State Street Bank Luxembourg S.C.A.

Pillar 3 Disclosure Report

As of 31 December 2015
In accordance with the requirements
of Regulation 2013/575/EU

STATE STREET

Table of Contents

List of Tables

List of Figures

1 Introduction

1.1 Background

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

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

- Pillar 1 establishes rules for the calculation of minimum capital requirements for credit, market and operational risk;

- Pillar 2 requires firms and supervisors to take a view on whether a firm needs to hold additional capital against risks not adequately covered in Pillar 1 or not covered at all;

- Pillar 3 complements the other pillars and effects market discipline through public disclosure. Expanded disclosure about capital and risk enables interested parties to gauge the capital and liquidity adequacy and risk profile of individual banks and to make comparisons.

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

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

This Pillar 3 Disclosure Report has been prepared by State Street Bank Luxembourg S.C.A. and is intended to provide market participants with key information with respect to the risk exposures, risk assessment processes and capital adequacy of SSBL as of 31 December 2015.

1.2 State Street Bank Luxembourg S.C.A.

State Street Bank Luxembourg S.C.A. ("SSBL" or "the Bank") was established in 1990 before notary, as a public company limited by shares ("société anonyme") under Luxembourg law and registered in the "Registre de Commerce et des Sociétés à Luxembourg." The Bank is headquartered in Luxembourg (Grand Duchy of Luxembourg) and its registered office is located at 49 Avenue J.F. Kennedy, 1855 Luxembourg.

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

SSBL is an indirect, wholly-owned subsidiary of State Street Corporation ("SSC") and State Street Bank and Trust Company ("SSBT") and is a direct wholly-owned subsidiary of State Street Europe Holdings Switzerland GmbH.

In 2009, SSBL became the indirect owner of State Street Bank GmbH in Germany, its branches and subsidiaries, thereby expanding its activities to other Europe, Middle East and Africa ("EMEA") countries (forming the "SSBL Group"). This ownership ended with the European Legal Entity Restructuring ("ELER") project step being the deconsolidation of SSBL as further explained below.

In May 2012, the State Street Corporation Management Committee decided to restructure the European legal entity footprint. The ELER project is tasked with optimizing State Street's resources through the reorganization and consolidation of the European legal entities, and State Street Bank GmbH was chosen as the primary consolidating bank entity in Europe.

SSBL holds 124 shares of State Street Company S.A., a Luxembourg company, representing 99% of the paid-in capital of the company. The purpose of State Street Management S.A. is the administration and management service for a limited number of Luxembourg investment funds. The company has a dormant status as of 31 December 2015.

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

1.3 Highlights and Key Events

The ELER project started in 2015 and resulted in the following legal changes:

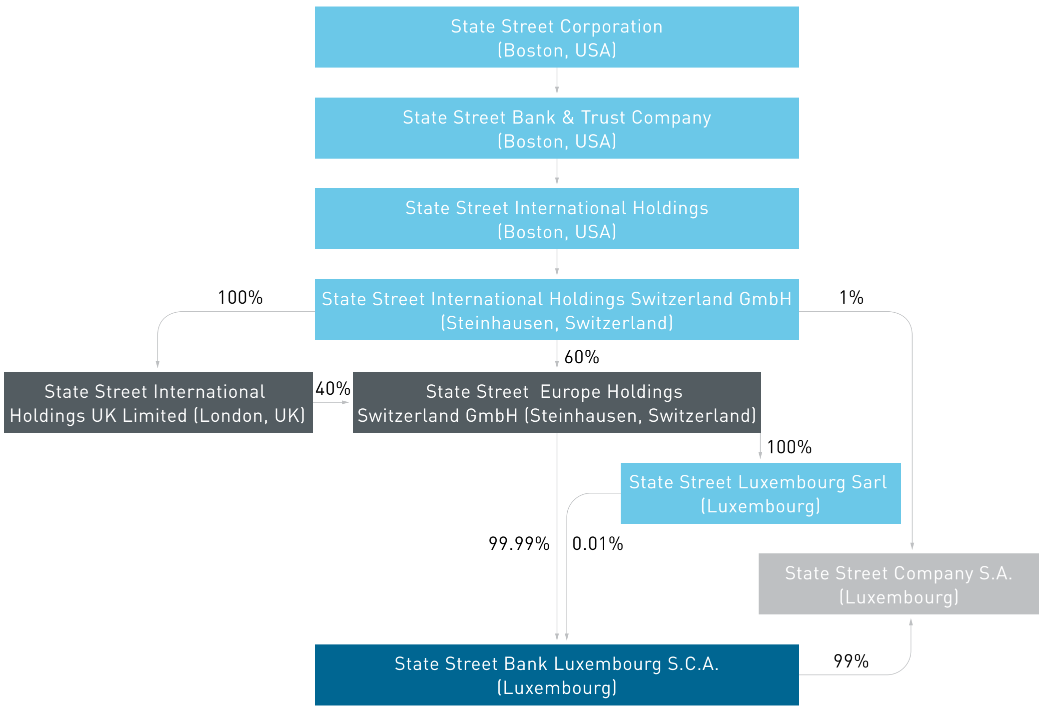
- By an Extraordinary General Meeting of SSBL on 23 April 2015, SSBL changed its legal form from an S.A. (société anonyme) to an S.C.A. (société en commandite par actions). The shareholders at the time were State Street International Holdings Switzerland GmbH (which entity was remaining the main direct shareholder and acting as limited liability shareholder) and State Street Luxembourg S.à r.l. (acting as new and unlimited liability shareholder). State Street Luxembourg S.à r.l. was at the time a wholly-owned subsidiary of State Street International Holdings Switzerland GmbH.

- On 4 May 2015, SSBL sold all the shares into State Street Holdings GmbH S.à r.l. & Co. KG to State Street Europe Holdings Switzerland GmbH, which achieved the deconsolidation of the SSBL Group. This created two European sister banks: State Street Bank Luxembourg S.C.A. and State Street Bank GmbH (in Germany).

