State Street Bank S.p.A

Pillar 3 Disclosure Statement

Year ended December 31, 2014
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1 SCOPE OF APPLICATION (ART. 436 CRR)

Objective

The regulatory framework based on EU Regulation 575/2013 (CRR) and Directive 2013/36/EU (CRD4) concerning capital adequacy of internationally active banks (“Basel III”) of the Basel Committee on Banking Supervision has been based on three mutually supporting pillars to sustainably ensure stability of the national and international banking systems.

On January 1st, 2014 the national regulatory provisions based on Basel III (Circular 285 issued by Bank of Italy) came into effect. As a consequence State Street Bank S.p.A. (“SSB S.p.A.” or “the Bank”) is obliged to publish the required qualitative and quantitative information on an annual basis in conjunction with the date of publication of the financial statements.

The nature and scope of the information to be published are specified in Part eight of CRR and in Chapter 13 of the 285 Bank of Italy Circular.

The aim of this report is to allow market participants to evaluate the Bank’s capital adequacy by means of disclosure of information regarding risk positions and risk-assessment processes. The report refers to all relevant and material risks which have an impact on the capital adequacy of the Bank.

The Bank implemented the Credit Risk Standardized Approach (“CRSA”) for Credit Risks, the Standardized Approach for Operational Risks and the Standardized Approach for Market Risks to determine its regulatory capital requirements.
This report is partially based on the audited Financial Statement of the Bank, especially on the notes of the Financial Statement.

This report has not been examined by an independent external auditor.

Quantitative data may show differences due to rounding.

Organizational Structure

SSB S.p.A. is part of the banking group headed by State Street Bank Luxembourg S.A. (‘SSBL Group’). SSBL Group includes one indirect subsidiary, State Street Bank GmbH (‘SSB GmbH’), held via State Street Holdings Germany GmbH (‘SSHG’). SSB GmbH holds on the one side 90% of State Street Holdings Italy S.r.l. (‘SSHI’) which wholly owns State Street Bank S.p.A. (‘SSB S.p.A.’). On the other side SSB GmbH has a direct investment in State Street Fondsleitung (‘SSFM’), a management company incorporated under Swiss Law.

SSBL, SSB GmbH, SSHG, SSB S.p.A., SSHI and SSFM form the State Street Bank Luxembourg Group. SSBL, SSB GmbH and SSB S.p.A. are all credit institutions providing various banking activities to clients. SSHG, SSHI and SSFM are considered as financial institutions under the Law of 5 April 1993 on the financial sector, as amended. State Street International Holdings is the unique shareholder of SSBL.

All entities are therefore subject to consolidated supervision by the Commission de Surveillance du Secteur Financier (‘CSSF’). SSBL Group is included in the list of significant supervisory entities in accordance with Article 49 (1) of Regulation N. 468/2014 as a consequence it is also supervised by the European Central Bank (‘ECB’).

SSBL Group is indirectly wholly owned by State Street Corporation, Boston, Massachusetts, USA, via State Street International Holdings, Switzerland.

The following graph illustrates the position of State Street Bank S.p.A. within the European banking group as well as within the State Street Corporation:
As of the period in which this document is drawn up, SSB S.p.A. is primarily regulated by the Banca d’Italia (the “Bank of Italy”). Starting from 4 November 2014 SSB S.p.A. is also indirectly supervised by ECB as it is a part of a significant supervised group (SSBL).

SSB S.p.A. is subject to the supervision and rules of the Board of Governors of the U.S. Federal Reserve System as well as to other regulatory authorities in the U.S. As a subsidiary of a U.S. bank as well as of a Luxembourgian bank, the Bank has to comply not only with the rules of the national supervisory authorities, but also with certain U.S. rules and laws which apply to subsidiaries of U.S. banks and with certain Luxembourgian rules and laws respectively which apply to subsidiaries of Luxembourgian banks.

Business Model

SSB S.p.A. was formed in 2010 in connection with the contribution of Intesa Sanpaolo S.p.A.’s “Securities Services” business, which included depositary bank, fund administration services for the valuation of units
of mutual funds and managed portfolios with the related administration services, local paying agent and global custody activities. After the contribution that was carried out within the Intesa Sanpaolo Group, Intesa Sanpaolo S.p.A. completed the sale of Intesa Sanpaolo Servizi Transazionali S.p.A. to State Street, a leading banking group in the field of securities services and asset management. At the same time as the transfer of ownership, the Bank changed its name to “State Street Bank S.p.A.”.

Within the context of the integration of the acquired Intesa Sanpaolo Securities Services and with the scope of rationalizing State Street’s presence in Italy, SSB S.p.A. has purchased during the course of 2011 the Securities Services going concern of the Italian Branch of State Street GmbH, now closed, who was focused on a limited scale compared to SSB S.p.A. on securities services business.

As of December 2014 SSB S.p.A. has 651 employees and is headquartered in Milan with a local office in Turin.

SSB S.p.A.’s business comprises the following core activities:

- Global custody and administration of Italian and non-Italian securities held by Italian customers;
- Depositary bank services offered to funds domiciled in Italy, including complying with regulatory and legal controls on moveable asset management, validating the accuracy of fund unit valuation, managing certificates representing fund units and custody of assets and valuation of funds in custody;
- Fund administration services related to:
  - Fund accounting services: recordkeeping, valuation of units and calculation and distribution of net asset value of investment funds, closed funds, hedge funds, real estate funds, private equity funds and pension funds managed by external Investment Managers;
  - Fund services: consisting of outsourcing services for asset managers and other administrative services for collective investment vehicles and individual investment products; and
- Local paying agent (Soggetto incaricato dei Pagamenti (“SIP”))/ administration and banking services for the placement of non-Italian funds in Italy.

In conjunction with its core services SSB S.p.A. offers add-on services to its customers. SSB S.p.A. business comprises also the following add on activities:

- Credit Business activities related to overdraft facilities provided to funds
- Performance Analytics
- FX trading
- Money Market Transaction
Consolidation

SSB S.p.A. does not consolidate any company as of 31 December 2014 from a regulatory and balance sheet point of view. SSB S.p.A. gets consolidated, from a regulatory and balance sheet point of view on the level of the EU parent institution SSBL.

SSB S.p.A. 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, SSB S.p.A.’s ability to transfer such funds or the ability of SSB S.p.A.’s parent companies and subsidiaries, as applicable, to transfer such funds to SSB S.p.A. may be limited by regulatory capital requirements or other legal obligations or restrictions imposed on SSB S.p.A., 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, SSB S.p.A.’s indirect parent holding company, which may in turn limit the ability of SSIH to transfer funds to SSB S.p.A. 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 and by Bank of Italy Requirements to meet related party limits. Funds can only be transferred when any relevant conditions are not violated.
2 CAPITAL

Own Funds (Art. 437 CRR)

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

SSB S.p.A. 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 (Common Equity Tier 1 and Tier 2)

The sum of all above mentioned elements must reconcile with the total own funds as reported to the regulator.
As of 31 December 2014, SSB S.p.A. own funds consist of Common Equity Tier 1, or CET 1, instruments and Tier 2 transitional adjustments. The main features of the CET 1 instruments are summarized in the table below:
The share capital consists of n. 140,7 million ordinary shares worth 1 EUR each and is fully paid by the sole shareholder, State Street Holdings Italy Srl.

<table>
<thead>
<tr>
<th>No.</th>
<th>Capital instruments main features template</th>
<th>Capital Instrument 1</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Issuer</td>
<td>State Street Bank SpA</td>
</tr>
<tr>
<td>2</td>
<td>Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)</td>
<td>Not Applicable</td>
</tr>
<tr>
<td>3</td>
<td>Governing law (s) of the instrument</td>
<td>Italian</td>
</tr>
<tr>
<td></td>
<td>Regulatory treatment</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Transitional CRR rules</td>
<td>Common Equity Tier 1</td>
</tr>
<tr>
<td>5</td>
<td>Post-transitional CRR rules</td>
<td>Common Equity Tier 1</td>
</tr>
<tr>
<td>6</td>
<td>Eligible at solo/(sub-)consolidated/ solo&amp;(sub-)consolidated</td>
<td>Solo &amp; Consolidated</td>
</tr>
<tr>
<td>7</td>
<td>Instrument type (types to be specified by each jurisdiction)</td>
<td>Capital</td>
</tr>
<tr>
<td>8</td>
<td>Amount recognised in regulatory capital</td>
<td>140.700.000 €</td>
</tr>
<tr>
<td>9</td>
<td>Nominal amount of instrument</td>
<td>140.700.000 €</td>
</tr>
<tr>
<td>9a</td>
<td>Issue price</td>
<td>1 €</td>
</tr>
<tr>
<td>9b</td>
<td>Redemption price</td>
<td>Not Applicable</td>
</tr>
<tr>
<td>10</td>
<td>Accounting classification</td>
<td>Shareholder’s equity</td>
</tr>
<tr>
<td>11</td>
<td>Original date of issuance</td>
<td>Not Applicable</td>
</tr>
<tr>
<td>12</td>
<td>Perpetual or dated</td>
<td>Perpetual</td>
</tr>
<tr>
<td>13</td>
<td>Original maturity date</td>
<td>No maturity</td>
</tr>
<tr>
<td>14</td>
<td>Issuer call subject to prior supervisory approval</td>
<td>No</td>
</tr>
<tr>
<td>15</td>
<td>Optional call date, contingent call dates and redemption amount</td>
<td>Not Applicable</td>
</tr>
<tr>
<td>16</td>
<td>Subsequent call dates, if applicable</td>
<td>Not Applicable</td>
</tr>
<tr>
<td></td>
<td>Coupons / dividends</td>
<td>Not Applicable</td>
</tr>
</tbody>
</table>
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:

### Pillar 3 - Table 3 Transitional own funds disclosure template

<table>
<thead>
<tr>
<th>Common Equity Tier 1 capital, instruments and reserves</th>
<th>in kEUR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Instruments and the related share premium accounts</td>
<td>329,100</td>
</tr>
<tr>
<td>of which subscribed capital</td>
<td>140,700</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>211,557</td>
</tr>
<tr>
<td>Other reserve</td>
<td>50,622</td>
</tr>
<tr>
<td>Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)</td>
<td>800</td>
</tr>
<tr>
<td>Common Equity Tier 1 (CET1) capital before regulatory adjustments</td>
<td>592,079</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Common Equity Tier 1 (CET1) capital, regulatory adjustments</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Intangible assets (net of related tax liability) (negative amount)</td>
<td>(160,851)</td>
</tr>
<tr>
<td>Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468</td>
<td>(1,419)</td>
</tr>
<tr>
<td>Total regulatory adjustments to Common equity Tier 1 (CET1)</td>
<td>(162,269)</td>
</tr>
<tr>
<td>Common Equity Tier 1 (CET1) capital before regulatory adjustments</td>
<td>430,099</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Additional Tier 1 (AT1) capital, instruments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Additional Tier 1 (AT1) capital before regulatory adjustments</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Additional Tier 1 (AT1) capital, regulatory adjustments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total regulatory adjustments to Additional Tier 1 (AT1) capital</td>
</tr>
<tr>
<td>Additional Tier 1 (AT1) capital</td>
</tr>
<tr>
<td>Tier 1 capital (T1 = CET1 + AT1)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Tier 2 (T2) capital, instruments and provisions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tier 2 (T2) capital before regulatory adjustments</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Tier 2 (T2) capital, regulatory adjustments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transitional Adjustments Art. 463,467,481</td>
</tr>
<tr>
<td>Tier 2 (T2) capital</td>
</tr>
</tbody>
</table>

| Total capital (TC = T1 + T2) | 430,099 |

### Capital Adequacy

The aim of capital management is to ensure sufficient capitalization of the Bank in the present and in the future. In order to provide for the Bank’s capital adequacy under various aspects, the key capital indicators and the capital structure are considered from a regulatory as well as an economic point of view. Furthermore, by means of capital management, financial flexibility for strategic business initiatives should be ensured.

The Bank is obliged to manage its own funds, so that a sound capital basis, allowing financial flexibility with respect to the capital requirements resulting from the core and annex business segments, is provided. This financial flexibility includes capability to finance organic and inorganic company growth as well as to support...
clients by offering appropriate banking activities and financial services. In the course of capital management, given its current and prospective risk profile, the Bank strives for the optimal capital base. The optimal capital base should allow the Bank to achieve attractive short- and long-term earnings, under the condition that the obligations towards clients are met and regulatory requirements are fulfilled.

**ICAAP / Risk Bearing Capacity Concept**

The Internal Capital Adequacy Assessment Process (‘ICAAP’) Model has been implemented in accordance with regulatory requirements and the guidelines of the Group to verify the adequacy of Own Funds in relation to the overall risk profile of the Bank in the current operating environment, taking also into account the current stage of the economic cycle and the stress test scenarios.

The process of the ICAAP foresees the completion of the following steps:

- Identification of the risks inherent in the Bank's activities and assessment of their materiality;
- Defining the overall risk appetite of the Bank;
- Highlighting the expected evolution of the main components of assets and income in the future;
- Identification and exploitation of risks;
- Evaluation of the adequacy of capital in normal conditions and stress.

The structure of the ICAAP is depicted in the following illustration:

**Illustration: ICAAP structure**
The ICAAP Model takes on the one hand into account the Bank’s specified Pillar 1 risk of the Basel III Framework and its corresponding regulations in the Bank of Italy Circular 285 and on the other hand the Pillar 2 risks of the Basel III Framework. The ICAAP considers therefore also risks which are not or not fully considered under Pillar 1.

In 2014 the Bank’s ICAAP was amended to meet the new requirements of the Bank of Italy 285 Circular on Regulatory Assessment of Internal Risk published on December 17, 2013.

According to the terminology from the Group guidelines, the Bank uses the profit & loss/balance sheet oriented perspective to determine its Risk-Taking Potential on the basis of the Going Concern Approach. Given the Going Concern Approach, the conservatively forecasted Bank’s net result for the current financial year is additionally accounted in the Risk-Taking Potential. The Risk-Taking Potential determined in this manner is intended to cover the Bank’s overall risk capital needs.

The Bank’s risk capital needs result from the regulatory capital requirements (“Pillar 1”) and from the aggregated capital needs for all other risk types identified by the Bank to be material, but not considered within the regulatory capital requirements. The capital needed to cover such material risks is determined by means of internal risk measurement methods. Due to the fact that the existing Liquidity Risks affect the profit & loss position and the net asset position of the Bank only indirectly and to a low extent, no capital is allocated to Liquidity Risks. There is either no separate capital allocation to Business Risks because they remain to be considered in the ICAAP at the aggregated level, within the calculation of the free Risk-Taking Potential.

In summary, the ICAAP considers both Pillar 1 Risks according to Basel III and all material risk types from an economic view (calculated with a build-block approach). Each material risk type (with the exception of Liquidity Risks and Business Risks) is allocated a part of the Risk-Taking Potential. The respective part of the Risk-Taking Potential is transformed into a Global Limit for each material risk type. The Global Limit is further split into Sub-Limits, which are implemented in the course of scenario considerations.

Ongoing compliance with regulatory and economic capital requirements is provided by means of the regular monitoring of actual developments, forecasting and stress tests for the planning period. The assessment of the Capital Adequacy as of 31 December 2014 highlights a Capital Surplus of 283.9 Million Euro (the difference between the Own Funds of 430,6 Million Euro and the Total Internal Capital of 146,7 Million Euro).

The illustration below presents the free part of the capital (so-called free Risk-Taking-Potential), which is left after the capital is allocated to all material risks.
Illustration of Capital adequacy Pillar 1 and Pillar 2 risks:

### 2.1 Regulatory Requirement for Credit Risk (Art. 442 and 438c CRR)

The following table sets forth SSB S.p.A.’ 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>
<thead>
<tr>
<th>Asset Class</th>
<th>RWA in kEUR</th>
<th>Capital Requirements in kEUR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standardised approach (SA)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Central governments or central banks</td>
<td>15.749</td>
<td>1.260</td>
</tr>
<tr>
<td>Institutions</td>
<td>121.974</td>
<td>9.758</td>
</tr>
<tr>
<td>Corporates</td>
<td>171.949</td>
<td>13.756</td>
</tr>
<tr>
<td>Covered bonds</td>
<td>15.024</td>
<td>1.202</td>
</tr>
<tr>
<td>Equity</td>
<td>25</td>
<td>2</td>
</tr>
<tr>
<td>Other items</td>
<td>2.374</td>
<td>190</td>
</tr>
<tr>
<td>Securitisation positions</td>
<td>327.623</td>
<td>26.210</td>
</tr>
<tr>
<td><strong>Total Regulatory Requirement for Credit Risk</strong></td>
<td><strong>654.718</strong></td>
<td><strong>52.377</strong></td>
</tr>
</tbody>
</table>

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

Currently, the Bank is not exposed to Market Risk.
2.3 Regulatory Requirement for Operational Risk (Art. 446 CRR)

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

The capital requirements for operational risk in accordance with Art. 317 CRR amount to:

<table>
<thead>
<tr>
<th>Risk type</th>
<th>RWA in kEUR</th>
<th>Capital Requirements in kEUR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operational risk</td>
<td>460.038</td>
<td>36.803</td>
</tr>
<tr>
<td>Total Regulatory Requirement for Operational Risk</td>
<td>460.038</td>
<td>36.803</td>
</tr>
</tbody>
</table>

2.4 Regulatory Requirement for Credit Valuation Adjustment (Art. 384 CRR)

Currently the Bank is not required to calculate the Credit Valuation Adjustment (CVA).

