framework agreements.

1 FNMA stands for Federal National Mortgage Association also known as Fannie Mae's
2 FHLMC stands for Federal Home Loan Mortgage Corporation also known as Freddie Mac's.

The strategy and associated processes with regard to the provision of collateral for these transactions are documented in the Trading Policy and Guidelines and the corresponding organizational guidelines.

The securities assigned by way of collateral are valued daily. The validation of the valuation is performed within the Risk Management department.

The Management Board regularly receives reports on the security sale and repurchase agreements, and in particular in relation to the risk position and the development of the securities assigned by way of collateral.

Following the asset policy, neither any netting nor hedging has been or is applied to cover credit risk. Furthermore no guarantors are accepted to substitute counterparty credit risk.

3.4.1.5 Further Information on the Standardized Approach for Credit Risk (Art. 442 and 444 CRR)

To determine the risk weighting for credit risk applying the Standardized Approach, the Group has nominated the following rating agencies (ECAI):

Table 13 Rating Agencies

Credit assessment-related asset category	Rating agency
Central governments	**Standard & Poor's Ratings Services** (S&P, brand name of the McGraw-Hill Companies)
Institutes	**Standard & Poor's Ratings Services** (S&P, brand name of the McGraw-Hill Companies), following the risk assessment of the central government where the institute has its legal seating
Securitisation	**Standard & Poor's Ratings Services** (S&P, brand name of the McGraw-Hill Companies)
	Fitch Ratings
	Moody's Investors Service

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:

Table 14 Credit Risk Exposures by exposure type

Exposure type	Gross exposure (in kEUR)
Credits, commitments and other non-derivative off-balance sheet positions	29,505,408
Securitisation	7,021,628
Derivatives	1,169,270
Total	**37,696,306**

b) An analysis of exposures by geographic region:

Table 15 Credit Risk Exposures by region

Exposure Class	Africa (in kEUR)	Asia (in kEUR)	Australia (in kEUR)	Europe (in kEUR)	Latin America (in kEUR)	North America (in kEUR)	Total (in kEUR)
Central governments or central banks	–	–	–	375,569	–	–	375,569
Institutions	23	18,909	265,301	8,338,759	54	16,424,953	25,047,999
Corporates	12,892	3,218	42,075	3,482,327	2	183,101	3,723,615
Exposures in default	–	–	–	20	–	–	20
Covered bonds	–	–	–	1,237,309	–	–	1,237,309
Collective Investment Undertakings (CIUs)	–	–	–	3,730	–	–	3,730
Equity exposures	–	–	–	154	–	–	154
Other items	–	–	–	286,283	–	–	286,283
Securitisations	–	–	162,905	6,772,901	–	85,821	7,021,628
Total	**12,915**	**22,127**	**470,281**	**20,497,052**	**56**	**16,693,875**	**37,696,306**

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

Table 16 Credit Risk Exposures by economic sector

Exposure Class	Banks (in kEUR)	Investment funds (in kEUR)	Other services (in kEUR)	Total (in kEUR)
Central governments or central banks	375,569	–	–	375,569
Institutions	25,047,999	–	–	25,047,999
Corporates	–	3,723,615	–	3,723,615
Exposures in default	–	20	–	20
Covered bonds	1,237,309	–	–	1,237,309
Collective Investment Undertakings (CIUs)	–	3,730	–	3,730
Equity exposures	–	–	154	154
Other items	–	–	286,283	286,283
Securitisations	–	–	7,021,628	7,021,628
Total	**26,660,878**	**3,727,364**	**7,308,064**	**37,696,306**

d) An analysis of exposures by residual contract maturity:

Table 17 Credit Risk Exposures by maturity

Exposure Class	< 1 year (in kEUR)	≥ 1 year under < 5 year (in kEUR)	≥ 5 year (in kEUR)	Total (in kEUR)
Central governments or central banks	375,569	–	–	375,569
Institutions	24,560,053	447,880	40,066	25,047,999
Corporates	3,560,622	137,992	25,000	3,723,615
Exposures in default	20	–	–	20
Covered bonds	146,134	573,776	517,400	1,237,309
Collective Investment Undertakings (CIUs)	3,730	–	–	3,730
Equity exposures	154	–	–	154
Other items	286,283	–	–	286,283
Securitisations	361,833	1,486,448	5,173,347	7,021,628
	29,294,397	**2,646,096**	**5,755,813**	**37,696,306**

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:

