State Street Bank
Luxembourg S.C.A.

Pillar 3 Disclosure Report

as of 31 December 2016

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

STATE STREET

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Classified: General

SSBLFI-0002

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1 Introduction

1.1 Background

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

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

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

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

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

This Pillar 3 Disclosure Report has been prepared by SSBL and is intended to provide market participants with key information with respect to the risk exposures, risk assessment processes and capital adequacy of SSBL as of 31 December 2016.

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

- Implementing Technical Standards ("ITS") on Disclosure for Own Funds: Commission Implementing Regulation (EU) No 1423/2013 of 20 December 2013 laying down implementing technical standards with regard to disclosure of own funds requirements for institutions according to Regulation (EU) No 575/2013 of the European Parliament and of the Council.

- Commission Implementing Regulation (EU) 2016/200 of 15 February 2016 laying down implementing technical standards with regard to disclosure of the leverage ratio for institutions, according to Regulation (EU) No 575/2013 of the European Parliament and of the Council.

- Commission Delegated Regulation (EU) 2015/1555 of 28 May 2015 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for the disclosure of information in relation to the compliance of institutions with the requirement for a countercyclical capital buffer in accordance with Art. 440.

- Guidelines on Disclosure of Encumbered and Unencumbered Assets EBA/GL/2014/03 of 27 June 2014.

1.2 State Street Bank Luxembourg S.C.A.

SSBL is an authorized bank operating under the laws of the Grand Duchy of Luxembourg. The Bank forms part of the State Street Group of Companies whose ultimate holding company, State Street Corporation, is listed on the New York Stock Exchange. The Bank has no branches and is an indirect, wholly-owned subsidiary of State Street Corporation ("SSC") and State Street Bank and Trust Company ("SSBT") and is a subsidiary of State Street Europe Holdings Switzerland GmbH (99.99%) and State Street Luxembourg Sàrl (0.01%). SSBL changed its legal form from an S.A. (société anonyme – public company limited by share) to an S.C.A. (société en commandite par actions – corporate partnership limited by shares) on 23 April 2015.

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 Company S.A. is the acquisition, holding and disposal of interests in Luxembourg and/or in foreign companies and undertakings, as well as the administration, development and management of such interests. This company is currently dormant and is scheduled to be liquidated by 2017.

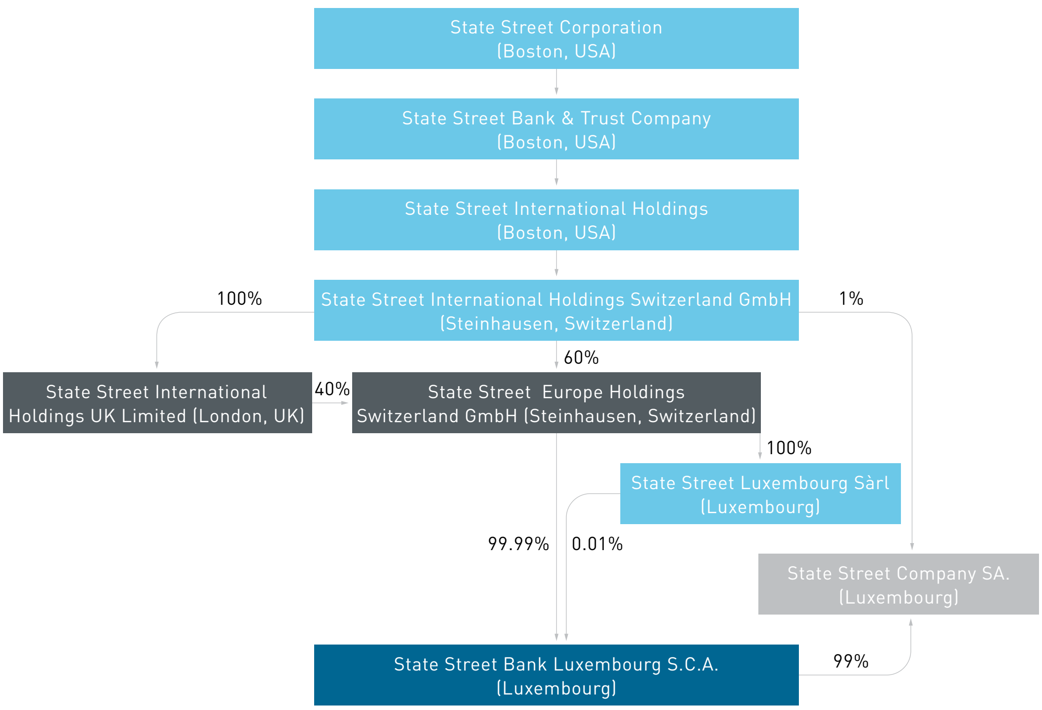
SSC, SSBT and State Street International Holdings are subject to the supervision and regulation by the Board of Governors of the Federal Reserve System, among other US regulatory authorities. These US banks have to ensure that SSBL satisfies certain US laws and regulations on subsidiaries of a US bank in addition to the laws and regulations of the jurisdictions where it engages in business.