- Until October 2015, State Street Europe Holdings Switzerland GmbH was a direct wholly-owned subsidiary of State Street International Holdings Switzerland GmbH, which is itself a direct wholly – owned subsidiary of State Street International Holdings located in the US. On 1 October 2015, State Street International Holdings Switzerland GmbH transferred 40% of the shares it held into State Street Europe Holdings Switzerland GmbH to State Street International Holdings UK Ltd., a new UK company wholly owned by State Street International Holdings Switzerland GmbH.

The new SSBL organizational structure as of 31 December 2015 is accordingly the following:

Figure 1: State Street Bank Luxembourg S.C.A. Shareholding Structure as of 31 December 2015



As of November 2014, the Single Supervisory Mechanism ("SSM") started. This is a system of common bank supervision in the Eurozone which involves national supervisors (CSSF for Luxembourg) and the European Central Bank ("ECB"). Because the former SSBL Group had been identified as a significant bank within the Eurozone, the ECB continues to directly supervise SSBL and is endowed with final national supervisory while CSSF is in a supporting role. ECB will work closely with the CSSF within an integrated system and they will check that SSBL complies with the EU banking rules. CSSF will be taking over SSBL supervision from 1 July 2016 given recent changes as a result of the project ELER.

2 Scope

2.1 Application of Disclosure Requirements (Art. 13 CRR)

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

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

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

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

2.3 Scope of Application (Art. 436 CRR)

This report includes only State Street Bank Luxembourg S.C.A. This legal entity has no subsidiaries or branches.

All information in this report is disclosed in Euro being the legal entity accounting and reporting currency.

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

As per the 2015 update of the list of global systemically important banks ("G-SIBs") published by the Financial Stability Board ("FSB") and the Basel Committee on Banking Supervision ("BCBS"), State Street Bank (group level) has been allocated to the 1% bucket corresponding to required level of additional loss absorbency. Consequently SSBL at individual level has considered a systemic risk buffer of 1% to its minimum capital requirements as per Art. 131.8 CRD IV.

2.5 Supervisory Review and Evaluation Process (SREP) Buffer Requirements

As per CSSF Regulation No. 15-06 dated 30 November 2015, SSBL is no longer part of the systemically important institutions authorized in Luxembourg but remains under the ECB supervision until 1 July 2016.

As per the ECB letter dated 20 November 2015, the Common Equity Tier 1 ratio required to be held in excess of that minimum Common Equity Tier 1 ratio and to be maintained at all times in accordance with Article 16(2)(a) of Council Regulation (EU) No. 1024/2013 is 1.25% with effect from 1 January 2016.

2.6 Countercyclical Buffer

The institution-specific countercyclical buffer to be considered amounts to zero.

3 Own Funds

3.1 Structure of Own Funds (Art. 437 CRR)

Own funds are calculated pursuant to Art. 72 CRR: own funds consist of the sum of Tier 1 capital (Common Equity Tier 1 (CTE1) + Additional Tier 1 capital) and Tier 2 capital.

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

Table 1: Transitional Own Funds Disclosure Template (in kEUR)

	Common Equity Tier 1 capital: instruments and reserves	
1	Capital instruments and the related share premium accounts	65,001
2	Retained earnings	394,116
3	Accumulated other comprehensive income (and other reserves, to include unrealized gains and losses under the applicable accounting standards)	683
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**459,800**
	Common Equity Tier 1 (CET1) capital: regulatory adjustments	
8	Intangible assets (net of related tax liability) (negative amount)	(284,495)
26b	Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre CRR	(683)
28	**Total regulatory adjustments to Common equity Tier 1 (CET1)**	(285,178)
29	**Common Equity Tier 1 (CET1) capital**	174,622
	Additional Tier 1 (AT1) capital: instruments	
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	**-**
	Additional Tier 1 (AT1) capital: regulatory adjustments	
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	**-**
44	**Additional Tier 1 (AT1) capital**	**-**
45	**Tier 1 capital (T1 = CET1 + AT1)**	**174,622**
	Tier 2 (T2) capital: instruments and provisions	
51	**Tier 2 (T2) capital before regulatory adjustments**	**-**
	Tier 2 (T2) capital: regulatory adjustments	
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**-**
58	**Tier 2 (T2) capital**	**-**
59	**Total capital (TC = T1 + T2)**	**174,622**
59a	Risk weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	904,559
	Of which: ...items not deducted from CET1 (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Deferred tax assets that rely on future profitability net of related tax liability, indirect holdings of own CET1, etc)	–
	Of which: ...items not deducted from AT1 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Reciprocal cross holdings in T2 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc)	124
60	**Total risk weighted assets**	**904,559**

Table 1: Transitional Own Funds Disclosure Template (in kEUR)

	Capital ratios and buffers	
61	Common Equity Tier 1 (as a percentage of risk exposure amount)	19.30%
62	Tier 1 (as a percentage of risk exposure amount)	19.30%
63	Total capital (as a percentage of risk exposure amount)	19.30%
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer (G-SII or O-SII buffer), expressed as a percentage of risk exposure amount)	2.50%
65	of which: capital conservation buffer requirement	2.50%
66	of which: countercyclical buffer requirement	0.00%
67	of which: systemic risk buffer requirement	0.00%
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	0.00%
	Amounts below the thresholds for deduction (before risk weighting)	
73	Direct and indirect holdings by the institution of the CET 1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	124
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	–
	Applicable caps on the inclusion of provisions in Tier 2	
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022)	
80	Current cap on CET1 instruments subject to phase out arrangements	–
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	–

As of 31 December 2015, SSBL own funds are only made of Common Equity Tier 1 instruments. The main features of the CET1 instruments are summarized following Annex II of the Commission Implementing Regulation (EU) No. 1423/2013:

Table 2: Capital Instruments Main Features Template Pursuant to Art. 437 (1) (b) CRR in Conjunction with Article 3 of Commission Implementing Regulation (EU) No 1423/2013

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

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

As per Annex I of the Commission Implementing Regulation (EU) No. 1423/2013, SSBL has defined the following method to reconcile own funds with the audited balance sheet of 31 December 2015:

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

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

Table 3: Balance Sheet Reconciliation Methodology

Own Funds reconciliation	**in kEUR**
Total Equity breakdown	**616,762**
Subscribed and paid up capital	65,001
Reserves including retained earnings	394,799
of which AGDL provision	683
Income from current year	156,962
(-) Equity elements not considered	**(157,645)**
(-) Part of interim or year-end profit not eligible	(156,962)
(-) CET1 capital elements or deductions – other	(683)
(-) Deductions breakdown	**(284,495)**
(-) Goodwill accounted for as intangible asset	(164,854)
Deferred tax liabilities associated to goodwill	3,972
(-) Other intangible assets gross amount	(146,185)
Deferred tax liabilities associated to other intangible assets	22,572
(-) Other transitional adjustments to CET1 Capital	**-**
Total Common Equity Tier 1 Capital	**174,622**
Total Tier 1 Capital	**174,622**
Total Own Funds	**174,622**

3.2 Leverage Ratio

As of 31 December 2015, the Leverage Ratio is 42.98% using the fully phased-in definition of Tier 1, which exceeds the discussed regulatory minimum requirements of 3%.

Table 4: CRR Leverage Ratio – Disclosure Template (in kEUR)

Table LRSum: Summary reconciliation of accounting assets and leverage ratio exposures

		Applicable Amounts
1	Total assets as per published financial statements	688,487
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	–
3	(Adjustment for fiduciary assets recognized on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013 "CRR")	–
4	Adjustments for derivative financial instruments	–
5	Adjustments for securities financing transactions "SFTs"	–
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	2,341
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (7) of Regulation (EU) No 575/2013)	–
EU-6b	(Adjustment for exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (14) of Regulation (EU) No 575/2013)	–
7	Other adjustments	(284,495)
8	**Total leverage ratio exposure**	**406,333**

Table LRCom: Leverage ratio common disclosure

		CRR leverage ratio exposures
On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	688,487
2	(Asset amounts deducted in determining Tier 1 capital)	(284,495)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	**403,992**
Derivative exposures		
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	–
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	–
EU-5a	Exposure determined under Original Exposure Method	–
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	–
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	–
8	(Exempted CCP leg of client-cleared trade exposures)	–
9	Adjusted effective notional amount of written credit derivatives	–
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	–
11	**Total derivative exposures (sum of lines 4 to 10)**	**–**

Table 4: CRR Leverage Ratio – Disclosure Template (in kEUR)

Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	–
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	–
14	Counterparty credit risk exposure for SFT assets	–
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Article 429b (4) and 222 of Regulation (EU) No 575/2013	–
15	Agent transaction exposures	–
EU-15a	(Exempted CCP leg of client-cleared SFT exposure)	–
16	**Total securities financing transaction exposures (sum of lines 12 to 15a)**	**–**
Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	2,341
18	(Adjustments for conversion to credit equivalent amounts)	–
19	**Other off-balance sheet exposures (sum of lines 17 to 18)**	**2,341**
Exempted exposures in accordance with CRR Article 429 (7) and (14) (on and off balance sheet)		
EU-19a	(Exemption of intragroup exposures (solo basis) in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	–
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	–
Capital and total exposures		
20	**Tier 1 capital**	**174,622**
21	**Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	**406,333**
Leverage ratio		
22	**Leverage ratio**	**42.98%**
Choice on transitional arrangements and amount of derecognized fiduciary items		
EU-23	Choice on transitional arrangements for the definition of the capital measure	Fully Phased
EU-24	Amount of derecognized fiduciary items in accordance with Article 429(11) of Regulation (EU) NO 575/2013	

3.3 Capital Adequacy

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

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

3.3.1 Internal Capital Adequacy Assessment Process ("ICAAP")

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

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

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

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

The following table sets forth SSBL's Pillar 1 capital requirement expressed as the 8% risk-weighted exposure amounts for each of the applicable standardized credit risk exposure classes as of 31 December 2015.

Table 5: Credit Risk Requirements

Exposure Class	Risk Weighted Exposure amounts in EUR	Capital Requirements in EUR
Standardized approach (SA)		
Central governments or central banks	–	–
Institutions	2,669,723	213,578
Corporates	142,586,390	11,406,911
Equity	310,000	24,800
Other Items	85,275,364	6,822,029
Total Regulatory Requirement for Credit Risk	**230,841,477**	**18,467,318**

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

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

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

As of 31 December 2015, the net currency position considered for FX risk is a short position of EUR 44.8 Mio, which is above the 2% of Eligible Own Funds threshold (EUR 3.492 Mio).

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

Table 6: Market Risk Requirements

Risk type	Risk Weighted Exposure amounts in EUR	Capital Requirements in EUR
Foreign Exchange	44,805,376	3,584,430
Total Regulatory Requirement for Market Risk	**44,805,376**	**3,584,430**

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

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

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

- Trading and sales (18 percent);
- Commercial banking (15 percent);
- Agency services (15 percent).

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

Table 7: Operational Risk Requirements

Risk type	Risk Weighted Exposure amounts in EUR	Capital Requirements in EUR
Operational risk	628,912,424	50,312,994
Total Regulatory Requirement for Operational Risk	**628,912,424**	**50,312,994**

3.3.5 Total Regulatory Capital Requirements

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

Table 8: Overview of Global Requirements

Risk type	**Risk Weighted Exposure amounts in EUR**	**Capital Requirements in EUR**
Credit risk (excluding counterparty credit risk)	230,531,477	18,442,518
Of which Standardized approach (SA)	230,531,477	18,442,518
Market risk	44,805,376	3,584,430
Of which Standardized approach (SA)	44,805,376	3,584,430
Operational risk	628,912,424	50,312,994
Of which Standardized Approach (SA)	628,912,424	50,312,994
Amounts below the thresholds for deduction (subject to 250% risk weight)	310,000	24,800
Total Regulatory Requirement	**904,559,277**	**72,364,742**

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

The Common Equity Tier 1, the Tier 1 and Total Capital Ratios of SSBL as of 31 December 2015 are as follows:

Table 9: Capital Ratios

Ratio	**Required Min 2015**	**Required Buffers 2015**	**Required Ratio 2015**	**SSBL 2015**
CET1 Capital ratio	4.50%	2.50%	7.00%	19.30%
T1 Capital ratio	6.00%	2.50%	8.50%	19.30%
Total Capital Ratio (%)	**8.00%**	**2.50%**	**10.50%**	**19.30%**

As of 31 December 2015, the combined buffer is 2.5%.