Table 18 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%	347,909	347,909
2%	238,176	238,174
4%	–	–
10%	1,237,309	1,237,309
20%	31,629,329	12,192,550
35%	–	–
50%	169,030	168,692
70%	–	–
75%	–	–
100%	4,018,933	1,581,327
150%	–	–
250%	27,684	27,684
370%	–	–
1250%	27,935	27,935
Other risk weights	–	–
Total	**37,696,306**	**15,821,582**

g) The total amount of exposures which are collateralized is provided in the table below (Art. 453 CRR):

Table 19 Asset Class collateralized

Asset Class	Credit risk mitigation (CRM)	Gross Exposure Standardized Approach (in kEUR)
Banks	Covered by eligible financial collateral after haircuts	19,843,737
	Covered by guarantees	–
	Covered by credit derivatives	–
Total		**19,843,737**

3.4.1.6 Definition and Process – Impaired and Past Due

Definition of Default

A default is defined as a debtor not meeting its legal obligations according to the debt contract, e.g., a debtor has not made a scheduled payment, or has violated a loan covenant of the debt contract. A default is the failure to pay back a loan. Default may occur if the debtor is either unwilling or unable to pay their debt. This can occur with all debt obligations a client holds with a credit granted.

With regard to Art.178 CRR, a default is considered to have occurred when the obligor is past due more than 90 successive calendar days on any material part of its overall credit obligation to the institution or to a group enterprise belonging to the group of institutions or financial holding group to which the institution belongs or the obligor is unlikely to pay its credit obligations to SSBL or any of the above enterprises in full, without recourse by SSBL to actions such as realising security.

Definition of Overdue

A loan is overdue if the debtor is not able to fulfil its payment obligations or is fulfilling its payment obligations past due the contractual due dates, as long as the debtor is not defaulted in the sense mentioned above.

3.4.1.7 Risk Provision

As part of the early risk 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.

As of 31 December 2014, none of the Group's lending commitments were assigned to intensive care, restructuring or liquidation.

Due to the above-mentioned situation, the quantitative information is not provided.

3.4.2 Operational Risk

Risk Definition

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes IT risks, legal risks and compliance risks, but also sub-custodian risk and outsourcing risk. For the purpose of measuring risks, the definition does not extend to business risks and reputational risks, even though these types of risks are effectively managed by a sound management of operational risks.

Risks which result from outsourcing operations (outsourcing risks) are treated as a special type of operational risk. Functions are deemed to be outsourced when a third-party or a State Street's affiliate is assigned to perform activities and processes related to the execution of banking transactions, financial services or other services typical for the Bank, which it would otherwise perform.

Risk Situation

Operational risks can be found mainly in the services and products which the Bank supplies and sells, in the technology used and in the processes applied by employees to maintain daily operations. While the use of information processing systems can minimize operational risks, dependence on these systems and the applications on which they are based can itself represent a significant operational risk. Moreover, there are significant operational risks inherent in processes that require manual processing.

Legal risks exist in the form of the risk of loss that might arise from not performing contractually agreed obligations and in the form of potential litigation associated with the Bank's business activities.

Compliance risks exist both from an internal and an external perspective. On the one hand, the Bank operates within a complex legal and regulatory environment. On the other hand, it must also comply with internal standards and guidelines set by the Group's parent company.

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 thanks to the below controls and 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.

Outsourcing risks are inherent in the services and products performed by the external services provider, the technology used and the processes themselves. The outsourcer is exposed to an outsourcing risk due to the dependence on the timely and accurate supply of services by the external service provider. In the case of the Group, the operations are mainly outsourced to SSC's affiliates, which allows a better control over those exposures.

Risk Strategy

The Bank's risk strategy is based on the early recognition of operational risks and ensuring that the measures taken to mitigate the risks are appropriate. This includes the effective management of operational risks and compliance with the applicable regulations. SSBL complies with SSC's operational risk policy and guidelines, which codify SSC's approach to identifying, measuring, managing, and controlling operational risk. The guidelines document SSC's practices to ensure that operational risk is managed and measured in a consistent manner across SSC and describe the key elements that should be present in business areas' operational Risk Management programs.

Risk Quantification

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.

To measure the degree to which operational risks are covered by the capital, the Group 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.

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.

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 the Group's and locally specific internal requirements. Compliance with the required controls is monitored by a comprehensive testing program of running tests. 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.

SSBL's Management Board reviews the Bank's operational risk profile regularly.