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

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.

The SSBL organizational structure as of 31 December 2016 is accordingly the following.

Figure 1: State Street Bank Luxembourg S.C.A. Shareholding Structure as of 31 December 2016



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 Report and therefore produces a Pillar 3 Disclosure Report 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 2016 update of the list of global systemically important banks ("G-SIBs") published on 21 November 2016 by the Financial Stability Board ("FSB") in consultation with 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 in the context of its Risk Appetite 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 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 Art. 16(2)(a) of Council Regulation (EU) No. 1024/2013 is 1.25% with effect from 1 January 2016.

2.6 Institution-specific Countercyclical Capital Buffer

As of 31 December 2016, the institution-specific countercyclical capital buffer to be considered amounts to zero.

3 Own Funds

3.1 Structure of Own Funds (Art. 437 CRR)

Own funds are calculated pursuant to Art. 72 CRR: own funds consist of the sum of Tier 1 capital (Common Equity Tier 1 ("CET1") + 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	551,031
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**616,032**
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
8	Intangible assets (net of related tax liability) (negative amount)	(273,399)
28	**Total regulatory adjustments to Common equity Tier 1 (CET1)**	**(273,399)**
29	**Common Equity Tier 1 (CET1) capital**	**342,633**
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)**	**342,633**
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)**	**342,633**
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)	947,268
	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**	**947,268**

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)	36.17%
62	Tier 1 (as a percentage of risk exposure amount)	36.17%
63	Total capital (as a percentage of risk exposure amount)	36.17%
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and institution-specific countercyclical capital 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: institution-specific countercyclical capital 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
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 2016, 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 (e.g., CUSIP, ISIN or Bloomberg identifier for private placement)	Not Applicable
3	Governing law(s) of the instrument	Luxembourg
Regulatory treatment		
4	Transitional CRR rules	Common Equity Tier 1
5	Post-transitional CRR rules	Common Equity Tier 1
6	Eligible at solo/(sub-)consolidated/solo&(sub-)consolidated	Solo
7	Instrument type (types to be specified by each jurisdiction)	Capital
8	Amount recognized in regulatory capital	65,001,138 €
9	Nominal amount of instrument	65,001,138 €
9a	Issue price	162.5 €
9b	Redemption price	Not Applicable
10	Accounting classification	Shareholder's equity
11	Original date of issuance	Not Applicable
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	Not Applicable
16	Subsequent call dates, if applicable	Not Applicable
	Coupons/dividends	**Not Applicable**

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

As per Annex I of the Commission Implementing Regulation (EU) No. 1423/2013, SSBL has defined the following method to reconcile own funds with the audited balance sheet of 31 December 2016:

- 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	**750,775**
Subscribed and paid up capital	65,001
Reserves including retained earnings	551,031
Income from current year	134,743
(-) Equity elements not considered	**(134,743)**
(-) Part of interim or year-end profit not eligible	(134,743)
(-) Deductions breakdown	**(273,399)**
(-) Goodwill accounted for as intangible asset	(164,854)
Deferred tax liabilities associated to goodwill	3,535
(-) Other intangible assets gross amount	(131,727)
Deferred tax liabilities associated to other intangible assets	19,647
(-) Other transitional adjustments to CET1 Capital	**–**
Total Common Equity Tier 1 Capital	**342,633**
Total Tier 1 Capital	**342,633**
Total Own Funds	**342,633**

3.2 Leverage Ratio

As of 31 December 2016, the Leverage Ratio is 64.20% using the fully phased-in definition of Tier 1, which exceeds the discussed regulatory minimum requirements of 3%. SSBL high leverage ratio percentage is explained by a high Tier 1 capital compared to the total balance sheet size.