2.5 Total Regulatory Capital Requirements

The overall regulatory capital requirements for all risk types of Pillar 1 in accordance with Art. 92 CRR are illustrated as following:
2.6 Bank’s CET 1, Tier 1 and Total capital ratios and buffers (Art. 440 CRR)

The CET 1, the Tier 1 and Total Capital Ratios of the Bank as of 31 December 2014 amount as follows:

<table>
<thead>
<tr>
<th>Ratio</th>
<th>SSB SpA 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>CET1 Capital ratio</td>
<td>38.57%</td>
</tr>
<tr>
<td>T1 Capital ratio</td>
<td>38.57%</td>
</tr>
<tr>
<td>Total Capital Ratio (%)</td>
<td>38.63%</td>
</tr>
</tbody>
</table>

2.7 Leverage ratio

As of 31 December 2014, the Leverage Ratio - using a transitional definition of Tier 1 is 5.67% and the Leverage Ratio - using a fully phased-in definition of Tier 1 is 5.69% both of which exceed the minimum regulatory requirement of 3%.
3 RISK MANAGEMENT

Risk Profile and Strategy (Art. 435 CRR)

The overall responsibility for risk management lies with the Board of Directors of the Bank, which defines its risk appetite considering the risks to which it is exposed, the capital requirements and liquidity regulations, levels of capital adequacy and liquidity that ensure the proper operation and fulfillment of strategic objectives. Risk appetite is subject to regular evaluation and updating in the process of business valuation (ICAAP).

The Bank has centralized the development and definition of the process of risk management in the functions of Risk Management and Compliance, responsible for the supervision of all types of relevant risk. These functions are part of the definition of methodologies for the identification, measurement, mitigation and reporting of risks as well as the supervision and critical analysis independently to ensure proper awareness of the existing risks and proper dissemination of the culture of control, as outlined in the following sections of this document.

The Board of Directors of SSB S.p.A. considers the actual SSB S.p.A. risk management structure as adequate with regard to the institution's risk profile and strategy.

Structure and Organization of Risk Management (Art 435 CRR)

The internal control corporate functions ensure the proper performance of compliance controls, risk management and internal audit respectively. The organizational position of the control functions, which hierarchically report directly to the Board of Directors (Compliance and Internal Audit) and to the Chief Executive Officer (Risk Management), their authority in the performance of their duties, the adequacy of the assigned resources in terms of number and seniority, ensure their full autonomy and independence from the 'Business Functions' (first line of defence). The control functions include the second lines of defence (Compliance and Risk Management) and third line of defence (Internal Audit).

The Board of Directors is granted with the broadest powers for both day to day and ‘in extremis’ management of the Bank, with the exception of those reserved by law to the Shareholders’ Meeting. An Internal Controls & Risks Committee subordinate to the Board of Directors has been established, including non-executive Board members to support the Board of Directors on risk and internal control matters. In particular, the committee has the following responsibilities:
• identify and propose to the Board the appointment of the Heads of the internal control functions (i.e. Compliance, Risk Management and Internal Audit);
• examine action plans (including the audit plan) and annual reports prepared by the internal control functions (i.e. Compliance, Risk Management and Internal Audit) before their submission to the Board of Directors;
• issue assessments and opinions to the Board on compliance by
  o the Bank with the rules and criteria which govern the internal control systems and the corporate governance structure, and
  o the internal control functions with requirements that they shall satisfy and highlighting to the Board any weakness/deficiency and any related corrective action to be adopted;
• contribute, through the issuance of assessments and opinions, to define the policy for the outsourcing of internal control functions;
• verify internal control functions comply with the indications and guidelines issued by the Board;
• support the Board in reviewing the policy required by the Bank of Italy 263 Circular, regulating the duties and responsibilities of the Bank’s corporate bodies and internal control functions, as well as the coordination of information flows;
• assess the compliance of the Bank’s financial statements with the applicable accounting standards, by liaising with the Finance Function and the Board of Statutory Auditors;
• with reference to the management and monitoring of risks, support the Board to
  o identify and approve the strategic guidelines and risk management policies;
  o assess the correct implementation of risk strategies, risk policies and Risk Appetite Framework;
  o identify policies and business activities review processes (including the assessment that the fees and the terms and conditions of the client agreement are consistent with the Bank’s business model and risk strategies).

A Risk and Compliance Committee is also established as a corporate governance body aimed at supervising and coordinating all of the Bank’s risk management activities. The Risk and Compliance Committee includes the following voting members:

• CEO
• General Manager.
• Head of Risk Management.
• Head of Compliance
• CFO
• Treasury Manager.

In addition to the aforesaid voting Members, the Head of Internal Audit (or a deputy) may attend meetings also in order to provide information and clarifications on matters discussed from time to time, without voting authority. When necessary, in relation to each matter discussed, the Heads of other divisions may be
invited by the Head of Risk Management to attend the meeting, without voting authority. The Head of Risk Management is the chairman of the Risk and Compliance Committee. The Chairman shall appoint a Secretary who does not need to be a member.

Finally, the Asset & Liability Committee (ALCO) is a corporate management body tasked with supervising and coordinating all of the Bank’s activities pertaining to the management of the Asset and Liability structure and the related risks. The Asset & Liability Committee (ALCO) consists of the following members:

- CEO
- General Manager.
- Treasury Manager.
- Head of Risk Management.
- CFO
- Head of Compliance (without voting rights).

If necessary in relation to each matter discussed, the Treasury Manager may invite other heads of other divisions (also from other entities of State Street Group) to attend the meeting, without voting rights. The Treasury Manager is the chairman of the Asset & Liability Committee. The Chairman shall appoint a Secretary who does not need to be a member.

The operational responsibility for risk management is distributed within the Bank depending on the risk type to different departments. The precise operational responsibilities for the risk management of the individual risk types can be found in the following table:

<table>
<thead>
<tr>
<th>Risk Type/Function</th>
<th>Responsible department</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit Risks</td>
<td>Risk Management</td>
</tr>
<tr>
<td>Market Risks</td>
<td>Risk Management/Treasury</td>
</tr>
<tr>
<td>Operational Risks</td>
<td>Risk Management</td>
</tr>
<tr>
<td>Liquidity Risks</td>
<td>Risk Management/Treasury</td>
</tr>
<tr>
<td>Concentration Risk</td>
<td>Risk Management/Finance</td>
</tr>
<tr>
<td>Business Risks</td>
<td>Risk Management/Finance</td>
</tr>
</tbody>
</table>

Second Level controls are performed by dedicated functions of the Bank, such as Risk Management and Compliance. The purpose of the Risk Management function is to implement the risk management policies, through an adequate risk management process. In particular, the Risk Management function has the goal of assuring that the Bank’s risks are proactively identified, assessed and prudently managed in relation to the overall business strategy. Moreover, within the scope of its business support activity, the Risk Management function analyses, ex ante, the risks of new products and services, those deriving from the entry into new
operating and market segments, as well as from the acquisition of new customers, verifying their consistency with the risk management policy.

The purpose of the Compliance function is to assure full control over the risks of any judicial and/or administrative penalties, of significant financial losses and/or damages to the company’s reputation as a consequence of violations of compulsory or self-regulation rules, both through consultancy, assistance and training activities (“ex ante”), and activities to verify the adequacy and effectiveness of the procedures for the purposes of protecting against risks of non-compliance (“ex post”).

Internal Audit provides the third line of defence in the Bank’s three lines model. Audit’s mandate is to provide the Board of Directors and management of SSB S.p.A. with independent and objective assessments of the design and operating effectiveness of the system of internal controls covering the integrity of SSB S.p.A.’s financial statements and reports, compliance with laws, regulations, and corporate policies and the effective management of risks faced by SSB S.p.A. in executing on its strategic and tactical operating plans. The audit activities take place with predetermined periodicity according to a triennial audit plan approved directly by the Board of Directors and/or in connection to any events that might impact on the corporate risks and/or in relation to new regulatory requirements.

Fundamental Strategies and Organizational Guidelines

In order to set the framework that the business operates in and how it and the relevant control functions carry out their risk management activities, the following policy framework exists:

- “Credit and counterparty risk policy” and related procedures.
- “Operational risk policy” and related procedures.
- “Outsourcing risk policy” and related procedures.
- “Liquidity risk policy” and related procedures.
- “Interest Rate risk policy” and related procedures.
- “ICAAP policy - Capital Adequacy risk” and related procedures.
- “Strategic risk policy”.
- “Trading and market risk policy”.
- “Model risk policy”.

All of the strategies, guidelines and organizational guidelines are reviewed at least on an annual basis and, if applicable, are adjusted and reapproved accordingly.

Relevant Risk Types
Risks for the Bank arise from the core and annex business segments of Investment Servicing. The relevant risk types are:

- Credit Risk
- Operational Risk
- Market Risk
- Concentration Risk (resulting from Risk Concentrations identified in each risk category).
- Liquidity Risk
- Business Risk

Each Risk type is classified to be material for the Bank given its overall risk profile and due to the specifications of Bank of Italy. In the following sections, each of these material risks are described including definitions, main sources of exposure and key management activities.

3.1 Credit Risk

Risk Definition

Credit Risks are defined as the risks of loss of current or future income or capital due to the inability of a debtor to meet its contractual obligations. The risks definition includes also the risk of default by counterparties from off-balance sheet transactions.