3.4.3 Market Risk

Risk Definition

Market risk is defined as the current or prospective risk to earnings and capital arising from adverse movements in bond prices, security or commodity prices or FX rates. This risk includes FX risk 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 market risk from money market transactions, from investment portfolio, from repo transactions and from amounts denominated in foreign currency held on nostro accounts.

The market risk strategy in relation to the Bank's investment portfolio is to construct a well-diversified, high quality investment portfolio of Euro denominated securities in accordance with the Trading Policy and Guidelines, as approved by the Board of Directors. A robust daily monitoring of the portfolio market value, as combined to a program of stress testing and risk metrics calculation, contribute to maintain a low market risk profile of the portfolio. Due to the very conservative strategy in building the investment portfolio as well as the strong control framework in place, this source of risk is not being considered as material.

The collateralized securities in the reverse repo transactions are also subject to market price fluctuations, potentially resulting in potential uncollateralized credit risk. To account for market and FX volatility, prudent haircuts are applied. Adequacy of the haircuts is regularly back-tested against historical evolution to minimize this source of risk.

There is no FX exposure from FX transactions initiated by clients as each FX is immediately countered by a hedging transaction. 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. The foreign currencies held by clients are held in nostro accounts of an equivalent amount so that no net FX exposure can arise.

The strategy consists of determining exactly any market risk and assessing the future exposure versus the risk appetite before being exposed to the corresponding risk position and also closely monitoring existing risks. Actively adopting market 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.

As of 31 December 2014, the capital requirement for FX risk and Commodities (8% of the net currency position considered) is equal to €7 million that corresponds to 1.5 percent of the total capital requirement (€500 million including €379 million of credit risk capital requirement and €114 million of operational risk capital requirement).

3.4.4 Concentration Risk

Risk Definition

An aspect of credit risk is the concentration of risks which could refer to a large single exposure or significant exposures to a group of clients/counterparties whose default risk depends on factors they share in common, e.g., development of the industry, geographical location or type of product.

Taking a wider definition, concentration risks result from any kind of concentration, even among liabilities or a limited number of sources of income.

According to the CSSF Circular 13/574, the concentration risk is analyzed and monitored by considering possible interactions between different risk exposures within a single risk category (intra-risk concentration) as well as interactions between different risk exposures across different risk categories (inter-risk concentration).

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, as this is primarily attributable to the depository banking business, 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 where the Bank acts as the custodian bank. 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. Concentration risks in the Bank's own portfolio could arise from securitisation of claims of a similar nature.

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

Risk Strategy

Generally, the risk strategy is to avoid concentrations of risks taking into account the business model of the Bank. Existing concentrations of risk are monitored qualitatively and, where possible, quantitatively as well.

Specifically with regard to default risks the risk strategy is to avoid concentrations in the sense of specific industries, geographical location or type of product. Such default risks are always measured strictly at the level of the respective credit unit.

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.

Risk Quantification

These risks are quantified using a top-down approach. The financial scenario effects are considered when measuring the degree to which the Bank is willing to accept this risk. Stress testing on credit concentration risk and on business concentration risk are part of the ICAAP process.

3.4.5 Liquidity Risk

Risk Definition

Liquidity risk is defined as the current or prospective risk to earnings and capital arising from SSBL's inability to meet its liabilities when they come due.

When assessing its current liquidity risk exposures, the Bank considers funding, market and contingent liquidity risks.

Risk Situation, Strategy and Management

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 strategy of the Bank's own portfolio is focused on a constant minimum of liabilities. As a result the maturities on the asset side have increased, but the remaining operative liquidity is quite high. Moreover, the majority of the items in the Group's own portfolio is eligible for repo transactions with the Central Bank. The risk strategy is based on matching the terms of assets and liabilities appropriately in order to achieve an optimal result from cash management and avoiding liquidity risks by minimizing mismatches between assets and liabilities to the greatest extent possible.

Moreover, the Bank implemented respective quantitative instruments including early warning indicators, liquidity ratios, liquidity overviews as well as several stress test and scenarios analysis. This enables the Bank to identify a potential liquidity shortfall early. The Bank manages its liquidity risk by forecasting cash flows, anticipating investment and financing activities, and by active involvement of senior management in the review and approval of planned expenditures.