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	803,614
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")	–
6	Adjustment for off-balance sheet items (i.e., conversion to credit equivalent amounts of off-balance sheet exposures)	3,458
7	Other adjustments	(273,399)
8	**Total leverage ratio exposure**	**533,674**

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)	803,614
2	(Asset amounts deducted in determining Tier 1 capital)	(273,399)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	**530,216**
Derivative exposures		
11	**Total derivative exposures (sum of lines 4 to 10)**	**–**
Securities financing transaction exposures		
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	3,458
18	(Adjustments for conversion to credit equivalent amounts)	–
19	**Other off-balance sheet exposures (sum of lines 17 to 18)**	**3,458**
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**	**342,633**
21	**Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	**533,674**
Leverage ratio		
22	**Leverage ratio**	**64.20%**
Choice on transitional arrangements and amount of recognized fiduciary items		
EU-23	Choice on transitional arrangements for the definition of the capital measure	Fully Phased
EU-24	Amount of recognized fiduciary items in accordance with Article 429(11) of Regulation (EU) NO 575/2013	–

Table 5: CRR Leverage Ratio – Quality Review

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

3.3 Capital Adequacy

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

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

3.3.1 Internal Capital Adequacy Assessment Process ("ICAAP")

SSBL conducts an ICAAP for measuring the risks to which SSBL is exposed and for monitoring the adequacy of its capital over the three-year projected period. The ICAAP process, in which the Internal Liquidity Assessment Process ("ILAAP") has been integrated, is intended to confirm SSBL's capital adequacy and liquidity by demonstrating the appropriateness of its risk management practices which are employed to manage all risks related to achieving the SSBL's business objectives. The purpose of the ICAAP is to provide confidence around SSBL's sound business and risk management practices. The ICAAP is reviewed at least annually as part of the business planning cycle or following any significant change to the business strategy and/or 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 & Art. 444 CRR)

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

The following table sets forth SSBL's Pillar 1 capital requirement expressed as the 8% risk-weighted exposure amounts for each of the applicable standardized credit risk exposure classes as of 31 December 2016.

Table 6: Credit Risk Requirements

Exposure class	Balance Sheet Exposure amounts in kEUR	Risk Weighted Exposure amounts in kEUR	Capital Requirements in kEUR
Standardized Approach (SA)			
Central governments or central banks	233,580	–	–
Institutions	32,000	6,400	512
Corporates	83,091	83,091	6,647
Equity	124	310	25
Other Items	161,696	94,017	7,521
Total Regulatory Requirement for Credit Risk	**510,492**	**183,818**	**14,705**

To determine the risk weighting for credit risk applying the Standardized Approach, the Bank has nominated Standard & Poor's Ratings Services and Fitch Ratings as ECAI (External Credit Assessment Institution) for exposure classes mentioned in the above table.

As at December 31, 2016 the institution-specific countercyclical capital buffer rate to be applied to SSBL's assets is 0% since SSBL has exposure to countries where the countercyclical capital buffer rate is 0% as outlined in the table below. In addition, as presented below, the institution-specific countercyclical capital buffer rate is also 0% since Luxembourg's rate applied is 0%.

Table 7: Countercyclical Capital Buffer

Table 1: Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer in kEUR

		General credit exposures		Trading book exposure		Securitisation exposure		Own funds requirements					
		Exposure value for SA	Exposure value IRB	Sum of long and short position of trading book	Value of trading book exposure for internal models	Exposure value for SA	Exposure value for IRB	Of which: General credit exposures	Of which: Trading book exposures	Of which: Securitisation exposures	Total	Own funds requirement weights	Countercyclical capital buffer rate
Row		**10**	**20**	**30**	**40**	**50**	**60**	**70**	**80**	**90**	**100**	**110**	**120**
10	Breakdown by country												
	Germany	83,091	–	–	–	–	–	6,647	–	–	6,647	46.83%	0%
	Luxembourg	161,683	–	–	–	–	–	7,535	–	–	7,535	53.09%	0%
	US	137	–	–	–	–	–	11	–	–	11	0.08%	0%
	Total	**244,911**	**–**	**–**	**–**	**–**	**–**	**14,193**	**–**	**–**	**14,193**		**0%**

Table 2: Amount of institution-specific countercyclical capital buffer in kEUR

Row		**Column 10**
10	Total risk exposure amount	947,268
20	Institution specific countercyclical capital buffer rate	0%
30	Institution specific countercyclical capital buffer requirement	0%
	Total	**947,268**

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 2016, the net currency position considered for FX risk is a short position of EUR 68.2 Mio, which is above the 2% of Eligible Own Funds threshold (EUR 6.9 Mio) and represents a capital charge of EUR 5.5 Mio.