3.1.1 Credit Risk — On-Balance Sheet

Risk Situation

Based on current SSB S.p.A. business activity, potential credit risk exposure is restricted to the following cases:

- Internal credit limits are set on clients’ activity within the Depositary Bank and Custody businesses, and represent the maximum risk position the Bank is willing to take towards a specific counterparty. The amount of the facility depends on the counterparty’s creditworthiness and/or the unfunded contingent risk that State Street Bank S.p.A. is willing to take. Client overdrafts are not used for the extension of credit, but only for ad hoc temporary requirements dictated by the clients’ treasury mismatches (e.g. temporary mismatches between fund’s subscriptions and redemptions).
- A number of uncommitted credit lines were inherited as a result of the Intesa Sanpaolo business acquisition. Uncommitted credit lines have the same objective and definition as internal credit limits, with the exception that they are formally communicated to the client and to the Supervisory Body (Bank of Italy Credit Bureau – “Centrale Rischi”).
• Money market transactions are exchange of financial instruments among financial institutions. These transactions involve, inter alia, interbank credits and debits, commercial papers, certificates of deposits and other securities with a maturity of one year or less. Currently SSB S.p.A. Money Market transactions are limited to intercompany placements and balances on Nostro accounts with Intesa Sanpaolo and executed in order to manage SSB S.p.A.’s liquidity.

• SBB S.p.A. is entitled to perform investments in certain classes of securities, within predefined risk limits, in order to optimize the spread between interest income and interest expense, while moderating risk associated with credit quality.

Risk Strategy

The risk strategy provides for the utilization of internal credit lines and holding overnight deposits on current account at other banks. Excess liquidity is placed as short-term monetary investments at banks with high credit ratings or in the form of securities repurchase agreements with the group entity SSBT. Mid- to long-term investments are made by acquiring variable-yield or fixed-income securities.

Furthermore, the risk strategy of the Bank provides for daily monitoring of on-balance-sheet Credit Risks using a comprehensive system of limits. Establishing of limits and monitoring of limit compliance is a core component of the risk minimization process. All limits for on-balance sheet positions are for internal use only and are not communicated to counterparties and clients.

Risk Quantification

The Bank’s internal rating system quantifies the risk of default by a counterparty using a 15-point scale. This methodology corresponds to the corporate internal ratings-based approach used by SSC. External ratings by Moody’s, Standard & Poor’s and Fitch are used for securities repurchase transactions and the securities held in the investment portfolio.

Internal capital allocated to the credit risk is measured on the basis of the regulatory standardized approach for the quantification of minimum capital requirements, in accordance with Bank of Italy indications (Bank of Italy Circular 285 and CRR art. 274).

Risk Management

The internal rating system is a central element of the management of on-balance sheet Credit Risks. The initial rating of a counterparty is conducted prior to entering into any business relationship. This ensures that possible Credit Risks can be made transparent beforehand. The internal rating of a counterparty is considered in the decision on whether to accept business from a new client and it represents the basis for the internal limits, taking account of client-specific information and the relevant regulatory requirements. The
creditworthiness of counterparties and clients is reviewed at least annually. The resulting ratings are updated regularly.

Securities held in the Bank’s investment portfolio and securities acquired under repurchase transactions are subject to qualitative and quantitative limits which consider the respective ratings assigned by external agencies.

3.1.2  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.

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.

The risk-weighted exposure values in the credit risk standardized approach are calculated using the specifications of Part Three, Title II, Chapter 2 Standardised Approach CRR. For this purpose the rating agencies Standard & Poor’s Rating Services (S&P), Fitch Ratings and Moody’s Investor Service were nominated for the credit rating assessment related to the receivables category Securitisations. To determine the risk weight 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 broken down by exposure class and type of underlying receivables as of 31 December 2014:
All securities are classified either as Available-for-Sale (AFS) or Held-to-Maturity (HTM).

Liquidity Risk Situation and Quantification for the Investment Portfolio

Art. 449 (b) The 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 given the low limit of HTM Investment Portfolio securities, i.e. 500 million EUR, the bank has no material liquidity risk related to the Securitisation exposures in terms of liquidity metrics and indicators. Furthermore the Bank identifies and monitors concentrations within the Securitisation positions with respect to countries, product types and issuers.

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 ALCO is the decision making body regarding liquidity and investment matters of the Bank.

### 3.1.3 Hedging and Credit Risk Mitigation Techniques

The primary purpose of risk mitigation arrangements is to reduce the potential credit loss in the event of a workout of the credit exposure (e.g. loss given default). Collateral and guarantees cannot serve as a
substitute for the customer’s ability to meet obligations. Collateral and guarantees assessment and is the responsibility of the Risk Management.

The Legal Function shall support credit business activities by drafting and negotiating with clients the relevant loan and security package agreements. When necessary and appropriate, the Legal Function avails itself of the support of an external law firm. The Legal monitors changes to local regulations and/or environment and shall also, when necessary and appropriate, update standard contractual documentation. The purpose of the credit documentation is to ensure that the Bank’s rights are enforceable. At least once a year the collateral/guarantee values must be verified and the results must be documented. In the event of an extraordinary decline in the value of the collateral/guarantee, the competent Approver (according to SSB S.p.A. approval Authorities) must be promptly informed.

3.1.4 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>
<thead>
<tr>
<th>Credit assessment-related asset category</th>
<th>Rating agency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Securitisation</td>
<td>Standard &amp; Poor’s Ratings Services</td>
</tr>
<tr>
<td></td>
<td>Fitch Ratings</td>
</tr>
<tr>
<td></td>
<td>Moody’s Investors Service</td>
</tr>
</tbody>
</table>

Where two ratings for the same customer, the more conservative and, where present three evaluations, the intermediate one. Long-term rating for exposures to: central governments and central banks, supervised; public sector entities; local authorities, multilateral development banks; businesses and other stakeholders while Short-term ratings is used for exposures to supervised institutions and corporates.

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.

Summary of the total amount of exposures broken down by significant receivable types:
### Pillar 3 - Table 11 Credit Risk Exposures by exposure type

<table>
<thead>
<tr>
<th>Exposure type</th>
<th>Gross exposure as 31 December 2014 (in kEUR)</th>
<th>Average exposure based on quarter end (in kEUR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central governments or central banks</td>
<td>78,932</td>
<td>74,282</td>
</tr>
<tr>
<td>Institutions</td>
<td>5,353,924</td>
<td>6,341,761</td>
</tr>
<tr>
<td>Corporates</td>
<td>2,127,500</td>
<td>2,349,085</td>
</tr>
<tr>
<td>of which PMI</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Exposures in default</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>Covered Bonds</td>
<td>150,237</td>
<td>170,884</td>
</tr>
<tr>
<td>Equity exposure</td>
<td>30</td>
<td>30</td>
</tr>
<tr>
<td>Other items</td>
<td>4,956</td>
<td>4,061</td>
</tr>
<tr>
<td>Securitisations</td>
<td>1,585,337</td>
<td>1,352,282</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>9,300,935</td>
<td>10,252,405</td>
</tr>
</tbody>
</table>

### Analysis of exposures by geographic region:

### Pillar 3 - Table 12 Credit Risk Exposures by region

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Central governments or central banks</td>
<td>78,932</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>78,932</td>
</tr>
<tr>
<td>Institutions</td>
<td>23</td>
<td>7,402</td>
<td>149,909</td>
<td>131,938</td>
<td>54</td>
<td>5,064,597</td>
<td>5,353,923</td>
</tr>
<tr>
<td>Corporates</td>
<td>2,127,500</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2,127,500</td>
</tr>
<tr>
<td>Exposures in default</td>
<td>20</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>20</td>
</tr>
<tr>
<td>Covered bonds</td>
<td>150,237</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>150,237</td>
</tr>
<tr>
<td>Equity exposures</td>
<td>30</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>30</td>
</tr>
<tr>
<td>Other items</td>
<td>4,956</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>4,956</td>
</tr>
<tr>
<td>Securitisations</td>
<td>69,348</td>
<td>1,515,989</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1,585,337</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>23</td>
<td>7,402</td>
<td>219,257</td>
<td>4,009,602</td>
<td>54</td>
<td>5,064,597</td>
<td>9,300,935</td>
</tr>
</tbody>
</table>