3.4.6 Assets Encumbrance

Art. 443 CRR Unencumbered Assets in the context of Derivative contracts

In order to provide future and other derivative contracts to its clients, State Street Bank GmbH is either a direct member of clearing houses that undertake to clear respective derivative contracts traded on a specific market or it is an "indirect" member of such clearing system by having a contractual relationship with a direct clearing member. Respective clearing houses include, inter alia, ICE Clear Europe Ltd., London, UK, and EUREX Clearing Aktiengesellschaft, Frankfurt am Main, Germany.

As a direct or indirect clearing member, State Street Bank GmbH provides collateral in the form of margins or otherwise as security for its obligations or liabilities vis-à-vis the clearing house or direct clearing member to which it is connected. Encumbrance of assets in this context takes place by (a) transfer of cash, (b) transfer of title to securities, or (c) pledging securities held with a central securities depository or another credit institution in favour of the respective clearing house or direct clearing member to which State Street Bank GmbH is connected.

With regard to the further terms and conditions under which such asset encumbrance takes place, generally, the general terms and conditions (clearing rules) set up by the relevant clearing houses apply. With respect to ICE Clear Europe Ltd. and EUREX Clearing Aktiengesellschaft, the relevant clearing rules are publicly available on the homepages of such entities.

Art. 443 CRR Unencumbered Assets in the context of Enhanced custody business

State Street Bank GmbH offers securities lending services to its clients by which it borrows securities on the market and lends them to its clients.

In the context of borrowing the securities from other market participants (which may occur through another State Street entity acting as agent of respective market participants), State Street Bank GmbH provides collateral to such market participants; insofar, encumbrance of assets takes place. Collateralization takes place by (a) transfer of cash, (b) transfer of title to securities, or (c) pledging securities in favor of the respective market participant acting as lender vis-à-vis State Street Bank GmbH.

Under the respective agreements which are generally governed by English law, marking to market of collateral takes place, i.e., the market value of collateral to be delivered to the lender must equal the sum of (a) the aggregate amount of the loaned securities and (b) a respective margin (Aufschlag); such market value is calculated on an intra-day basis. If at any time the collateral delivered exceeds or falls below such sum, the respective excess or deficiency must be eliminated by redelivering or providing further collateral, as relevant, upon demand of the other party.

As of 31 December 2014, only transfer of cash has been used by State Street Bank GmbH as collateral under the securities lending agreements with respective market participants.

On the other hand, State Street Bank GmbH receives the securities from the borrowing market participants and hands them over to their clients. State Street Bank GmbH regards these securities as collateral received from the borrowers which is encumbered in favor of its clients.

SSBL regards the pool of unencumbered assets as crucial for its funding situation. The current situation of Assets Encumbrance is as follows:

Table 20 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	175,428	–	35,762,358	–
030	Equity instruments	3,730	–	154	154
040	Debt securities	–	–	8,534,637	8,533,421
120	Other assets	131,616	–	1,979,358	–

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
130	Collateral received by the reporting institution	1,210,874	28,841,314
150	Equity instruments	168,146	–
160	Debt securities	737,210	13,862,584
230	Other collateral received	285,955	–
240	Own debt securities issued other than own covered bonds or ABSs	–	–

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	7,132	1,382,572

For the first disclosure, the disclosure on asset encumbrance is based on end of December 2014 figures instead of the median value observed in 2014.

3.4.7 Interest Rate Risk in the Banking Book (Art. 448 CRR)

Risk Definition

Interest rate risk in the banking book refers to the risk that interest rates could develop to the disadvantage of items carried in the investment portfolio and to the impact this would have on projected cash flows as well as the potential impact on market value/present value of securities.

Risk Situation, Strategy and Management

With the exception of the Bank's own portfolio, the majority of interest-bearing positions in the banking book are on call. However, the significantly longer terms of the Bank's own portfolio only have a minor impact on the risk exposure of the Bank due to the fact that the investment focuses on securities with variable yields where interest-rate adjustments are made at short intervals. The risk strategy here allows for a manageable number of interest risks in the banking book to secure optimal management of assets and liabilities.

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 bp/-200 bp), some additional interest rate shocks (+/-50 bp/+/-100 bp/+/-200 bp) are used for internal monitoring processes.

The impact of the interest rate shocks in accordance with the CSSF circular 08/338 as of 31 December 2014 is as follows:

Table 21 Interest Rate Risk (IR Shock)

	Interest rate risk Interest rate shock – parallel shift of the yield curve	
Present value change	**+ 200 BP**	**– 200 BP**
in kEUR	(56,650)	4,391
in % of the own funds	-3.73%	0.29%

3.4.8 Business Risk

Risk Definition

Business risk is defined as any risk to a firm arising from changes in its business, including the risk that the firm may not be able to carry out its business plan and its desired strategy.