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

Table 8: Market Risk Requirements

Risk type	Risk Weighted Exposure amounts in kEUR	Capital Requirements in kEUR
Foreign Exchange	68,210	5,457
Total Regulatory Requirement for Market Risk	**68,210**	**5,457**

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 weights 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 9: Operational Risk Requirements

Risk type	Risk Weighted Exposure amounts in kEUR	Capital Requirements in kEUR
Operational risk	695,240	55,619
Total Regulatory Requirement for Operational Risk	**695,240**	**55,619**

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 10: Overview of Global Requirements

Risk type	Risk Weighted Exposure amounts in kEUR	Capital Requirements in kEUR
Credit risk (excluding counterparty credit risk)	183,508	14,681
Of which Standardized Approach (SA)	183,508	14,681
Market risk	68,210	5,457
Of which Standardized Approach (SA)	68,210	5,457
Operational risk	695,240	55,619
Of which Standardized Approach (SA)	695,240	55,619
Amounts below the thresholds for deduction (subject to 250% risk weight)	310	25
Total Regulatory Requirement	**947,268**	**75,781**

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 2016 are as follows.

Table 11: Capital Ratios

Ratio	Required Min 2016	Combined Buffer 2016	SREP Add on 2016	Required Ratio 2016	SSBL 2016
CET1 Capital ratio	4.50%	2.50%	1.25%	8.25%	36.17%
T1 Capital ratio	6.00%	2.50%	1.25%	9.75%	36.17%
Total Capital Ratio (%)	**9.25%**	**2.50%**	**1.25%**	**11.75%**	**36.17%**

As of 31 December 2016, the combined buffer requirement is 2.5% (including the Capital Conservation buffer and the SSBL's specific countercyclical capital buffer) and the SREP add-on requirement is 1.25%.

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 interest 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 of Directors 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 2016, 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
Kris Wulteputte:	Number of directorships: 2
Susan Dargan:	Number of directorships: 6

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.

As of 31 December 2016, the Surveillance Committee will cease and a new Committee, the Risk and Compliance Committee will become active in January 2017. The Committee will be a sub-set of the Board of Directors and will meet at least four times a year. It will recommend the Risk Strategy and the Risk Appetite to the Board of Directors. It will review, assess and give recommendations to the Board of Directors based on reports received from the ERM and compliance functions of SSBL. The reports will contain the current status and trends of material risk as directed by the Board of Directors. Additionally, any other material matters should be reported to the Committee such as regulatory updates, breaches, emerging issues and exposures.

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 Chief Operating Officer, the Chief Risk Officer, Chief Compliance Officer, Chief Financial Officer, the Head of Legal, the Head of Internal Audit, the Information Technology Officer, the Information Security Officer and the Money Laundering Reporting Officer of SSBL. In addition, all SSC policies specifically recognized by the Board in SSBL's own policies or, which, by their terms are made applicable to SSBL, are recognized to the extent permitted by and consistent with the laws and regulations applicable to SSBL.

Each business area is primarily responsible for managing the risks relevant for their activities. Therefore the first line of defense consists of the business units that take or acquire risks. 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 Operational Key Risk Indicators.

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

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

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

- Assist with the documentation and maintenance of the Risk Strategy, 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.

- 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 Senior 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 report;
- Common Reporting ("COREP") and Large Exposures reports.

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

4.2 Fundamental Strategies and Organizational Guidelines

The purpose of the risk identification phase is to identify the risks to which the Bank is (or will be) exposed, taking into consideration its business operations and the markets in which it operates. SSBL strives to maintain its strong Tier 1 capital ratio (currently 36.17%) 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 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 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;
- ICAAP Policy;
- Recovery Plan.