4 Risk Management

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

4.1.1 Board of Directors

SSBL's Board of Directors is responsible for overseeing the sound management of SSBL and exercising its business judgement in what it believes to be in the best interests of SSBL and its shareholders.

To ensure that the business affairs of SSBL are adequately monitored and controlled, specific responsibilities are allocated to the Management Board, including the Authorized Management approved in their capacity by the CSSF and their powers under the terms of Art. 7(2) of the law of 5 April 1993 as amended and the CSSF circular 12/552 as amended ("the four eyes principles"), and in accordance with internal guidelines and policies. Management Board meetings are held on a monthly basis.

The members of the Board of Directors are selected based on their skills and experience, taking the needs of the Bank into consideration. Each member was duly authorized to act as director by the CSSF, which assessed their professional standing, experience and reputation in accordance with the law of 5 April 1993 on the financial sector, as modified. It is ensured that the Board is of sufficient size, independence and technical expertise to conduct its activities effectively. When a director is to be elected (to replace a resigning director or as an additional director), the Chairman of the Board proposes that the person becomes a new director during a Board meeting and explains what added value the person would bring to discussions and the decision process given the person's expertise, experience and skills. The Directors approve the new director (co-optation process) and the election is ratified at the next shareholders meeting. Board of Directors meetings are held on a quarterly basis.

As of 31 December 2015, the Board of Directors is composed of the following persons:

Didier Delvaux:	Number of directorships: 1
Martin F. Dobbins:	Number of directorships: 4
Stefan Gmuer:	Number of directorships: 9
Cheryl Sunderland:	Number of directorships: 4

4.1.2 Surveillance Committee

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

- Ensure compliance with SSC policies and relevant local regulations;
- Regularly assess the way in which SSBL Senior Management is identifying, measuring, monitoring, controlling and reporting risks to which SSBL is exposed to.

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

4.1.3 Additional Governance Arrangements

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

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

Each business area is primarily responsible for managing the risks relevant for their activities. The Chief Administration Officer performs the first line of defense and provides an overview of the self-identified risks during the monthly Business Risk Committee meetings. The Risk Management Department acts as the second line of defense and performs independent risk assessment and produces risk reporting, utilizing specific programs and tools, amongst which are the Risk and Control Self-Assessment Program, the Material Risk Identification Program, the monitoring and regular analysis of operational loss and the monthly review of Key Risk Indicators and limits for the risks deemed material to the Bank.

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

- Assist in the formulation of the risk policies and procedures;

- Assist in the identification and quantification of risks associated with the Internal Capital Adequacy Assessment Process (ICAAP) including the Stress Testing Program;

- Assist with the documentation and maintenance of the Risk Strategy and the Risk Appetite Framework, and related risk management policies and procedures, which outline the methodology for identifying, measuring, managing, controlling and reporting of the risks to which SSBL is exposed;

- Monitor risk issues and report significant ones and other relevant information to the Management Board, which will inform the Board of Directors, as appropriate. The Chief Risk Officer has the right to directly and on his/her own initiative contact the Chairman of the Board of Directors or its relevant Committees and, where appropriate, the CSSF and the ECB;

- Identify, escalate and oversee the resolution of exceptions to risk management policies and guidelines.

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

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

4.1.4 Risk Reporting

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

Reporting to Senior Management includes:

- MIS report on operational risk;
- Audit observations and remedial action plans;
- Compliance report;
- Risk Management initiatives;
- Common Reporting (COREP) and Large Exposures reports;
- Surveillance report on all the key risks of the Bank.

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

4.2 Fundamental Strategies and Organizational Guidelines

SSBL, in the course of its business, enters into transactions which lead to credit risk exposure, whereas market risk exposure constitutes only a minor portion of the total own funds requirements under regulatory Pillar 1. SSBL strives to maintain its strong Tier 1 capital ratio (currently 19.30%) that exceeds the regulatory minimum requirements as defined in Art. 92 CRR. The maintenance shall be established by strict tolerance (thresholds) for each material risk category together with an elaborated monitoring process in place.

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

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

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

- Business and Trading Strategy;
- Risk Strategy and Risk Appetite Framework;
- Risk and Compliance Management Policy;
- Corporate Compliance Policy;
- Capital and Liquidity Management Policy;
- Remuneration Policy;
- Disclosure Policy;
- ICAAP Statement.

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

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

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

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

They have acknowledged that the risk management function and the system of internal controls were operating with sufficient effectiveness to provide reasonable, but not absolute, assurance that the Bank's risk management and internal control objectives were achieved during the period from 1 January 2015 to 31 December 2015.

4.2.1 Risk Identification and Quantification

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

4.2.2 Risk Appetite Approach

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

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

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

4.2.3 Stress and Scenario Testing

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

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

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

4.3 Relevant Risk Types

4.3.1 Credit Risk

Risk Definition

The current or prospective risk to earnings and capital arising from an obligor's failure to meet the terms of any contract with the institution or its failure to perform as agreed. This risk also includes settlement risk, concentration risk and residual risk.

Credit Risk – On-Balance Sheet

Risk Situation

SSBL is exposed to counterparty credit risk in the normal course of its business activities mainly due to unbilled fees and receivables fees but also to the required operational cash (Nostro balances). The excess of cash being placed at the Luxembourg Central Bank doesn't lead to any credit risk capital charge.

Risk Strategy

SSBL's goal is to minimize credit risk resulting from its business activities and to fully comply with all regulatory requirements. Additionally, SSBL's risk strategy aims to limit undue credit risk concentration by monitoring potential concentration risk by industry, geography and credit product. SSBL credit risk is managed through adherence to SSC's Credit and Counterparty Risk Policies and Guidelines and risk approval authorities. The underlying risk strategy consists of monitoring and observing a comprehensive system of limits in addition to monitoring and researching any breaches of these limits. Establishing internal limits and monitoring compliance with these guidelines is a critical component of the Bank's risk strategy.