Risk Situation, Strategy and Management

The Bank considers its exposure to business risk as being: a strategic risk that can be materialized in case the bank decides to enter into a new market whereas this one is heading into a downturn; a macroeconomic risk where most of the Bank's revenues are based on market-dependent factors, such as the assets under management, hence exposing SSBL to a potential mismatch of costs and revenues in case an external adverse event such a market crash leads to a strong drop in the Bank's revenues.

Management and monitoring of these risks 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. The business risk is managed through early identification of potential business exposures and related implementation of risk mitigation measures. In practice, the 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.

Risk Quantification

Risks related to client relationships are 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.

3.4.9 Investment Risk in the Banking Book

Risk Definition

Investment risk refers to the danger of potential losses on investments resulting from the loss of dividend payments, impairments, losses on sale, or a reduction in reserves.

Risk Situation, Strategy and Management

On consolidated level the Bank owns the participation in State Street Company S.A., Luxembourg. The risk strategy pursued here is to accept the risk and monitor and manage it using appropriate qualitative measures.

Risk Quantification

As a medium risk, the risk is quantified using the methods according to the Art. 133 CRR on equity exposures.

3.4.10 Residual Risk

Risk Definition

The risk that recognized risk measurement and mitigation techniques used by the credit institution prove less effective than expected.

Risk Situation, Strategy and Management

The Bank's strategy is to conduct business with higher-rated counterparties, to reduce counterparty risk through enforceable/contractual netting arrangements and to mitigate residual risk, to the extent possible, through the use of collateral agreements.

Residual risk for the Bank relates to the use of collateralized assets as credit risk mitigation techniques for the investment of the liquidity towards SSBT (repo transactions). The collateral eligibility and sufficiency is defined in terms of limits which are monitored daily. Any breach is reported to the senior management for resolution.

Risk Quantification

The Bank measures the collateral mitigation using haircuts as envisaged by the local regulator, as well as more punitive internal haircuts.

Analyzing the market data of the collateral securities provides an estimate of the marketability of the assets through the calculation of market haircuts. The relevant differences between the regulatory and the market haircuts will be crystalized in the residual risk add-on of capital absorption.

Stress tests on the devaluation of the collateral value are performed regularly to identify any concern in terms of the mitigation power of the collateral, or in terms of liquidity impacts.

3.4.11 Pension Risk

Risk Definition

The risk to a firm caused by its contractual or other liabilities to or with respect to a pension scheme (whether established for its employees or those of a related company or otherwise). It also means the risk that the firm will make payments or other contribution to or with respect to a pension scheme because of a moral obligation or because the firm considers that it needs to do so for some other reason.

Risk Situation, Strategy and Management

The Bank offers an occupational pension scheme financed by the employer providing benefits in case of retirement, death and disability.

This scheme allows for employees to invest personal contributions in the pension plan in order to supplement the retirement benefits provided by the employer's contributions, in accordance with local regulations.

Because the Employee and not the Bank is responsible for, and is the beneficiary of his/her own personal contributions to the scheme, which can be administered through payroll, this risk has been deemed low materiality and is not quantified.

3.5 Risk Reporting

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

Reporting to the Management includes:

- MIS report on operational risk
- Client profile report
- Audit observations and remedial action plans
- Compliance report
- Risk Management initiatives
- COREP and Large Exposure reports
- Oversight report on the main subsidiaries
- Surveillance report on all the key risks of the Bank

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

4 Remuneration Practices and Policies

4.1 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 oversight of the compensation system at State Street. The ECC has oversight of all compensation plans, policies and programs in which senior executives participate.

ECC members are senior professionals with strong financial/business knowledge, who are independent members of the Board of State Street Corporation, 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. There are currently five (5) members of the ECC. During 2014, the Committee held 6 meetings.

The Chair of the Risk and Capital Committee of the Board (RC) is also a member of the ECC, providing continuity between the committees. It should be noted that the RC is responsible for reviewing and discussing with management State Street's assessment and management of risk. In addition, other independent directors who are not members of the ECC attend the ECC meetings from time to time.

For the 2014 compensation cycle, State Street implemented a new 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") and/or other executive officers; and

ii) approve these consultants' and advisers' fees and other retention terms.