### Analysis of exposures by industry type/economic sector:

### Pillar 3 - Table 13 Credit Risk Exposures by economic sector

<table>
<thead>
<tr>
<th>Exposure Class</th>
<th>Italian government (in kEUR)</th>
<th>Central Bank (in kEUR)</th>
<th>Banks (in kEUR)</th>
<th>Investment funds (in kEUR)</th>
<th>Other services (in kEUR)</th>
<th>Total (in kEUR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central governments or central banks</td>
<td>24,078</td>
<td>54,854</td>
<td></td>
<td></td>
<td></td>
<td>78,932</td>
</tr>
<tr>
<td>Institutions</td>
<td>5,353,329</td>
<td>594</td>
<td>594</td>
<td>5,353,923</td>
<td></td>
<td>5,353,923</td>
</tr>
<tr>
<td>Corporates</td>
<td>2,114,968</td>
<td>12.532</td>
<td>12.532</td>
<td>2,127,500</td>
<td></td>
<td>2,127,500</td>
</tr>
<tr>
<td>Exposures in default</td>
<td>20</td>
<td></td>
<td>20</td>
<td></td>
<td></td>
<td>20</td>
</tr>
<tr>
<td>Covered bonds</td>
<td>150,237</td>
<td></td>
<td>150,237</td>
<td></td>
<td></td>
<td>150,237</td>
</tr>
<tr>
<td>Equity exposures</td>
<td>30</td>
<td></td>
<td>30</td>
<td></td>
<td></td>
<td>30</td>
</tr>
<tr>
<td>Other items</td>
<td>1.730</td>
<td>3.226</td>
<td>3.226</td>
<td></td>
<td></td>
<td>4,956</td>
</tr>
<tr>
<td>Securitisations</td>
<td>1,585,337</td>
<td>1,585,337</td>
<td></td>
<td></td>
<td></td>
<td>1,585,337</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>24,078</td>
<td>54,854</td>
<td>5,505,296</td>
<td>2,118,214</td>
<td>4,598,493</td>
<td>9,300,935</td>
</tr>
</tbody>
</table>
Analysis of exposures by residual contract maturity:

Pillar 3 - Table 14 Credit Risk Exposures by maturity

<table>
<thead>
<tr>
<th>Exposure Class</th>
<th>&lt; 1 year (in kEUR)</th>
<th>≥ 1 year und &lt; 5 year (in kEUR)</th>
<th>≥ 5 year (in kEUR)</th>
<th>Total (in kEUR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central governments or central banks</td>
<td>78.932</td>
<td></td>
<td></td>
<td>78.932</td>
</tr>
<tr>
<td>Institutions</td>
<td>5.189.606</td>
<td>124.252</td>
<td>40.066</td>
<td>5.353.924</td>
</tr>
<tr>
<td>Corporates</td>
<td>2.127.500</td>
<td></td>
<td></td>
<td>2.127.500</td>
</tr>
<tr>
<td>Exposures in default</td>
<td></td>
<td>20</td>
<td></td>
<td>20</td>
</tr>
<tr>
<td>Covered bonds</td>
<td></td>
<td>11.009</td>
<td>139.228</td>
<td>150.237</td>
</tr>
<tr>
<td>Equity exposures</td>
<td></td>
<td>30</td>
<td></td>
<td>30</td>
</tr>
<tr>
<td>Other items</td>
<td>4.956</td>
<td></td>
<td></td>
<td>4.956</td>
</tr>
<tr>
<td>Securitisations</td>
<td>361.833</td>
<td>1.037.338</td>
<td>186.166</td>
<td>1.585.337</td>
</tr>
<tr>
<td></td>
<td>7.762.877</td>
<td>1.172.599</td>
<td>365.460</td>
<td>9.300.935</td>
</tr>
</tbody>
</table>

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 3 CRR. No further segregation is necessary for disclosure purposes.

Analysis of total outstanding exposures subject to the Standardized Approach by risk weight:
The total amount of exposures which are collateralized is provided in the table below (Art. 453 CRR):

### Pillar 3 - Table 15 Credit Risk Exposures by risk weight

<table>
<thead>
<tr>
<th>Risk weight</th>
<th>Total of CRSA position values Before CRM (in kEUR)</th>
<th>Total of CRSA position values After CRM (in kEUR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0%</td>
<td>72,574</td>
<td>72,574</td>
</tr>
<tr>
<td>2%</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>4%</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>10%</td>
<td>150,237</td>
<td>150,237</td>
</tr>
<tr>
<td>20%</td>
<td>6,781,802</td>
<td>1,752,905</td>
</tr>
<tr>
<td>35%</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>50%</td>
<td>121,648</td>
<td>121,310</td>
</tr>
<tr>
<td>70%</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>75%</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>100%</td>
<td>2,168,415</td>
<td>212,813</td>
</tr>
<tr>
<td>150%</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>250%</td>
<td>6,258</td>
<td>6,258</td>
</tr>
<tr>
<td>370%</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1250%</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other risk weights</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>9,300,935</td>
<td>2,316,097</td>
</tr>
</tbody>
</table>

### Pillar 3 - Table 16 Asset Class collateralized

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Credit risk mitigation (CRM)</th>
<th>Gross Exposure Standardized Approach (in kEUR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banks</td>
<td>Covered by eligible financial collateral</td>
<td>5,028,850</td>
</tr>
<tr>
<td></td>
<td>Covered by guarantees</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Covered by credit derivatives</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>5,028,850</td>
</tr>
</tbody>
</table>

3.1.5 **Definition and Process — Impaired and Past Due**

**Definition of Default**

For the classification of impaired assets in the various risk categories (Doubtful, Substandard, Restructured loans and past due and / or past, in relation to their decreasing order of severity), the Bank refers to the
regulations issued by the Bank of Italy and IAS / IFRS, supplemented by internal provisions that establish criteria and rules for the transition, sometimes automatically, of loans to the various risk categories.

**Definition of Past Due**

According to the definition in Art. 178 CRR the default occurs when the debtor is overdue more than 90 days on a credit line of relevance/material. The concept of materiality and therefore the threshold associated with it will be established shortly by the competent national authority and should reflect a level of risk considered "reasonable".

3.1.6 **Risk Provision**

For each year-end or interim reporting period, exposures/loan are reviewed to identify any exhibiting objective evidence of impairment as a result of events occurring after initial recognition. Exposures are considered impaired if they fall in the categories of non-performing, watch list, restructured or past due loans, according to Bank of Italy rules and consistent with IAS/IFRS regulation (impaired). These impaired exposures are subject to analytical measurement.

The criteria for writing down loans is based on discounting expected cash flows for principal and interest payments, net of recovery costs and any advances received. The key elements that must be identified to calculate the current value of cash flows are estimated collections, the related maturities and the internal discounting rate.

Each subsequent change in the amount or maturities of expected cash flows, i.e. a negative change to the initial estimates, results in a write-down in the income statement.

If the impaired exposure quality improves and there is reasonable certainty that the principal and interest will be recovered on a timely basis, consistent with the original contract terms, a write-back is recognized in the income statement, that cannot however exceed what would have been the amortized cost had the previous write-down(s) not been recognized.

The entire exposure amount is written off when the exposure is considered unrecoverable or is settled in full. Write-offs are recorded directly in income statement and are recognized as a reduction to the principal.

Full or partial recoveries of amounts previously written down are recognized in the income statement. Exposures that exhibited no objective evidence of impairment are subject to collective impairment testing. This test is conducted for similar categories of credit risk and the related loss percentages are estimated using historical data, based on observable elements at the test date, that approximate the latent loss in each loan category.

Collective write-downs are recognized to the income statement.
As of 31 December, 2014 on performing loans to clients a collective impairment reserve has been calculated on the effective exposure amounting to Euro 95 thousand. There is also one position deteriorated, whose gross value amounts to Euro 20 thousand, which has been written off.

On Receivables due to banks a collective impairment has been calculated on the effective exposure to third parties banks amounting to Euro 412 thousand. As of 31 December 2014 there were no deteriorated receivables due to banks.

3.2 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”. The definition includes Legal Risk, but not Strategic Risk and Reputational Risk. For operational risk measurement purposes, Strategic Risk and Reputational Risk are not included, however these risks may be effectively managed through a sound Operational Risk Management process.

Risks, which result from outsourcing operations (outsourcing risks) are treated as a special kind of Operational Risk. Functions are deemed to be outsourced when a third-party is assigned to perform activities and processes related to the execution of banking transactions, financial services or other services typical for the bank and that SSB S.p.A. would otherwise perform itself.

Risk Situation

Operational Risks are ubiquitous: in the services and products which SSB S.p.A. provides and sells, in the technology used and the processes applied and in employees who maintain daily operations. While the use of information processing systems can minimize Operational Risks, dependence on these systems and the applications running on them can in itself result in significant Operational Risks. Moreover, significant Operational Risks arise from processes that require manual input. In addition, securities purchase transactions can entail settlement risks.

At the Bank, Legal Risks exist in the form of the risk of the loss that might arise from not performing contractually agreed obligations and in the form of potential litigation associated with the business activities of the Bank.
Compliance Risks exist both from an external and an internal perspective. On the one hand, the Bank operates within a complex legal and regulatory environment that is evolving constantly. On the other hand, it must also comply with internal standards and guidelines set in particular by SSC.

On-going initiatives, new regulations (e.g. UCITS V, AIFMD), changes to existing business processes and additional outsourcing can also increase Operational Risks.

Outsourcing Risks are inherent in the services and products provided by the service organization, the technology used and the processes themselves. The Bank is exposed to an Outsourcing Risk due to its dependence on the timely and correct rendering of services by the external provider. Given the rising number of outsourced operations, the overall Outsourcing Risks are also potentially higher.

