Pillar 3 Disclosure Statement

Disclosure Statement

This Pillar 3 Disclosure as at September 30, 2016 contains statements that are considered “forward-looking statements,” including statements about the financial condition, results of operations and business of State Street Trust Company Canada (“SSTCC”) that do not relate strictly to historical facts, are based on assumptions by management, and are often identified by such forward-looking terminology as “will,” “believe,” “intend,” “expect,” “anticipate,” “project,” “estimate,” “predict” or similar expressions or variations of such terms. Forward-looking statements may include, among other things, statements with respect to SSTCC’s liquidity and capital requirements; business strategy; financial and operating targets or plans; projections of revenues, income (or loss), market share or other financial forecasts; expansion and growth of its business and operations; and future capital expenditures.

Forward-looking statements are subject to various risks and uncertainties, which change over time, are based on management's expectations and assumptions at the time the statements are made, and are not guarantees of future results. Management's expectations and assumptions, and the continued validity of the forward-looking statements, are subject to change due to a broad range of factors affecting the Canadian and global economies and financial markets, as well as factors specific to SSTCC. Changes in these and other factors could cause changes in management's expectations or assumptions on which its forward-looking statements are based. Consequently, all of the forward-looking statements contained in this disclosure are qualified by these cautionary statements, and the results or developments that management anticipates may not be realized or, even if substantially realized, may not have the expected consequences to, or effects on, SSTCC or its business or operations. SSTCC undertakes no obligation to update publicly any such forward-looking statements to reflect events after the date this disclosure is made publicly available.

1. Scope of Application

1.1 Background

SSTCC is a federal financial institution regulated by the Office of the Superintendent of Financial Institutions (“OSFI”). It is a wholly-owned direct subsidiary of State Street International Holdings (“SSIH”) and a wholly-owned indirect subsidiary of State Street Bank and Trust Company (“SSBT”) and State Street Corporation (“SSC”). SSTCC provides trusteeship, fund accounting, transfer agency, safekeeping and custodial services to institutional clients. The ownership structure described above is depicted below.
1.2 Basel Accord

The Basel II capital adequacy framework was implemented in Canada in 2007 through changes made to OSFI’s capital adequacy requirements. The Basel II requirements consist of 3 “pillars”: Pillar 1 prescribes the rules to determine minimum capital requirements; Pillar 2 is the supervisory review process; and Pillar 3 sets out the public disclosure requirements for capital and risk management practices. SSTCC has, with OSFI’s approval, elected to implement the Standardized Approach in Basel II for credit risk and the Basic Indicator Approach (BIA) for operational risk. Effective January 1, 2013, OSFI’s revised Capital Adequacy Requirements Guideline (the “CAR Guideline”) came into effect and is the framework for implementing the Basel III Accord. The Basel III Accord contains global regulatory standards on capital adequacy, stress testing, market risk, and liquidity risk and is intended to strengthen capital requirements and to implement new liquidity, leverage, governance and remuneration requirements. In May 2014, OSFI issued the final Liquidity Adequacy Requirements (LAR) Guideline, which transposes liquidity-related requirements issued by the Basel Committee on Banking Supervision (BCBS) into OSFI guidance, and builds on OSFI’s November 2007 Advisory on Pillar 3 Disclosure Requirements.

OSFI requires non-domestically systemic banks to fully implement the Leverage Ratio disclosures for year end 2015 reporting. The Basel Leverage Ratio Framework requires disclosures to be made at the same frequency as, and concurrently with, the publication of the financial statements.

This document presents SSTCC’s disclosure as required under Basel III, Pillar 3.

1.3 Pillar 3 Disclosure

SSTCC has prepared its Pillar 3 disclosure in accordance with the requirements set out in Basel III and by OSFI. In accordance with its Basel III Pillar 3 Disclosure Policy, SSTCC’s Pillar 3 disclosures are approved
by SSTCC’s Board and provided publicly on an annual basis or more frequently as required.\textsuperscript{1}

2. **Capital Structure**

The total capital of SSTCC consists entirely of Tier 1 capital (common shares, retained earnings and accumulated other comprehensive income). SSTCC’s capital is generated directly from its income from operations.