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

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

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

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

The Directors and Senior Management of SSBL have acknowledged that the risk management function and the system of internal controls were operating with sufficient effectiveness to provide reasonable, but not absolute, assurance that the Bank's risk management and internal control objectives were achieved during the period from 1 January 2016 to 31 December 2016.

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 and that the Bank avails of sufficient liquidity.

SSBL's Board of Directors reviews the risk appetite on an annual basis in line with the ICAAP and Business Strategy. The Board of Directors reviews quarterly the Bank's compliance with its risk appetite and makes any necessary amendments to its business plans, budgets, policies or risk appetite 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 and liquidity adequacy under each circumstance. These scenarios include extreme macroeconomic events, operational and business 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. Based on the latest scenarios, the income-generating capacity of the Bank remains strong over the three-year forecasted period and the analysis concludes that the business would be able to sustain losses over this period under the stressed scenarios considered.

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

- Credit risk;
- Operational risk;
- Market risk;
- Concentration risk;
- Liquidity risk;
- Business risk;
- Pension obligation risk;
- Reputational risk.

4.3 Relevant Risk Types

4.3.1 Credit Risk

Risk Definition

Credit risk is defined as the risk of financial loss if a counterparty, borrower or obligor, collectively referred to as counterparty, is either unable or unwilling to repay borrowings or settle a transaction in accordance with underlying contractual terms.

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 2016, SSBL has issued three rental guarantees to the landlords of the SSB GmbH Italy Branch offices in Milan, Turin and Gdansk. The combined value of the rental guarantees is EUR 3,458,275.

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 12: Credit Risk Exposures by Exposure Type

Exposure type	Gross exposure in kEUR
Credits, commitments and other non-derivative off-balance sheet positions	510,492
Securitisation	–
Derivatives	–
Total	**510,492**

b) An analysis of exposures by geographic region.

Table 13: Credit Risk Exposures by Region

Exposure class	Europe in kEUR	North America in kEUR	Total in kEUR
Central governments or central banks	233,580	–	233,580
Institutions	30,115	1,885	32,000
Corporates	83,091	–	83,091
Equity exposures	124	–	124
Other items	161,560	137	161,697
Total	**508,470**	**2,022**	**510,492**

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

Table 14: Credit Risk Exposures by Economic Sector

Exposure class	Banks in kEUR	Other services in kEUR	Total in kEUR
Central governments or central banks	233,580	–	233,580
Institutions	32,000	–	32,000
Corporates	–	83,091	83,091
Equity exposures	–	124	124
Other items	–	161,697	161,697
Total	**265,580**	**244,912**	**510,492**

d) An analysis of exposures by residual contract maturity.

Table 15: Credit Risk Exposures by Maturity

Exposure class	< 1 year in kEUR	≥ 1 year and < 5 years in kEUR	≥ 5 years in kEUR	Total in kEUR
Central governments or central banks	233,580	–	–	233,580
Institutions	32,000	–	–	32,000
Corporates	83,091	–	–	83,091
Equity exposures	124	–	–	124
Other items	161,697	–	–	161,697
	510,492	**–**	**–**	**510,492**

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 16: Credit Risk Exposures by Risk Weight

Risk weight	Total of CRSA position values Before CRM (in kEUR)	Total of CRSA position values After CRM (in kEUR)
0%	233,580	233,580
2%	–	–
4%	–	–
10%	–	–
20%	116,600	116,600
35%	–	–
50%	–	–
70%	–	–
75%	–	–
100%	160,188	160,188
150%	–	–
250%	124	124
370%	–	–
1,250%	–	–
Other risk weights	–	–
Total	**510,492**	**510,492**

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 2016, 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 2016, 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, business practices risk (fiduciary, compliance and legal risks), regulatory/compliance risk, information technology risk, including cybersecurity risk and system resiliency and model risk.

Risk Situation

Operational risk is inherent in the performance of investment servicing activities on behalf of SSBL's clients.

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 sub-custodian agents and with outsourcing providers.

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

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.

Business practices risk, including fiduciary, compliance and legal risks is the failure to meet obligations related to regulatory and contractual obligations, fiduciary and other legal duties, policies and standards, corporate culture and standards of ethical business conduct.

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.

Model risk exists when the Bank uses quantitative model to help manage and minimize risks affecting business and to support business definitions. The corporate policy requires validation by the Model Validation Group for all models. SSBL has very limited use of models.