Risk Quantification

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

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

Risk Situation

As of 31 December 2015, SSBL has issued two rental guarantees to the landlords of the SSB GmbH Italy Branch offices in Milan and Turin. The combined value of the rental guarantees is EUR 2,341,225.

Risk Strategy

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

Risk Quantification

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

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

Table 10: Credit Risk Exposures by Exposure Type

Exposure type	Gross exposure in EUR
Credits, commitments and other non-derivative off-balance sheet positions	379,788,998
Securitization	–
Derivatives	–
Total	**379,788,998**

b) An analysis of exposures by geographic region:

Table 11: Credit Risk Exposures by Region

Exposure Class	Europe in EUR	North America in EUR	Total in EUR
Central governments or central banks	87,475,781	–	87,475,781
Institutions	12,709,761	638,854	13,348,615
Corporates	142,586,390	–	142,586,390
Equity exposures	124,000	–	124,000
Other items	136,254,212	–	136,254,212
Total	**379,150,144**	**638,855**	**379,788,998**

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

Table 12: Credit Risk Exposures by Economic Sector

Exposure Class	Banks in EUR	Other services in EUR	Total in EUR
Central governments or central banks	87,475,781	–	87,475,781
Institutions	13,348,615	–	13,348,615
Corporates	–	142,586,390	142,586,390
Equity exposures	–	124,000	124,000
Other items	–	136,254,212	136,254,212
Total	**100,824,396**	**278,964,602**	**379,788,998**

d) An analysis of exposures by residual contract maturity:

Table 13: Credit Risk Exposures by Maturity

Exposure Class	< 1 year in EUR	≥ 1 year and < 5 years in EUR	≥ 5 years in EUR	Total in EUR
Central governments or central banks	87,475,781	–	–	87,475,781
Institutions	13,348,615	–	–	13,348,615
Corporates	142,586,390	–	–	142,586,390
Exposures in default	–	–	–	–
Covered bonds	–	–	–	–
Collective Investment Undertakings (CIUs)	–	–	–	–
Equity exposures	124,000	–	–	124,000
Other items	136,254,212	–	–	136,254,212
Securitizations	–	–	–	–
	379,788,998	**–**	**–**	**379,788,998**

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

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

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

Table 14: Credit Risk Exposures by Risk Weight

Risk weight	Total of CRSA position values Before CRM (in EUR)	Total of CRSA position values After CRM (in EUR)
0%	87,475,781	87,475,781
2%	–	–
4%	–	–
10%	–	–
20%	77,072,176	77,072,176
35%	–	–
50%	–	–
70%	–	–
75%	–	–
100%	215,117,042	215,117,042
150%	–	–
250%	124,000	124,000
370%	–	–
1250%	–	–
Other risk weights	–	–
Total	**379,788,998**	**379,788,998**

Definition of Default

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

As of 31 December 2015, none of SSBL customers' receivable exposures amounts were assigned to the default exposure class.

Risk Provision

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

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

As of 31 December 2015, none of the SSBL lending commitments were assigned to intensive care, restructuring or liquidation.

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

4.3.2 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. This risk includes operational execution risk, regulatory/compliance risk and information technology risk, including cybersecurity risk and system resiliency. While not included in the Basel II definition, reputational risk is considered by the SSBL as a second order impact, i.e., a risk that is closely linked to other risk events: whenever a risk event occurs, it has the potential to cause reputational damage as a downstream impact.

Risk Situation

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

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

Subcustodian risk exists in the selection and day-to-day relation with a network of banks located worldwide and contracted to provide local custodian services. It is however considered as strongly mitigated due to the measures followed by the SSBT Network Management Department, which is responsible for the selection and the monitoring of the subcustodians for all the State Street sites.

Outsourcing risk is a specific sub-type of operational risk that is inherent in the services and products performed by the external and internal services providers, the technology used and the processes themselves. The Bank, as outsourcer, is exposed to an outsourcing risk due to the dependence on the timely and accurate supply of services by the external service provider. SSC Policies and Guidelines apply to all outsourced entities, in particular in terms of system security and maintenance, data confidentiality, authentication and Business Contingency Plans.

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

Information Technology ("IT") risk exists when using information and communication technology. The IT risk can be also defined as the potential that a given threat will exploit vulnerabilities of an asset or group of assets and thereby cause harm to the organization, which includes the risk of cyber-attacks. This risk stems from the technology used and in the processes applied by employees to maintain daily operations. While the use of information processing systems can minimize operational risks, dependence on these systems and the applications on which they are based can itself represent a significant operational risk. Moreover, there are significant operational risks inherent in processes that require manual intervention.

Risk Strategy

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

Risk Quantification

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

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

Risk Management

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

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

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

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

4.3.3 Market Risk

Risk Definition

Market risk is defined as the current or prospective risks to planned future cash flows, earnings and capital arising from adverse movements in prices of securities (e.g., bonds, equities) and commodities as well as changes in foreign exchange ("FX") rates. Market risks can arise from market making, dealing and position taking in securities, currencies, commodities or derivatives (on securities, currencies or commodities). This risk includes FX risk, defined as the current or prospective risk to earnings and capital arising from adverse movements in currency exchange rates.

Risk Situation, Strategy and Management

The Bank can be exposed to market risk from amounts denominated in foreign currency held on Nostro accounts and on customer fee and commission receivables or unbilled.

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

Risk Quantification

As an immaterial risk, the risk is quantified using the methods according to Art. 352 CRR.

4.3.4 Concentration Risk

Risk Definition

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

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

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

Risk Situation

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

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

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

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

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

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

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

4.3.5 Liquidity Risk

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

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

Risk Situation, Strategy and Management

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

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

The Internal Liquidity Assessment Process ("ILAAP") has been fully integrated in the Internal Capital Adequacy Assessment Process ("ICAAP").

Risk Quantification

As of 31 December 2015, the Liquidity Coverage Ratio ("LCR") is 1038.32% which is highly above minimum regulatory requirements.

4.3.6 Interest Rate Risk in the Banking Book

Risk Definition

Interest rate risk is defined as changes in the market value of positions resulting from movements in the level of benchmark interest rates. Disclosure requirements are outlined within Art. 448 CRR.