Risk Strategy

The 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 requirements set by the relevant Regulators.

Compliance with relevant legal and regulatory requirements is a critical component of the Bank’s business activity.

With regard to the management of Compliance Risks, the objective of the Bank is to comply with all legal and regulatory requirements that must be met when rendering banking services, financial services and ancillary securities-related services. The responsibility for complying with these requirements lies with every single employee wherever the requirements apply to the scope of the employee’s tasks and duties.

Risk Quantification

Risks are quantified by preparing a risk inventory that is based on Operational Risk workshops, the results of which are augmented and verified by other data sources. Operating gains and losses that are incurred are recorded in a structured fashion in a loss database and monitored closely. The results are used to define specific measures to avoid the risk in future. At account/portfolio level, qualitative risk ratings are prepared to assess operational and contractual risks, risks related to the performance of trust activities and the risks of money laundering.

To measure the regulatory capital requirement for Operational Risks, the Bank applies the Standardized Approach as indicated by the Bank of Italy regulation (Circular 285/2013, Title II, Chapter 8 and Regulation (EU) No 575/2013, Part three, Title III)
Extensive risk mitigation measures ranging from measures inherent to the processes to process-independent measures are used to manage Operational Risks. The measures that are inherent to the processes include identification of potential Operational Risks before the Bank is actually exposed to them (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 and a comprehensive program of monitoring and auditing measures conducted by the compliance department.

All contractual documents are drafted by the legal department based on worldwide standards. There are corresponding escalation processes in place to authorize any deviation from these standards.

The Compliance Oversight Program offers a group-wide framework for an inventory of regulatory requirements, communicating these requirements to the business units concerned, choosing the appropriate measures to manage the risks and for addressing any compliance findings. It provides these to the business units in the form of a summary of its regulatory requirements, risks, corresponding risk controls, and suggested solutions for compliance issues. This framework constitutes a comprehensive and consistent approach to the management of Compliance Risk.

In addition, the compliance department monitors and ensures on an ongoing basis compliance with the relevant laws and regulatory requirements as well as the group’s and local internal requirements. Compliance with the required controls is monitored by a comprehensive program of running tests. The future evolution of the legal environment and regulatory requirements are analyzed in a structured fashion at a global level, European level as well as a local level for all those countries in which the Bank is based. The latter serves to identify the need to implement any new regulations in the short to mid-term so as to ensure compliance with the changing legal and regulatory requirements.

In order to guarantee a structured set of processes, functions and resources for identifying, assessing, monitoring and mitigating operational risks, the Bank has established the following key processes:

- **Internal Loss Management**
  The Bank collects Operational Risk loss data covering all seven Basel II Operational Risk Event Types and all applicable Business Lines in accordance with regulatory requirements. This process is facilitated by Risk Management, working with Business Units that provide loss data.

- **Risk Control Self-Assessment (RCSA)**
  The RCSA is a formal structured workshop-based program conducted on an annual basis in order to collect subjective forward-looking risk estimates. Through that, the risks are identified and assessed in terms of expected probability, financial impacts and reputational impacts while the key related controls are identified and assessed in terms of inherent strength and effectiveness. RCSA’s primary purpose is
to assist the business in making better risk-based decisions by informing decision makers about their level and trend of risk.

- **Operational Key Risk Indicators (OKRIs)**
  The OKRIs are designed to provide relevant data to the Bank on an ongoing basis measuring the actual or potential material exposure to financial loss, systemic weaknesses in business activities or processes, adverse regulatory impacts, significant customer dissatisfaction or reputational risk. Operational Key Risk Indicators are identified and monitored within the organization.

- **Material Risk Identification (MRI)**
  MRI is an annual process based on a top down approach that allows Business Units to identify, assess and communicate key risks and initiatives.

- **Target Risk Assessment (TRA)**
  The Target Risk Assessment is a deep-dive assessment performed on specific processes or systems, where specific or significant weaknesses emerge as a result of periodic assessments or operational loss monitoring.

- **Outsourcing Risk**
  In addition to the components of the framework described above, a dedicated process to monitor the risks deriving from outsourced activities is in place in accordance with the Outsourcing Policy of the Bank. Key elements include: (a) a structured process for the due diligence and selection of the provider and the approval of the outsourcing initiative; (b) a set of requirements to meet before the go live of the outsourcing initiative (e.g. formal agreement and SLAs including mandatory clauses and KPIs; official identification of internal referents; definition of internal day-by-day monitoring controls); (c) monitoring and oversight controls locally performed on a continuing basis; (d) information flows periodically reported to Senior Management and relevant Committees.

- **Technology Risk**
  In addition to the components of the framework described above, a dedicated process to identify, assess, measure, monitor and report the risks deriving from the use of the Information and Communication Technology is in place. Key steps include: (a) the maintenance of an IT assets inventory with evidence of a criticality assessment for each IT resource; (b) IT Risk analysis performed with particular reference to new IT application/systems to be implemented; (c) definition of information flows periodically reported to Senior Management and relevant Committee.

Finally, the Bank regularly monitors and measures the performance of their own services as part of its quality assurance processes. Regular service reporting of the key performance indicators (“KPIs”) are an essential component of risk management. The KPIs are mainly based on the two main criteria: “timeliness” and “accuracy”.

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3.3 Market Risk

Risk Definition

Market risk relates to the current or prospective risk to earnings and capital arising from adverse movements in bond prices, security or commodity prices or foreign exchange rates.

Risk Situation

Principally there are no foreign exchange exposures from foreign exchange transactions initiated by clients as each foreign exchange transaction is immediately offset by a transaction with the group entity SSBT.

The securities acquired as collateral within securities repurchase transactions or derivate trading are subject to market price fluctuations. As a result, the amount of secured funds for investment can fluctuate. Securities in the investment portfolio are also subject to daily market price fluctuations that can lead to a fall in their market rate.

Risk Strategy

Regarding the investment portfolio SSB S.p.A. Global Treasury is entitled to perform investments on behalf of SSB S.p.A. in certain classes of securities, within predefined risk limits, in order to optimize the spread between interest income and interest expense, while moderating risk associated with credit quality, interest rate volatility, liquidity risk and maturity structures. All investment decisions taken by SSB S.p.A. must be in compliant with the applicable investment guidelines and Policies set by the competent functions (i.e. Board of Directors, Risk Management, etc.).

Bank’s strategy does not envisage foreign exchange market risk or any trading book risk.

Risk Management

Foreign exchange transactions with clients and the respective offsetting deals with SSBT are monitored daily to ensure completeness, matching cover and correct settlement.

The application of a suitable haircut within securities repurchase transactions allows to cover Market Risks resulting from fluctuations in exchange rates or market prices. In addition, the securities received as collateral are marked to market daily using prices from an independent source.
The investment portfolio securities are allocated to HTM and AFS and are generally not sold until they mature.

The results of the simulation of the Interest Rate Risks are communicated to the management each month. For particular Interest Rate Risk scenarios limits have been implemented, which are monitored accordingly.

Risk Quantification

In December 2014 the quantification of market risk for SSB S.p.A. was equal to 0 mln/€, evidencing that the foreign exchange risk of the bank was balanced as per risk appetite. Also, the bank had no trading book positions.

Moreover, Interest Rate Risks inherent in the total balance sheet and in the banking book are quantified at net present value on a monthly basis by means of the Quantitative Risk Management (QRM) model. This model, which is applied by SSC throughout the group, simulates the regulatory interest rate shock scenarios for the banking book.

The table presents the quantitative impact of the regulatory interest rate shocks in the banking book on the Bank’s capital as of December 31, 2014.

### Pillar 3 - Table 17 Interest Rate Risk (IR Shock)

<table>
<thead>
<tr>
<th>Interest rate risk in the banking book as of 31 December 2014</th>
<th>Interest rate shock – parallel shift of the yield curve:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Present value change</td>
<td>+ 200 BP</td>
</tr>
<tr>
<td>in kEUR</td>
<td>(17,530)</td>
</tr>
<tr>
<td>in % of the own funds</td>
<td>-4.0%</td>
</tr>
</tbody>
</table>

#### 3.4 Concentration Risk

Risk Definition

Risk Concentrations include:

- a) Risk positions vis-à-vis single-name counterparties that represent a risk concentration simply due to the size of the position,

- b) Risk concentrations that arise owing to a common underlying factor of the risk positions within single risk category (“Intra-Risk Concentrations”).
c) Risk concentrations that arise due to positive correlation between different risk categories (as a result of common risk factors or interaction between various risk factors of different risk categories – “Inter-Risk Concentrations”).

Risk Situation

Risk concentrations can be found in all of the Bank’s main risk categories, i.e. Credit Risks, Market Risks, Operational Risks, Liquidity Risks, Investment Risks and Business Risks. Concentrations with regard to certain products, transaction types, client categories and countries represent the largest concentrations of risk.