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 changes in the market value of positions due to fluctuations in interest rates and spreads, foreign exchange rates and other market-driven factors and prices.

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 and interest rate risk in the banking book.

4.3.3.1 Foreign Exchange Risk

Risk Definition

Foreign Exchange Risk is defined as the current or prospective risk to earnings and capital arising from adverse movements in currency exchange rates.

Risk Situation, Strategy and Management

The Bank can be exposed to 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. In addition, the bank assesses the impact of foreign exchange rates shocks on a quarterly basis.

4.3.3.2 Interest Rate Risk in the Banking Book

Risk Definition

Interest rate risk is defined as the current or prospective risk to both the capital and earnings of institutions arising from adverse movements in underlying 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 amended by Circular CSSF 16/642 as of 31 December 2016 is as follows:

Table 17: Interest Rate Risk

	Interest rate risk	
	Interest rate shock – parallel shift of the yield curve	
Present value change	**+ 200 BP**	**- 200 BP**
In EUR	(28,999)	–
In % of the own funds	-0.01%	0.00%

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

4.3.4 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 inability to replace maturing liabilities, accommodate customers' transaction and cash management requirements as well as meet other funding commitments.

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 2016, the Liquidity Coverage Ratio ("LCR") is 2914% which is highly above minimum regulatory requirements.

4.3.6 Business Risk

Risk Definition

This risk category covers the following risk types: loss of clients/competition, strategic and strategic execution risk, talent management, new products and business, market performance and governance.

For SSBL, this risk is mainly related to the ability 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 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 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.

4.3.7 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.

4.3.8 Reputational Risk

Risk Definition

Reputational Risk is defined as the current or prospective risk to earnings and capital arising from adverse perception of the image of the financial institution on part of customers, counterparties, shareholders, investors and regulators.

Risk Situation, Strategy and Management

SSBL strives to conduct its activities in a manner which is consistent with the highest standards of professionalism, fairness, ethics and integrity.

This risk is mainly considered as a second-order risk and resulting from operational risk and maybe also from other relevant risks, such as business/ strategic risk. SSBL's operates within a control environment which strives to ensure that all risks taken are identified, assessed, estimated, managed, controlled and reported. Existing guidelines and governance structures include independent oversight provided by a variety of business unit and risk-focused committees, and functional units including Enterprise Risk Management, Corporate Compliance and Corporate Audit.

4.4 Encumbered and Unencumbered Assets

Disclosure requirements are outlined within Art. 443 CRR.

The situation of Assets Encumbrance as of 31 December 2016 is as follows:

Table 18: 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	–		803,614	
030	Equity instruments	–	–	124	124
040	Debt securities	–	–	–	–
120	Other assets	–		541,761	

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 2016.

5 Remuneration Practices and Policies

5.1 Qualitative Information

Art. 450 (1) lit. a CRR

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

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

ECC members are senior professionals with strong financial/business knowledge, who are independent members of the Board of Directors of State Street Corporation ("SSC"), in accordance with the listing standards of the New York Stock Exchange. They are appointed by the Board on the recommendation of the Nominating and Corporate Governance Committee of the Board. At December 31, 2016, there were five (5) members of the ECC. During 2016, the Committee held nine (9) meetings.

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

From the 2014 compensation cycle, State Street implemented a process pursuant to which a committee of our Board of Directors with oversight of an area managed by a selected control function specifically reviews the performance assessment and individual compensation recommendations for the heads of the relevant control function, as well as an overview of the performance and compensation for the entire control function. For example, our Examining and Audit Committee conducted these reviews with respect to our Chief Compliance Officer and our Compliance Department. This process is designed, among other things, to provide the relevant committee with additional perspective on the performance of the relevant control function and whether that function is being allocated appropriate resources and compensation.

The ECC has sole authority to:

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

- Approve these consultants' and advisers' fees and other retention terms.

The ECC engages Meridian Compensation Partners, an executive compensation consulting firm, to provide compensation consulting as part of its review of executive compensation.

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 receive at least USD $1 million in total compensation, except those under the remit of separate Remuneration Committees that operate in certain EMEA jurisdictions.

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.

From 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 rule-making by the Board of Governors of the United States Federal Reserve System and other banking agencies regarding incentive compensation arrangements; rule-making 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 2016.