Risk Situation, Strategy and Management

SSBL only has the following interest-bearing assets positions:

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

Risk Quantification

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

The impact of the interest rate shocks in accordance with the CSSF Circular 08/338 as of 31 December 2015 is as follows:

Table 15: Interest Rate Risk

	Interest rate risk Interest rate shock – parallel shift of the yield curve	
Present value change	**+ 200 BP**	**- 200 BP**
in EUR	(5,412)	–
in % of the own funds	(3.10%)	0.00%

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

4.3.7 Business/Strategic Risk

Risk Definition

This risk category covers the following two risk types:

- **Business Conduct, Fiduciary and Legal Risk**
  Risk to engage in activities that are illegal, or believed to undermine the trust of its clients, shareholders or regulators. SSBL has set expectations for the manner in which its employees interact with clients, counterparties and other parties with the objective of promoting behavior and communications that are consistent with its regulatory and contractual obligations, fiduciary and other legal duties, policies and standards, corporate culture and standards of ethical business conduct. Accordingly, SSBL defines "Business Conduct Risk" as the failure to meet such obligations. Implicit in that definition is Fiduciary Risk defined as the risk to fail to properly exercise the fiduciary duties in the provision of products or services to clients. Similarly overlapping with the foundational components of Business Conduct Risk, Legal Risk is defined as the risk of loss resulting from failure to comply with laws and contractual obligations as well as prudent ethical standards, in addition to exposure to litigation from all aspects of the Bank's activities.

- **Strategic Risk**
  Risk to not be able to generate consistent and sustainable earnings. Factors influencing strategic risk include, but are not limited to, adverse changes in the competitive or regulatory environment, changes in the economics of SSBL's business activities and the failure or poor execution of strategic decisions.

Risk Situation, Strategy and Management

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

Management and monitoring of these risks are performed through various means across the Bank and their oversight by the Management Board is performed monthly. Information about the clients won and lost during the month and relationships viewed as "at risk" are provided to the Management Board. The business/strategic risk is managed through early identification of potential business exposures and related implementation of risk mitigation measures. In practice, the identification and remedial action plan are facilitated by the New Business and Product Risk Assessment ("NBPRA") that provides a dialogue platform for the various stakeholders involved in all three lines of defense of the Bank.

Risk Quantification

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

4.3.8 Investment Risk

Risk Definition

Investment risk could arise as a result of financial losses of equity holdings/investments due to a default of dividends, (partial) write-downs, losses from divestments or a reduction of inner reserves. Investment Risk is regarded in terms of counterparty risk. Investment risk necessarily comes along with holding a participation in any company for strategic reasons and is therefore accepted.

Risk Situation, Strategy and Management

SSBL owns the participation in State Street Company S.A. The risk strategy pursued here is to accept the risk and monitor and manage it using appropriate qualitative measures.

Risk Quantification

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

4.3.9 Pension Risk

Risk Definition

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

Risk Situation, Strategy and Management

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

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

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

4.4 Encumbered and Unencumbered Assets

Disclosure requirements are outlined within Art. 443 CRR.

The situation of Assets Encumbrance as of 31 December 2015 is as follows:

Table 16: Disclosure on Assets Encumbrance

Template A – Assets in kEUR

		Carrying amount of encumbered assets 010	Fair value of encumbered assets 040	Carrying amount of unencumbered assets 060	Fair value of unencumbered assets 090
010	Assets of the reporting institution	–		688,486,990	
030	Equity instruments	–	–	124,000	124,000
040	Debt securities	–	–	–	–
120	Other assets	–		591,206,046	

Template B – Collateral received in kEUR

		Fair value of encumbered collateral received or own debt securities issued 010	Fair value of collateral received or own debt securities issued available for encumbrance 040
130	Collateral received by the reporting institution	–	–
150	Equity instruments	–	–
160	Debt securities	–	–
230	Other collateral received	–	–
240	Own debt securities issued other than own covered bonds or ABSs	–	–

Template C – Encumbered assets/collateral received and associated liabilities in kEUR

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

D – Information on importance of encumbrance

SSBL does not have any encumbered assets as of 31 December 2015.

5 Remuneration Practices and Policies

5.1 Qualitative Information

Art. 450 (1) lit. a CRR

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

The Executive Compensation Committee (ECC) has ultimate oversight of the overall compensation system at State Street. The ECC has oversight of all compensation plans, policies and programs in which senior executives participate.

ECC members are senior professionals with strong financial/business knowledge and are independent members of the Board of Directors of State Street Corporation (SSC), in accordance with the listing standards of the New York Stock Exchange. They are appointed by the Board on the recommendation of the Nominating and Corporate Governance Committee of the Board. There are currently three (3) members of the ECC. During 2015, the committee held seven meetings.

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

From the 2014 compensation cycle, State Street implemented a new process pursuant to which a committee of SSC 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, the SSC Examining and Audit Committee conducted these reviews with respect to our Chief Compliance Officer and our Compliance Department. This process is designed, among other things, to provide the relevant committee with additional perspective on the performance of the relevant control function and whether that function is being allocated appropriate resources and compensation.

The ECC has sole authority to:

i) Retain and terminate any compensation consultants and other advisors used by the ECC to assist in the evaluation of compensation for the Chief Executive Officer ("CEO") and/or other executive officers; and

ii) Approve these consultants' and advisors' 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.

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

The ECC reviews and approves the CEO's compensation in conjunction with other independent Directors of the Board. The CEO and the Chair of the ECC review annually incentive compensation allocations for all Executive Vice Presidents (EVPs) and all employees who are among the top 100 in total compensation.

The ECC approves the overall allocation of the Incentive Compensation (IC) plan pool. The CEO allocates IC pools to business units and corporate functions based upon a variety of factors, which may include 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.

For the 2015 performance year, the discretionary business unit allocation process was enhanced through the use of a new business unit-level risk scorecard, which captures qualitative and quantitative data across Risk, Audit, Compliance, Legal and Regulatory areas for every business unit and corporate function. The CEO/Chairman of SSC uses the results of the business unit-level risk scorecard as an input into the pool allocation process as well as the Management Committee (MC) sub-allocation process. Individual accountability below MC level (positive or negative) will be assessed as appropriate and may inform compensation decisions.