Risk Strategy

Generally, the risk strategy here is to avoid Concentration Risk taking account of the business model of the Bank. Risk concentrations are initially identified and then mitigated as far as possible. Existing Concentration Risks undergo both qualitative and quantitative monitoring.

Risk Management

The process-related measures used to manage Concentration Risks include an analysis of potential concentrations of risk exposures before these risk exposures are accepted (taking a selective approach) and also analysis, management and monitoring of existing risk concentrations.

The exposures arising from own account transactions are subject to a system of limits at country/counterparty and asset class level.

Risk Quantification

Two type of concentration risks bring Pillar 1I capital add-ons: (i) Single Name concentration risk and (ii) collateral concentration risk. The single name concentration risk calculation is based on an internal Granularity Adjustment model as envisaged by the Bank of Italy (Circular 285/13). The collateral concentration risk calculation is based on the comparison between the actual S.p.A. portfolio and a target one where asset classes are equally distributed.

3.5 Liquidity Risk

Risk Definition

Liquidity Risks are defined as current and future risks that payment obligations cannot be met on the due date. The risk comprises Funding Liquidity Risk, Market Liquidity Risk and Credit Spread Risk.
Risk Situation

At the Bank, Liquidity Risks can realize when there is a mismatch between asset and liability positions if, for example, clients unexpectedly withdraw large sums of money (observing the relevant contractual maturities) or there is a strong trend towards them shifting their monetary deposits into securities. Although the own portfolio led to the residual terms rising on the assets side, liquidity nevertheless remained very high overall. Moreover, the majority of the items held for the own account of the Bank are eligible under the European Central Bank criteria as collateral for borrowings.

The Bank pursues a liabilities-driven investment strategy. This means the liquidity held by clients within the framework of existing relationships with the Bank is invested in suitable investments. As a result, the Bank is not exposed to any material Funding Liquidity Risk.

Risk Strategy

For the Bank’s portfolio, the risk strategy involves accepting a suitable maturity mismatch to attain the best result from cash management. The risk strategy for assets not held in the Bank’s portfolio is to avoid Liquidity Risks as much as possible by ensuring the highest possible match in maturities between asset and liability positions.

Risk Management

The measures taken to manage Liquidity Risks include monthly scenario testing, daily calculation and monitoring of liquidity ratios and early warning indicators, monthly cash flow forecast as well as a liquidity contingency plan.

Risk Quantification

Liquidity ratios and early warning indicators are calculated daily in accordance with the Liquidity Risk Policy. This allows the Liquidity Risks to be quantified for both a normal and a stressed market environment.

3.6 Business Risk

Risk Definition
Business Risks comprise the risks arising from changes in the business and regulatory environment, including the risk that business develops differently to the business plan and business strategy. Business Risks therefore comprise also Strategic Risks.

Risk Situation

Business activity involves taking Business Risks, regardless of the specific nature of the business. The number of variables in the daily business frustrates absolute planning certainty.

In particular, the business risks for the Bank result from the high degree of dependence on changes in the legal environment (e.g., the laws and regulations governing custody bank business or tax aspects). Additional risks arise from concentrations of clients and industries as well as dependence on existing infrastructure of the financial markets (e.g., settlement systems). Business risks can also arise from changes in the global business model and a rising trend to outsource certain business activities.

Risk Strategy

The risk strategy is based on early identification of potential Business Risks and ensuring appropriate risk mitigation measures to the extent possible given the nature of the risk.

Risk Management

SSB S.p.A. monitors changes in the regulatory environment, to ensure a prompt and complete implementation of such changes; analyses and monitors business and strategic risk, through the collaboration of the business functions involved and verifies overall adequacy of risk impacts with the Company’s risk appetite/limits through risk assessment carried out during the strategic plan definition.

Risk Quantification

Business Risks are characterized by a great deal of interdependency to other risk categories. Consequently, quantification of these risks within a single risk category is much restricted. In addition, it needs to be noted that realization of Business Risk would have a direct impact on the risk-bearing capacity of the Bank. For this reason, Business Risks is assessed within the ICAAP of the Bank with a dedicated stress testing analysis.
3.7 Assets Encumbrance

During the month of November 2014, the Bank of Italy has published a draft update of Circular 285 with regards to public disclosure for encumbered and unencumbered assets (Asset Encumbrance). The update - in consultation until 14 December 2014 - was necessary to align the local requirements with the new European regulations. In particular, the update incorporates the EBA guidelines of June 27, 2014 which oblige banks to provide, as part of public disclosure (Pillar 3), qualitative and quantitative information on encumbered and unencumbered assets.

In this context SSB S.p.A. current situation of Assets Encumbrance is as follows:

### Pillar 3 - Table 18 Disclosure on Assets Encumbrance

<table>
<thead>
<tr>
<th>Template A</th>
<th>Assets in kEUR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carrying amount</td>
<td>Fair value of encumbered assets</td>
</tr>
<tr>
<td>010 Assets of the reporting institution</td>
<td>7,544,477</td>
</tr>
<tr>
<td>020 Loans on demand</td>
<td></td>
</tr>
<tr>
<td>030</td>
<td>177,687</td>
</tr>
<tr>
<td>040</td>
<td>5,173,529</td>
</tr>
<tr>
<td>100 Loans and advances other than loans</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Template B</th>
<th>Collateral received in kEUR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fair value of encumbered collateral received or own debt securities issued</td>
<td>Fair value of collateral received or own debt securities issued available for encumbrance</td>
</tr>
<tr>
<td>010</td>
<td>040</td>
</tr>
<tr>
<td>030 Collateral received by the reporting institution</td>
<td>0,351,058</td>
</tr>
<tr>
<td>100 Loans and advances other than loans on demand</td>
<td>0,351,058</td>
</tr>
</tbody>
</table>

**Risk Quantification**

**Risk Reporting**

The risk situation of the Bank is communicated via a comprehensive reporting system to the Board of Directors and to relevant committees. In particular the information flows that are periodically produced by the Risk Management function to inform the Risk and Compliance Committee and the Board of Directors of the key findings affecting the risk profile of the Bank include, for example:

**Credit Risks**

- A monthly check on the compliance with credit and concentration limits of the Investment Portfolio.
The findings of the Credit exposure monitoring during the month.

**Operational Risks**

- The findings of the loss data collection process with a particular focus on significant actual or potential operational losses and gains and related actions aimed at preventing their reoccurrence.
- The trend of the Operational Key Risk Indicators with a particular focus on evidence of possible breaches of the tolerance thresholds together with actions taken to reduce the relevant risk exposure.
- The results of the annual execution of the Risk Control Self-Assessment process, with evidence of the initiatives defined to reduce the identified risks.

**Liquidity Risks**

- The results of a set of Early Warning Indicators
- The results of Regulatory Indicators and other liquidity metrics: LCR, NSFR and Net Overnight Position to Total Assets.
- The last picture of the current survival period of the bank, monitored via the Maturity ladder metric.

**Market Risks**

- The results of the monthly Net Interest Income sensitivity and Economic Value of Equity indicators.
- The results of the monthly VaR on the Investment Portfolio.

## 4 REMUNERATION PRACTICES AND POLICIES

### 4.1 Compensation structure

Following the EU Directive 2013/36/UE (“CRD IV”) and the EU Regulation 575/2013 (“CRR”) with regards to the provisions contained therein relating to remuneration and incentives policies and practices in banks and banking groups and after a consultation period, the Bank of Italy issued the final version of the Remuneration Rules effective since 17 December 2014.

State Street Bank S.p.A. (SSB S.p.A. or the “Bank”) has a Board of Directors which is supported by the Bank’s Human Resources and Compliance functions. These control functions provide an appropriate, permanent and effective control of the Bank’s remuneration policies and practices.

The Executive Compensation Committee (“ECC”) of the State Street Corporation Board of Directors (“Board”) has oversight of the compensation system at State Street. ECC members are senior professionals with strong financial/business knowledge, who are independent members of the Board, 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 (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 retain and terminate any compensation consultants and other advisers used by the ECC to assist in the evaluation of compensation for the CEO and/or other executive officers, and 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, 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 EVPs and all employees who are among the top 100 in total compensation.

The ECC approves the overall funding rate and amount of the corporate incentive compensation pool (“IC pool”). The Chief Executive Officer (“CEO”) of State Street Corporation allocates the IC pool 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. The Board of Directors review whether the individual allocation process is in line with the Bank’s Remuneration Rules. For the 2014 performance year, the Remuneration Rules provide: (i) general measures on remuneration and incentive systems applicable to all staff members, including members of corporate bodies, employees and associates of the bank (the Staff) and (ii) specific additional measures applicable to Staff persons whose professional activities have or may have a significant impact on the Bank’s risk profile (the Relevant Staff) only. The Remuneration Rules were primarily designed by the Global Human Resources department with relevant input from other control functions including Risk, Compliance, Audit and Legal.
The Remuneration Rules were approved by SSB S.p.A.’s Board of Directors and subsequently by the SSB S.p.A. shareholders. The rules are designed to demonstrate compliance with the Bank of Italy’s Circular 285/2013, Title IV – Chapter 2 and are reviewed at least on an annual basis. The rules apply to all business units of SSB S.p.A. and are coordinated in close consultation with Global Human Resources to maintain a high degree of consistency of compensation strategy across the State Street group.