The ECC engages Meridian Compensation Partners, an executive compensation consulting firm, to provide compensation consulting as part of its review of executive compensation, and retains its own external legal counsel, Shearman & Sterling LLP. Note that the change from Aon Hewitt to Meridian Compensation Partners, as the ECC's independent compensation consultant, was effective for the 2014 compensation cycle.

The ECC operates under a Board-approved charter. Under this charter, the ECC oversees all State Street's compensation plans, policies, and programs in which senior executives participate and incentive, retirement, welfare and equity plans in which certain other employees of the group participate. It also oversees the alignment of the group's incentive compensation arrangements with the group's financial safety and soundness consistent with applicable related regulatory rules and guidance.

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 Executive Vice Presidents (EVPs) and all employees who are among the top 100 in total compensation.

The ECC approves the overall allocation of the IC plan pool. The CEO allocates IC pools to business units and corporate functions based upon a variety of factors, which may include budget performance, achievement of key goals and other considerations. The final expenditure and overall allocation among current and deferred awards is then reviewed by the ECC prior to payment.

Additionally, the ECC is presented with detailed performance assessments and compensation information for all EU Material Risk Takers, including details of individual performance, with a particular focus on financial and risk performance as well as compensation proposals and compensation history. The Head of EMEA and/or Vice Chairman of State Street reviews the assessments and attends the ECC's February meeting to present the assessments to the ECC for its review and approval.

The ECC meets with senior risk officers to discuss the implications of compensation policy and practices for risk and risk management. Human Resources are heavily involved in overseeing the remuneration process and this process is well documented.

The Chair of the RC is also a member of the ECC, providing continuity between the committees. It should be noted that the RC is responsible for reviewing and discussing with management the Company's assessment and management of risk. In addition, other independent directors who are not members of the ECC attend the ECC meetings from time to time.

In its annual process, the ECC receives regular updates, including by its independent compensation consultant and outside legal counsel, on regulatory and governmental actions and initiatives concerning compensation and related risk 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 and Asia concerning compensation and risk principles; and specific actions and inquiries undertaken by state and federal 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. These updates focused on developments in the alignment of incentive compensation with risk principles, and they informed the decisions of the ECC in making its incentive compensation decisions for 2014.

Consistent with the principles outlined in this evolving framework, State Street has established a committee of senior representatives of our Enterprise Risk Management (ERM), Compliance, Internal Audit, Finance, Legal and Global Human Resources 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 organization. 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 the alignment of these arrangements with applicable regulatory guidance and regulations.

In addition, State Street has identified those employees throughout the organization who individually or as a group are responsible for activities that may expose us to material amounts of risk. State Street annually reviews the incentive compensation arrangements used to compensate these employees in light of identified risks relevant to their respective responsibilities. State Street also annually reviews the design and governance of their incentive compensation plans applicable to all of their employees for alignment with applicable regulatory guidance. Representatives of the control function committee described above participated in these activities and the results of these reviews were evaluated by that committee. With respect to the 2014 compensation year, the Chief Risk Officer and Chief Human Resources Officer presented the results of these reviews to the ECC in December 2014.

In 2010, State Street introduced a formal process for integrating the perspectives of the Risk and Capital Committee (RC) into compensation decisions made by the ECC. 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.

In making individual incentive awards, State Street permits the use of discretionary adjustments to awards for noncompliance with internal policies and procedures or significant audit findings. The ECC may also exercise negative discretion based on these factors when making awards to members of the MC.

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

As a result of these reviews and processes, State Street believe that compensation policies and practices for employees do not create risks or incentivize inappropriate behaviour that are reasonably likely to have a material adverse effect on the company. State Street will continue to monitor developments in this area and may, as State Street believe's appropriate, make related adjustments to compensation practices.

Art. 450 (1) lit. b CRR
"Information on the link between pay and performance",

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.

There are five key principles that define the compensation strategy:

- An emphasis on total compensation
- A 'pay-for-performance' philosophy. Company, business unit and individual performance drives overall compensation levels
- A competitive compensation package to attract and retain key talent. State Street targets the aggregate annual value of our total compensation program to the median of our corporate peer group
- An alignment with shareholder interests as reflected through the mix of cash, instruments and equity compensation.
- Compliance with applicable regulations and related guidance, including limiting incentives to take excessive risks. Through a process of structured discretion in determining IC pool funding and individual incentive award decisions, and the use of deferred awards (e.g., equity, DVAs, SSGA LTIs, PRUSs) as a pay delivery vehicle (with ex-post adjustments during the deferral period), our compensation system is made appropriately risk-sensitive and links current decisions and actions to future risk outcomes. A comprehensive set of factors such as risk and capital are considered in addition to business performance and competitiveness.