In its annual process, the ECC receives regular updates, including by its independent compensation consultant and outside legal counsel, on regulatory and governmental actions and initiatives concerning compensation and related risk and governance considerations, particularly with respect to the financial services industry. These updates include rulemaking by the Board of Governors of the United States Federal Reserve System and other banking agencies regarding incentive compensation arrangements; rulemaking under the Dodd-Frank Act; proposed and final guidance and regulations from banking regulators in Europe (including the European Central Bank) and Asia concerning compensation and risk principles; and specific actions and inquiries undertaken by state and federal and the EU's national and supranational authorities concerning compensation practices. The ECC also receives updates on compensation actions, including publicly reported new design elements, taken by other major financial services firms in addition to general remuneration trends in the marketplace. These updates focus on developments in the alignment of incentive compensation with risk principles, and they inform the decisions of the ECC in making its incentive compensation decisions for 2015.

Beginning in September 2015, State Street established a separate UK Remuneration Committee (UK RemCo). This was done for a number of reasons, including to promote sound local remuneration governance practices, to address the increase in specific UK and EU regulatory requirements, to address specific regulatory feedback and to provide focused regional expertise in remuneration matters. The UK RemCo's primary duties are:

- To review and approve the identification and remuneration of EU Identified Staff (EUIS) in the UK;
- The oversight of compliance with applicable UK remuneration regulatory requirements, including those that have implications for risk and risk management; and
- The oversight of non-UK EUIS remuneration matters and compliance with applicable EU and local country remuneration regulatory requirements within the EU.

The UK RemCo meets at least three (3) times per year and reports annually to the ECC for information purposes. The UK RemCo is responsible for the review and approval of 2015 compensation for UK EUIS and will provide oversight of non-UK EUIS compensation matters. State Street's EMEA/International Heads of Enterprise Risk Management (ERM), Compliance, Legal and Finance provide input and attend UK RemCo meetings, as and when requested by the UK RemCo members.

State Street also established the Incentive Compensation Control Committee ("ICCC"), a committee on a global level (reporting to State Street's corporate Compliance and Ethics Committee ("CEC") with annual reporting to the ECC) of senior representatives of our ERM, Compliance, Internal Audit, Finance, Legal and Global Human Resources ("GHR") departments to serve as a forum for the risk management and internal control functions to formally review and provide their assessment of incentive compensation arrangements throughout the State Street group. This review and assessment is intended to promote the consistency of State Street incentive compensation arrangements with the safety and soundness of State Street and its subsidiaries and the alignment of these arrangements with applicable regulatory guidance and regulations. The ICCC is supported by a working group composed of GHR, Legal and other subject matter experts, which provides analytical and operational support to the ICCC. The ICCC meets on a regular monthly schedule and otherwise as needed. Based on the 2015 Annual Risk Review, as reviewed by the ICCC and presented to the ECC, all incentive compensation plans are balanced and do not encourage excessive risk-taking.

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

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

In addition, State Street has identified those employees throughout the global organization who individually or as a group are responsible for activities that may expose State Street to material amounts of risk. State Street annually reviews the incentive compensation arrangements used to compensate these employees in light of identified risks relevant to their respective responsibilities. State Street also annually reviews the design and governance of its compensation plans applicable to all employees for alignment with applicable regulatory guidance. Representatives of the ICCC participated in these activities and the results of these reviews were evaluated by that committee. With respect to the 2015 compensation year, State Street's global Chief Risk Officer and Chief Human Resources Officer presented the results of these reviews to the ECC in January 2016.

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

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

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

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

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

And

Art. 450 (1) lit. e CRR
"Information on the performance criteria on which the entitlement to shares, options or variable components of remuneration is based."

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

Introduction

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

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

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

Base Salary 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, statutory requirements, year-over-year increase guidelines, budget and position to market. Employees are also entitled to various benefits based on their bank title/position in the hierarchical structure and their location.

Role Based Allowance (RBA)

RBAs are an element of an employee's fixed compensation introduced for the first time in the 2014 performance year to permit State Street (and its subsidiaries) to continue to deliver compensation that is reflective of the competitive marketplace, an individual's role, responsibility, experience and in compliance with its regulatory obligations.

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

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

The corporate IC bonus pool is based on the overall profits of the entire State Street group of companies. The primary quantitative component in the calculation of the IC pool is operating-basis[1] Net Income Before Tax and Incentive Compensation ("NIBTIC"), i.e., the IC pool is funded as a percentage of State Street's group-wide NIBTIC, which percentage is determined by the ECC at the beginning of each performance year. The ECC reviews operating-basis NIBTIC calculations and identifies any applicable adjustments to reflect its assessment as to elements of revenues and expenses that should apply or should not apply for IC purposes.

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

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

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

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

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

- *Ex-ante* compensation adjustments to awards prior to grant, guided by risk assessments developed and implemented by State Street's ERM group and approved by the RCC;

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

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

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

For members of State Street group's MC, forfeiture also may be triggered upon misconduct that was materially detrimental to the interests or business reputation of State Street or any of its businesses (determined in State Street's discretion). Beginning with IC awards made in 2015, shares already delivered or cash already paid under awards to MC members are subject to recoupment, or "clawback," in specified circumstances generally relating to fraud or willful misconduct by the executive that results in material harm to State Street or a material financial restatement.

Ratio of the Maximum Payout when Compared to Fixed Remuneration

Beginning with the 2014 compensation year, variable pay for EUIS is restricted to 2x fixed compensation to ensure compliance with the maximum ratio permitted under CRD IV. State Street operating in Luxembourg has obtained the relevant shareholder approvals to extend the default maximum ratio from 1x fixed compensation to 2x fixed compensation and such has been notified to the CSSF.

Performance Planning and Review Process

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 goals with corporate goals in the following categories: driving strategy, strengthening the organization, enhancing culture, delivering on financial commitments and engaging employees.

Midyear 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 UK RemCo for EUIS) in determining incentive compensation and salary decisions during the annual compensation planning process. Typically, employees receiving a rating of 2 or lower will receive a much-reduced or zero IC award.