Compensation Strategy

State Street’s overall aim is to attract and retain high-performing employees via its compensation strategy. We recognize 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 our compensation strategy:

1. An emphasis on total compensation.
3. A competitive compensation package to attract and retain key talent.
4. An alignment with shareholder interests as reflected through the mix of cash, instruments and equity compensation.
5. Compliance with applicable regulations and related guidance, including limiting incentives to take excessive risks.

State Street operates a fully flexible, discretionary bonus program which is structured so as to achieve a balance between fixed and variable remuneration components (see below).

The IC 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 “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 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 ratio; unrealized portfolio gains and losses; and the Tier 1 leverage ratio.

Further, the allocation of the overall global bonus pool of State Street group 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 ex-ante adjustment process described below, in making individual incentive awards, State Street permits the use of discretionary adjustments to awards 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.

State Street also has a performance planning and review process (“PPR”) 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 (“consistently exceeded expectations”, “often exceeded expectations”, “consistently achieved expectations”, “sometimes achieved expectations” and “unacceptable performance”). This rating is a key factor used by managers (and by the ECC for Relevant Staff) 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.

In addition to the performance planning and review process, in 2012 State Street introduced the Talent and Reward Differentiation Tool (TRDT) to assist managers in making compensation decisions. The TRDT system 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.

Remuneration Structure
The Bank’s key remuneration components are as follows:

Fixed Compensation

Base Salary and Benefits
Base Salary is one element of an employee’s 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. Employees are entitled to various benefits (such as company cars) based on their position in the hierarchical structure and their location.
The following are summaries of the variable remuneration plans for Relevant Staff:

**Variable Remuneration (i.e. Incentive Compensation (IC))**

State Street’s IC plan is an integral part of the State Street compensation strategy. The IC Plan is the primary scheme for the provision of annual discretionary bonuses to State Street’s staff globally, including in Italy, and is intended to motivate staff at various levels within State Street’s operations to perform as well as possible and produce superior results whilst not incentivizing inappropriate risk-taking.

Except as described below with respect to a small number of employees who participate in business unit sales incentive plans, all State Street employees, including all Relevant Staff, are eligible to participate in the IC Plan.

A small number of employees in sales participate in sales incentive plans (“SIPs”), which aim to bring the variable compensation granted to plan participants into line with the revenues they generate as well as taking into account non-financial qualitative performance indicators. All such participants have fixed compensation. Variable compensation is assigned on an individual basis by way of a review of both quantitative and qualitative factors. All SIPs are reviewed annually by Global Total Rewards and by a risk control committee comprised of State Street’s control functions, including Risk and Compliance. An employee’s eligibility to participate in a SIP, and all amounts paid under a SIP, are subject to management approval.

**The Structure of the Scheme’s Awards for Relevant Staff**

The IC award is delivered in two separate elements,

1. The immediate non-deferred award (delivered partly in cash and partly in equity) and
2. The deferred award (delivered partly in equity and partly in cash that notionally tracks a money market instrument).

1. **The Immediate Award**

The immediate Award is the portion of the IC that is delivered immediately following the date of communication of the award to the employee. This typically takes place during the first quarter following the year to which the award relates.

2. **The Deferred Award**

All Relevant Staff receive a Deferred Award, which is delivered partly in equity instruments and partly in deferred cash that notionally tracks a money market instrument.

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1 It should be noted that Relevant Staff receiving variable remuneration below the threshold of EUR 50,000 are exempted from this regulatory deferral requirement (which for the time being, is deemed appropriate for the Banking industry by BaFin). Instead, these Relevant Staff receive their variable remuneration per State Street’s corporate IC design (see below for employees other than Relevant Staff).
All Deferred Equity is awarded in the form of Deferred Stock Awards (“DSAs”). DSAs are effectively a contractual right to receive, on each vesting date, a set number of shares in the common stock of State Street Corporation. The number of shares to be delivered on each vesting date is set at the award date, but may be adjusted between the award date and each vesting date through the ex-post performance adjustment measures described below.

Relevant Staff receive at least 50% of the IC Award in shares, financial instruments linked to shares or equivalent financial instruments.

In order to reduce employee concentration in State Street stock that would result from using equity instruments alone to deliver the entirety of the deferred award, in 2013 State Street introduced a new non-equity deferral vehicle, called the Deferred Value Award (“DVA”). DVAs notionally track the value of the SSGA Prime Money Market Fund and are delivered in cash on the vesting date. Similar to DSAs, DVAs may be adjusted between the award date and each vesting date through the ex-post performance adjustment measures described below.

**Award Vehicle Distribution**

State Street’s corporate IC design applies and the awards are delivered as follows:

- For employees at the Senior Vice President level and above:
  - 10% as immediate cash
  - 90% deferred over 4 years with vesting on quarterly pro-rata basis

- 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 quarterly pro-rata basis

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

Beginning with the 2015 compensation year, incentive compensation plan awards for Relevant Staff are restricted to 2x fixed compensation to ensure compliance with the maximum ratio permitted under CRD IV and Principle 12(d) of the Remuneration Code. The Shareholder’s meeting approves to extend the default maximum ratio from 1x fixed compensation to 2x fixed compensation and such has to be notified to the Bank of Italy accordingly.

**The Performance Measures**

State Street applies both “ex-ante” and “ex-post” adjustments to its award process for Relevant Staff:
1. Ex-Ante Performance Adjustment

Ex-ante adjustments are guided by the corporate multi-factor risk scorecard which is used to guide the assessment of risk performance and serve as an input into the incentive compensation pool size and allocation processes. This scorecard framework utilizes several different risk inputs and perspectives to assess State Street’s top risks. Risk factors are evaluated using a five-point rating scale that ranges from significantly above expectations to significantly below expectations for each of the following five categories:

- Actual performance vs. expectations for key risk areas such as operational losses, fiduciary losses, liquidity risk, investment portfolio change,
- Stress loss based on scenarios specified by the US Federal Reserve Board,
- Capital/ dividend strength,
- Economic capital, and
- Regulatory and agency ratings.

Performance against the scorecard metrics is completed using data sourced from various systems in State Street’s control functions, including Enterprise Risk Management, Finance and Treasury, among others. To the extent any performance is significantly below expectations (i.e., a red flag is indicated on any scorecard), judgment-based ex-ante adjustments to the responsible individual material Risk Taker’s incentive compensation may be triggered upon review by the Chair of SSB GmbH’s Supervisory Board in conjunction with the regional heads of the control functions.

2. Ex-Post Performance Adjustment

State Street includes a malus-based forfeiture provision in the deferred award agreements of all Relevant Staff. In addition, State Street has for several years included in its deferred award agreements for all employees, a contractual provision requiring any unvested deferred awards to be forfeited in the case of termination on account of gross misconduct. Gross misconduct is determined in State Street’s discretion and includes conduct which places State Street at legal or financial risk. The malus-based forfeiture provision includes a statement of intention to comply with and meet the requirements of applicable banking regulations and guidance on incentive compensation and provides specifically that the ECC may reduce or cancel any deferred award to the extent required to do so under any such applicable rules. In this way, the forfeiture provision permits consideration of any criteria, to the extent required by applicable law to be considered in an investigation and forfeiture decision. Malus-based forfeiture review will be triggered by the occurrence of a material loss, the establishment of a reserve for a material loss, or the investigation of facts or circumstances, which, if determined adversely to State Street or a material business unit of State Street, could reasonably be expected to result in a material loss or reserve. The individuals reviewing a potential malus-based forfeiture must be independent for the purpose of the review and should be sufficiently knowledgeable about the area of business in which the loss event occurred or the business whose employees are under investigation to be able to understand and analyze the consequences of the employee’s risk-taking conduct.
4.2 Disclosure according to Article 450 of Regulation (EU) No 575/2013

The following tables disclose the quantitative remuneration details according to Article 450 of Regulation (EU) No 575/2013. The number of individuals being remunerated EUR 1 million or more will be disclosed collectively in the separate disclosure report of State Street Bank Luxembourg S.A. which is SSB S.p.A.’s EU parent institution and the information at the level of the Bank’s members of the Board of Directors are included in the ‘Senior Management’ section of Table 20.

Art. 450 (1) lit. g CRR:

<table>
<thead>
<tr>
<th>Pillar 3 - Table 19 Quantitative information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Remuneration in EUR</td>
</tr>
<tr>
<td>----------------------</td>
</tr>
<tr>
<td>Total remuneration</td>
</tr>
<tr>
<td>of which fixed remuneration</td>
</tr>
<tr>
<td>of which variable remuneration</td>
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<tr>
<td>Number of Beneficiaries</td>
</tr>
</tbody>
</table>
Note: The information disclosed in the above table includes 16 Italy Identified Staff employed by SSB S.p.A. in 2014.