Base Salary

Base Salary is one element of an employees' compensation. Employees' base salaries are determined by role, job band and by a number of other factors such as individual performance, proficiency level, year-over-year increase guidelines, budget and position to market.

Role Based Allowance

Role Based Allowance is a new element of an employee's fixed compensation introduced for the 2014 performance year to ensure that State Street can continue to deliver compensation that is reflective of the competitive market place, an individual's role, responsibility, experience and performance, in compliance with its regulatory obligations.

Variable Remuneration
i.e. Incentive Compensation (IC)

State Street operates a fully flexible, discretionary bonus policy. The discretionary bonus policy is structured so as to achieve a balance between fixed and variable components.

The corporate IC bonus pool is based on the overall profits of the entire State Street group of companies. The primary component in the calculation of the IC pool is operating-basis[3] Net Income Before Tax and Incentive Compensation (NIBTIC). 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 capital, risk, business and other considerations. Specific capital measurements taken into consideration include for example the Tier 1 risk-based capital ratio; the tangible common equity (TCE) ratio[4]; unrealized portfolio gains and losses; and the Tier 1 leverage ratio.

3 State Street measures and reports its financial performance in accordance with U.S. generally accepted accounting principles, or GAAP. It also separately measures and compares its financial performance on an operating basis, which reflects revenue from non-taxable sources on a fully taxable-equivalent basis and excludes the impact of revenue and expenses outside of the normal course of its business. State Street reviews its results on an operating basis, as these results, in addition to results presented in accordance with GAAP, facilitate comparisons from period to period and the analysis of comparable financial trends with respect to State Street's normal ongoing business operations.

4 The TCE ratio is calculated by dividing consolidated total common shareholders' equity by consolidated total assets, after reducing both amounts by goodwill and other intangible assets net of related deferred taxes. Total assets reflected in the TCE ratio also exclude cash balances on deposit at the U.S. Federal Reserve and other central banks in excess of required reserves. The TCE ratio is not required by GAAP or by bank regulations, but is a metric used by management to evaluate the adequacy of State Street's capital levels. Since there is no authoritative requirement to calculate the TCE ratio, State Street's TCE ratio is not necessarily comparable to similar capital measures disclosed or used by other companies in the financial services industry.

Further, the allocation of the overall global bonus pool to each business unit is determined by the CEO/Chairman by reference to business unit performance and considers many factors including those considered by the ECC. 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.

Individual incentive awards are completely discretionary. In addition to the formal two-pronged risk adjustment process (*ex-ante* & *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 performance factors, such as noncompliance 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. The ECC may also exercise negative discretion based on these factors when making awards to members of the MC and other senior executives.

- *ex ante* compensation adjustments to awards prior to grant, guided by risk assessments developed and implemented by State Street's Enterprise Risk Management group and approved by the RCC

- *ex post* compensation adjustments to adjust for risk outcomes that arise during the vesting period of equity awards

Ex ante adjustments to incentive compensation represent downward adjustments made to the amount awarded, based upon a determination that the corporation, business or material risk-taker contributed to a poor risk environment or actual or potential risk outcome during a compensation year.

To provide for *ex post* adjustments, a risk-based forfeiture provision has been incorporated into the deferred IC awards for all material risk-takers. The provision provides for the reduction or cancellation of the amount remaining to be paid under the relevant award in the event the ECC determines that the actions of the material risk-taker 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 State Street. For purposes of this provision, State Street refers to State Street Corporation or, to the extent the material risk-taker devotes substantially all of its time to a particular business, the provision also refers to that business. 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.

State Street also has a performance planning and review process for employee compensation that involves a collaborative planning process in which employees and their managers establish performance goals that align individual with corporate goals in the following categories: driving strategy, strengthening the organization, enhancing culture, delivering on financial commitments and engaging employees.

Mid-year and year-end progress reviews are conducted and the employee's performance level is reviewed and rated on a five-point scale. This rating is a key factor used by managers (and by the ECC for EU Material Risk Takers) in determining incentive compensation and salary decisions during the annual compensation planning process. Typically, employees receiving a rating of 2 or lower will receive a much-reduced or zero IC award.

Performance management employs consistent processes to cascade goals, create "line of sight" and measure actual individual and organizational performance. Frequent feedback is a critical element of the Performance Planning & Review (PPR), which is State Street's performance management process.