Details of SSTCC’s capital structure are published separately on State Street Canada’s website alongside this statement at [http://www.statestreet.com/content/canada](http://www.statestreet.com/content/canada) under Regulatory Disclosures.

3. **Capital Adequacy**

As part of its Internal Capital Adequacy Assessment Process (“ICAAP”) through which SSTCC assesses its significant risks and determines its capital requirement for current and future activities, SSTCC performed a review of the current economic and business environment. As part of its ICAAP, SSTCC assessed its current businesses, potential new opportunities, significant inherent risks and proposed future related plans.

Based upon its analysis, management concluded that SSTCC is sufficiently capitalized to support its business strategies and objectives, and exceeds both OSFI’s minimum expected regulatory capital requirements as well as SSTCC’s internal capital ratio floor for a well-capitalized financial institution.

Information in respect of SSTCC’s capital and leverage ratios can be found on State Street Canada’s website alongside this statement at [http://www.statestreet.com/content/canada](http://www.statestreet.com/content/canada) under Regulatory Disclosures.

4. **Risk Exposure and Assessment**

4.1 Overall Approach to Risk

As a provider of products and services, SSTCC willingly incurs some level of assumed business risk, provided that the risks can be identified and managed in a cost-effective manner with due regard to operational and reputational considerations. Risks are managed primarily through the implementation of appropriately designed internal control procedures. SSTCC has no appetite for significant loss events.

\textsuperscript{1} Disclosures, in the future, required under Basel III Pillar 3 for SSTCC may be incorporated into SSC’s own Pillar 3 disclosure. Additional information on SSC and its subsidiaries can be found at [www.statestreet.com](http://www.statestreet.com).
Effective risk management within SSTCC manifests itself as a “business as usual practice” which includes, but is not limited to, the following:

i. Consistency of key business performance metrics, with acceptable levels of risk defined in SSTCC’s governing risk policies and practices;

ii. Effective management of all significant risks and risk concentrations;

iii. An operating culture characterized by a strong level of risk awareness. This extends across SSTCC and all of its activities, driving comprehensive risk mitigation practices, and ensuring that identification and escalation of potential risk exposure is a core responsibility of personnel at all levels;

iv. Reputational integrity that ensures SSTCC’s ongoing position of trust as a premier provider of services to institutional investors;

v. Compliance with applicable laws, regulations, and SSTCC specific policies as well as SSBT and SSC policies applicable to it; and

vi. Adherence by employees to the SSC Standard of Conduct as well to other applicable business specific codes of conduct.

Notwithstanding the above, some level of residual risk is intrinsic to SSTCC’s business profile. The potential for “unplanned” or “unexpected” loss requires that SSTCC maintain sufficient capital to protect its stakeholders while meeting the requirements of other interested parties. SSTCC’s ICAAP ensures that unexpected losses and risk exposures are identified, assessed across all significant risk categories, and are reflected in the determination of required capital.

Governance Framework:

SSTCC follows a structured and disciplined approach to risk governance and risk management, as illustrated in the diagram below. SSTCC’s risk governance model assigns roles, responsibilities and accountabilities for all key aspects of risk management including SSTCC’s Board, management committees, and senior management. These roles, responsibilities and accountabilities pertain to: (1) risk ownership and management; (2) the setting of risk management policies, standards, and guidelines, the monitoring of risk management and control effectiveness, and the provision of independent challenge to business lines; and (3) independent assurance (including objective review and testing) on the effectiveness of risk governance and the management and control of risk.
SSTCC’s Senior Management Committee, Risk and Compliance Review Committee (the “Committees”), and Board meet on a regularly scheduled basis to review and discuss risk management topics and issues. An annual Material Risk Identification (“MRI”), which identifies and reviews risks associated with the activities carried on by SSTCC, is conducted by SSTCC management and reviewed by the Committees and the Board. The following key risk management reports are also provided to management and/or the Board:

- Key Risk Indicator (“KRI”) reporting;
- Consolidated Enterprise Risk Management reports, which contain updates on matters such as operational risk, changes to SSTCC’s risk appetite, changes or trends in the status of the identified top risks, and reporting of risk exposure status in relation to SSTCC’s risk appetite limits;
- Basel presentations, which provide updates on SSTCC’s Basel program, SSTCC’s capital adequacy, policy review, and external market and regulatory developments; and
- Quarterly financial statement reports and management discussion, including capital adequacy reporting.