Performance management employs consistent processes to cascade goals, create "line of sight" and measure actual individual and organizational performance. Frequent feedback is a critical element of the PPR process.

The PPR process is a three-stage approach to Performance Management.

- The first stage, called Performance Planning, involves the employee and manager working in partnership to ensure that performance goals and targets, skills and behaviors, and development goals are collaboratively set for every employee at the beginning of the year. Goals are recorded in the PPR application with final approval being given by the manager;

- The second stage focuses on the facilitation of regular review and feedback between the employee and manager throughout the year;

- The third stage is the completion of a year-end review by mid-December and includes a performance level descriptor.

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

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

For the 2015 year-end review, an additional performance rating metric (the Risk Excellence rating) was introduced to the PPR process to measure employees' risk and conduct performance. The Risk Excellence rating is intended to inform the overall performance evaluation as well as compensation decisions.

In addition to the PPR process, State Street's Talent and Reward Differentiation Tool ("TRDT") assists managers in making compensation decisions. The TRDT allows managers to assign a relative score (on a seven-point scale) to employees at the Vice President level and above based on five factors. These include relative to peer 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.

An IC target structure was implemented in early 2013 for the MC and for the 2014 performance year for all Executive Vice Presidents (EVPs) to provide additional structure for determining IC. Annual and long-term targets were developed based upon an assessment of the executive's role and responsibilities at State Street and relevant competitive and market factors.

- **Annual Incentive.** The annual incentive is designed to reflect the executive's specific performance for the year. Therefore, the actual annual incentive can be expected to vary from the relevant target compensation level with the company's and the executive's performance from year to year.

- **Long-Term Incentive.** The long-term incentive is designed to reflect State Street's long-term performance trend, as well as the core responsibilities associated with the executive's role over time. Therefore, the actual long-term incentive awarded can generally be expected to remain more consistent from year to year in comparison to the annual incentive, absent a change in (1) State Street's long-term performance trend, (2) the executive's responsibilities or (3) market practices. For 2014, we introduced the potential for variation of the long-term incentive under ordinary circumstances. The actual amount within the range is based on an assessment of leadership behaviors we believe to have a long-term effect, such as commitment to cross-organization initiatives, serving as an ethical role model, enhancing a culture of compliance and prudent risk-taking and championing diversity and citizenship.

Art. 450 (1) lit. f CRR

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

For the 2015 performance year (paid in March 2016), IC awards consisted of deferred awards and immediate cash payments. The allocation of deferred compensation is formulaically-driven based on total value of an individual's 2015 IC. In general, the more senior an employee is, the greater the percentage of IC that was paid as a deferred award. IC awards are delivered as follows:

- For employees at the Senior Vice President (SVP) level and above:
  - 5% as immediate cash;
  - 95% deferred over four years.
- For employees below SVP 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 four years with vesting on a quarterly (or annual in the case of equity for EUIS) pro-rata basis;
- For employees below VP level, IC awards are delivered 100% in immediate cash.

Guaranteed Bonuses and Buy-out Awards

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

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

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

5.2 Quantitative Information

Art. 450 (1) lit. g CRR

"Aggregate quantitative information on remuneration, broken down by business area." (Note: All "Identified Employees" for State Street Bank Luxembourg S.C.A. are aligned with State Street's Global Services business line.)

Art. 450 (1) lit. h CRR

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

(i) the amounts of remuneration for the financial year, split into fixed and variable remuneration, and the number of beneficiaries;

(v) new sign-on and severance payments made during the financial year, and the number of beneficiaries of such payments; and

(vi) the amounts of severance payments awarded during the financial year, number of beneficiaries and highest such award to a single person.

Table 17: Quantitative Information

	"Senior Management"	"Members of staff whose actions have a material impact on the risk profile of the firm"	All "Identified Employees"
Number of "Identified Employees"	5	26	31
Total Fixed Remuneration (kEUR)	**2,893**	**6,193**	**9,086**
Total Variable Remuneration (kEUR)	**2,059**	**3,241**	**5,300**
Number of "Identified Employees"	–	–	–
Total 2015 Sign-On Payments (kEUR)	**–**	**–**	**–**
Number of "Identified Employees"	–	–	–
Total 2015 Severance Payments (kEUR)	**–**	**–**	**–**

Note: The State Street Luxembourg Consolidated Group underwent legal entity restructuring in 2015, which left only one relevant entity in the location, State Street Bank Luxembourg S.C.A.

Art. 450 (1) lit. l CRR

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

Table 18: Number of Remunerated Individuals by Range

Band 1:	
above 1,0 Mio not exceeding 5,0 Mio	4
above 1,0 Mio not exceeding 1,5 Mio	3
above 1,5 Mio not exceeding 2,0 Mio	1
above 2,0 Mio not exceeding 2,5 Mio	–
above 2,5 Mio not exceeding 3,0 Mio	–
above 3,0 Mio not exceeding 3,5 Mio	–
above 3,5 Mio not exceeding 4,0 Mio	–
above 4,0 Mio not exceeding 4,5 Mio	–
above 4,5 Mio not exceeding 5,0 Mio	–
Band 2:	
above 5,0 Mio	–
above 5,0 Mio not exceeding 6,0 Mio	–

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

5.3 Final Remarks

Art. 450 (1) lit. c CRR

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

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

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

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

And

Art. 450 (1) lit. h CRR

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

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

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

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

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

6 Glossary

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

SSBT	State Street Bank and Trust Company
SSC	State Street Corporation
SSM	Single Supervisory Mechanism
SVP	Senior Vice President
TRDT	Talent and Reward Differentiation Tool
UK RemCo	UK Remuneration Committee

State Street Corporation (NYSE: STT) is one of the world's leading providers of financial services to institutional investors, including investment servicing, investment management and investment research and trading. With $28 trillion in assets under custody and administration and $2 trillion* in assets under management as of December 31, 2015, State Street operates in more than 100 geographic markets worldwide, including the US, Canada, Europe, the Middle East and Asia. For more information, visit State Street's website at www.statestreet.com.

*Assets under management include approximately $22 billion as of December 31, 2015, for which State Street Global Markets, LLC, an affiliate of SSGA, serves as the distribution agent.

statestreet.com

STATE STREET