Where applicable, individual financial targets are incorporated into the Performance Planning stage of the PPR process and the level of achievement against these financial goals will form part of the year-end review process and contribute to the performance rating along with qualitative assessment.

In order to enable risk excellence, all employees have been requested to include a personal risk goal in their 2015 performance objectives.

In addition to the PPR process, in 2012 State Street introduced the Talent and Reward Differentiation Tool (TRDT) to assist managers in making compensation decisions. The TRDT allows managers to assign a relative score (on a seven-point scale) to employees at the Vice President level and above based on five factors. These include relative performance, potential, criticality of role, critical skills or expertise and retention risk, and combined with the PPR rating, are used to help guide compensation decisions.

Art. 450 (1) lit. f CRR

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

For the 2014 performance year (paid in February 2015), 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 2014 IC. In general, the more senior an employee is, the greater the percentage of IC that was paid as a deferred award. IC awards are delivered as follows:

- For employees at the Senior Vice President level and above:
  - 10% as immediate cash
  - 90% deferred over 4 years

- For employees below Senior Vice President level and above Assistant Vice President level, the higher the total amount of variable remuneration, the higher the percentage of the variable remuneration which will be deferred. This could ultimately result in up to 90% of variable remuneration being deferred over 4 years with vesting on a quarterly pro-rata basis

- For employees below VP level, IC awards are delivered 100% in immediate cash.

Guaranteed Bonuses

Multi-year guarantees in the hiring process are forbidden.

4.2 Quantitative Information

Art. 450 (1) lit. g CRR

"Aggregate quantitative information on remuneration, broken down by business area"
(Note: all "Identified Employees" for the consolidated State Street Bank Luxembourg group are aligned with a 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.

Table 22 Quantitative information

	"Senior Management"	"Members of staff whose actions have a material impact on the risk profile of the firm"	All "Identified Employees"
Number of "Identified Employees"	18	56	74
Total Fixed Remuneration (Euro k)	8,825	9,555	18,380
Total Variable Remuneration (Euro k)	9,131	5,606	14,736
Number of "Identified Employees"	18	56	74
Total 2014 Sign-On Payments (Euro k)	0	0	0
Number of "Identified Employees"	0	0	0
Total 2014 Severance Payments (Euro k)	0	0	0
Number of "Identified Employees"	0	0	0

NB: The information disclosed for State Street Bank GmbH, Germany, included in the above, is disclosed for the purpose of Circular CSSF 06/273 (as amended by CSSF Circular 10/496 and on the basis of the guidance issued by the CSSF in CSSF Circular 11/505). State Street Bank GmbH is categorized as a major bank (under the German Remuneration Ordinance for Institutions (InstitutsVergV)) due to the fact that State Street Bank GmbH is deemed to be "potentially system-endangering" under Section 47 of the German Banking Act ('KWG') which triggers the need to have a resolution plan in place and hence, State Street Bank GmbH will also be supervised by the European Central Bank.

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:

Table 23 Number of individuals being remunerated in the ranges of

Band 1	
above 1.0 million not exceeding 5.0 million	9
above 1.0 million not exceeding 1.5 million	6
above 1.5 million not exceeding 2.0 million	0
above 2.0 million not exceeding 2.5 million	1
above 2.5 million not exceeding 3.0 million	1
above 3.0 million not exceeding 3.5 million	1
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	
above 5.0 million not exceeding 6.0 million	0

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

4.3 Final remarks

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;

The main characteristics of State Street remuneration policy has been described above.

It should however be noted that the State Street Luxembourg Group is able to neutralize a certain number of the specific remuneration requirements required under CSSF Circular 10/496 on the basis of the guidance issued by the CSSF in CSSF Circular 11/505.

It is hence on a voluntary basis that the State Street Luxembourg Group 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.

And

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 these specific requirements), no quantitative information has been provided under this section.

State Street Corporation (NYSE: STT) is one of the world's leading provider of financial services to institutional investors including investment servicing, investment management and investment research and trading. With $28.19 trillion in assets under custody and administration and $2.45 trillion* in assets under management as of December 31, 2014, State Street operates in more than 100 geographic markets worldwide, including the US, Canada, Europe, the Middle East and Asia. For more information, visit State Street's web site at www statestreet.com.

*Assets under management include the assets of the SPDR® Gold ETF (approximately $27.3 billion as of December 31, 2014), for which State Street Global Markets, LLC, an affiliate of SSgA, serves as the distribution agent.

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