In addition to the above, SSC’s Corporate Audit and Compliance departments conduct comprehensive and independent reviews of internal control systems and assess compliance with corporate policies and applicable laws and regulations. Formal audit and compliance reports are provided on a timely basis to both management and SSTCC’s Audit Committee.

### 4.2 Risk Management by Category of Risk

SSTCC’s business focus is on providing investment services such as custody, trustee, transfer agency, safekeeping and fund accounting services to institutional investors. It does not extend credit or accept
deposits from any clients. As a result, the significant risks to which SSTCC is potentially exposed are primarily operational risk and business risk.

### 4.2.1 OPERATIONAL RISK

Operational risk has been identified as one of the most significant risks to which SSTCC is potentially exposed. SSTCC seeks to cost effectively mitigate operational risk and to fully comply with regulatory requirements by implementing and maintaining an effective internal control environment, including a strong supporting risk and control culture, and using sound practices for proactively identifying, assessing, monitoring, managing and reporting operational risk. In addition to SSTCC’s Operational Risk Management Policy, SSTCC also works within the framework of SSC’s Operational Risk Policy Statement and supporting guidelines.

We define operational risk as the risk of loss resulting from inadequate or failed internal processes and systems, human error, or from external events. Reputational risk or damage is considered by SSTCC as a component of operational risk and has been treated as a consequence or outcome of exposure to operational risk rather than a category of risk in and of itself.

Examples of SSTCC’s operational risk management include the identification and assessment of operational risks during new business and new product reviews and approvals; the development of new controls and enhancement of existing controls; the monitoring and reporting of operational risk via risk management reporting; the review of KRI reporting and Enterprise Risk Management reports by the management committees and the Board; independent reviews of internal control systems by SSC’s Corporate Audit department, the results of which are reported to management and SSTCC’s Audit Committee; and policies which clearly define risk management roles, responsibilities and accountabilities.

As noted, SSTCC has adopted the Basic Indicator Approach for operational risk. As part of its ICAAP, SSTCC assessed, stress tested and quantified its potential for adverse exposure to operational risk and concluded that it has more than sufficient capital to address this risk in accordance with OSFI’s 3 year time horizon requirement.

### 4.2.2 BUSINESS RISK AND CONCENTRATION RISK

Business risk is defined as any risk arising from changes in SSTCC’s business, including the risk that it may not be able to carry out its business plans. SSTCC has assessed its business and concentration risk together as the two risks are viewed as inter-related given the size and composition of SSTCC’s client relationships. A key mitigant of the potential exposure to this risk is SSTCC’s robust client relationship management program which focuses on client service factors for key clients. In addition, client satisfaction surveys are periodically conducted to measure client satisfaction levels.

As business risk is a significant risk category to SSTCC, a business risk pillar 2 “add-on” capital buffer was included in the assessment and stress testing of this risk. SSTCC’s capital resources are sufficient to cover its capital requirements (including the capital buffer) for this risk through a 3 year horizon.

### 4.2.3 CREDIT RISK
Credit risk is defined as the current or prospective risk to SSTCC’s earnings and capital, arising from an obligor’s failure to meet the terms of any contract with SSTCC, or its failure to perform as agreed. This risk may include residual risk, the credit risk in securitization, and cross border (or transfer) risk.

SSTCC’s direct exposure to credit risk is limited to the accounts receivable for services rendered, and investments in securities for liquidity risk management purposes. SSTCC has no loans (current, impaired or past due). Management has assessed the direct risk of credit loss as low, principally due to the high credit quality of its primarily large institutional client base. SSTCC manages its credit risk exposure by carrying out due diligence in respect of its clients and counterparties, including the monitoring of credit exposures. In addition, SSTCC complies with corporate policies with respect to the tracking, escalation, reserving and reporting of aged receivables.

4.2.4 MARKET RISK

Market risk is defined as the risk of loss that could result from broad market movements, such as changes in the general level of interest rates, credit spreads, foreign exchange rates or commodity prices. This risk includes foreign exchange and interest-rate risk, which is defined by SSTCC as the current or prospective risk to earnings and capital arising from adverse movements in currency exchange rates.

SSTCC holds high quality liquid securities for liquidity purposes which are accounted for on a mark-to-market basis. These securities are AAA rated and have a duration of under 90 days. SSTCC’s direct foreign exchange risk is related to U.S. dollar cash, receivables and payables, and the deposit with Clearing and Depository Services Inc. (“CDS”) on SSTCC’s balance sheet, and is considered to be immaterial. SSTCC complies with corporate policies with respect to the management, revaluation, and recording of any gains or losses associated with foreign currency-denominated assets.

4.2.5 INTEREST RATE RISK IN THE NON-TRADING BOOK

Interest-rate risk is defined by SSTCC as the potential impact of adverse movements in interest rates in the non-trading book, and the impact these movements may have on planned future cash flows. SSTCC’s interest rate risk in the non-trading book is limited to its deposits with CDS, balances held with regulated financial institutions, SSTCC’s holdings of regulatory required unencumbered high-quality liquid assets, and interest bearing deposits with maturities of 180 days or less. SSTCC’s direct interest rate risk is limited to ensuring compliance with regulatory requirements and generating appropriate returns for SSTCC’s cash position.

4.2.6 LIQUIDITY RISK

Liquidity risk is defined as the potential for loss to occur from not holding sufficient liquidity to survive a contingent stress event. Liquidity risk is considered to be low for SSTCC, and involves timing mismatches on payables and receivables. SSTCC is considered by management to be highly liquid based upon current and future business projections and the nature of the services it provides. SSTCC’s liquidity
management process utilizes a number of quantitative limits to ensure that SSTCC has sufficient funds to meet its commitments as they come due under both normal and stressed conditions. SSTCC maintains a stock of high quality liquid assets to meet both business needs and regulatory requirements.

4.2.7 SECURITIZATION RISK

Securitization risk is the risk that the capital resources held by an institution in respect of assets which it has securitized are inadequate with regard to the economic substance of the transaction, including the degree of risk transfer achieved. This risk is not applicable to SSTCC as it does not securitize assets or invest in any securitized products.

4.2.8 SYSTEMIC RISK

Systemic risk is the risk associated with the inter-linkages and interdependencies in a system or market, where the failure of a single entity or cluster of entities could cause a cascading failure, which could potentially cause insolvency or bring down the entire system or market.

The financial markets are characterized by extensive interconnections between financial institutions. SSTCC is exposed to direct systemic risk from an income perspective from its clients who are financial institutions or which have invested in financial institutions. Direct SSTCC income vulnerability is associated with the market impact to the value of its clients’ assets under custody, which in turn would impact SSTCC’s servicing fees. Management’s assessment of this risk determined that it is medium. SSTCC’s clients are large, sophisticated, institutional investors.

SSTCC is also indirectly affected by systemic risk as it is a subsidiary of SSC, a designated global systemically important bank (“G-SIB”). As at September 30, 2016, SSC and SSBT are in excess of the regulatory minimum thresholds required under the regulatory capital adequacy framework.

4.2.9 COMPENSATION RISK

Compensation risk is the risk of misalignment of an institution’s compensation system and prudent risk taking, the outcome of which may adversely affect the safety and soundness of the entity. SSTCC considers its compensation practices to be in alignment with its risk profile, and its compensation structure does not expose SSTCC to an undue level of risk.

A complete summary of SSTCC’s compensation practices are published separately on the State Street Canada website alongside this statement at www.statestreet.com/ca under Regulatory Disclosures.

4.2.10 ENTERPRISE-LEVEL RISK

Enterprise-level risks are financial and non-financial risks that span the organization, including the interaction of multiple significant risks, multiple non-significant risks, and the interaction of a non-significant risk with other events and conditions that result in great damage.
SSTCC recognizes that there is potential for inter-connectivity between and within all of its risks. As a result, SSTCC established and implemented an Enterprise Risk Management ("ERM") Framework some years ago. SSTCC’s ERM Framework documents processes designed to identify potential events that may affect SSTCC, manage risk within SSTCC’s approved risk appetite, and provide reasonable assurance regarding the achievement of SSTCC’s objectives. Furthermore, SSTCC’s ERM Framework is intended to establish how the various components of its risk management program interact and aid in the management of the various categories of risk to which SSTCC is potentially exposed.