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 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 comprised of GHR, Legal and other subject matter experts, which provides analytical and operational support to the ICCC. The ICCC meets on a regular monthly schedule and otherwise as needed. Based on the 2016 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.

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.

EUIS Identification

State Street has identified those employees throughout its global organization who individually or as a group are responsible for activities that may expose State Street to material amounts of risk (i.e., EUIS and US Federal Reserve Board Material Risk Takers[1]). State Street annually reviews the variable pay arrangements used to compensate these employees in light of identified risks relevant to their respective responsibilities and also annually reviews the design and governance of the incentive compensation plans applicable to all of employees for alignment with applicable regulatory guidance.

Governance

State Street has taken a robust approach to identifying EUIS within its business and subsidiaries across EMEA.

Process

Qualitative Review of the EUIS Identification

In recognition of the fact that individuals may be EUIS without meeting specific criteria under the EBA Regulatory Technical Standards ("RTS"),[2] State Street took a broad interpretation when identifying potential EUIS. Having done this, State Street then went through a detailed process of review for each individual, considering their role, responsibility, independent authority, and potential ability to impact on State Street's main risks to determine if it was felt that this individual should be captured as EUIS, even if they did not meet a specific qualitative criterion. Recommendations (including detailed documentation in any areas open to interpretation) were reviewed and discussed by a working group made up of representatives of GHR, Legal, Compliance, Finance and Risk, then signed off by a committee made up of senior EMEA or International heads of these functions, known as the "EUIS Steering Committee". In addition, heads of each business unit or corporate function were separately asked to review and approve the EUIS list for their populations to ensure that the appropriate individuals were identified.

1 Individuals who have been identified as material risk takers pursuant to the guidance of the Board of Governors of the United States Federal Reserve System ("FRB").
2 Regulation (EU) No 604/2014.

Quantitative Exclusions of the EUIS Identification

The detailed qualitative review provided an important input into State Street's exclusion approach for EUIS. In a number of cases, the exclusions State Street has detailed were reviewed as part of the original review process (prior to the production of the qualitative list). As such, their role and responsibilities had already been reviewed by both the relevant business head and members of the Risk department and it had been agreed that they could not materially impact State Street's risk profile or expose State Street to a material level of harm and so should not be included in the qualitative EUIS list. However, as these individuals were identified under Art. 4 of the RTS, a secondary review was then carried out by GHR, with verification and input from the relevant business head and Risk where appropriate. The role and responsibilities of each individual were carefully reviewed and a number of factors were specifically considered.

Art. 450 (1) lit. b CRR

"Information on the link between pay and performance"

and

Art. 450 (1) lit. c CRR

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

and

Art. 450 (1) lit. e CRR

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

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

Introduction

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

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 drives overall compensation levels.
- A competitive compensation package to attract and retain key talent. State Street targets the aggregate annual value of our total compensation program to the median of our corporate peer group.
- An alignment with shareholder interests as reflected through the mix of cash, instruments and equity compensation.
- Compliance with applicable regulations and related guidance, including 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 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 market place, 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[3] Net Income Before Tax and Incentive Compensation ("NIBTIC"), i.e., the IC pool is funded as a percentage of State Street's group-wide NIBTIC which percentage is determined by the ECC at the beginning of each performance year. The ECC reviews operating-basis NIBTIC calculations and identifies any applicable adjustments to reflect its assessment as to elements of revenues and expenses that should apply or should not apply for IC purposes.

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

Further, the allocation of the overall global bonus pool to each business unit is determined by the SSC's CEO/Chairman by reference to business unit performance and considers many factors including those considered by the ECC. 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 State Street Corporation uses the results of the business unit-level risk scorecard as an input into the pool allocation process as well as the MC sub-allocation process. Individual accountability below MC level (positive or negative) will be assessed as appropriate and may inform compensation decisions.

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

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 & 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.

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

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

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

To provide for *ex-post* adjustments (after grant of award), a malus-based forfeiture provision has been incorporated into the deferred IC awards for all material risk takers, including EUIS. The provision provides for the reduction or cancellation of the amount remaining to be paid under the relevant award in the event 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 SSC or a particular business of SSC. This forfeiture provision permits the application, as appropriate; of a risk adjustment to the compensation of the responsible material risk-taker after the compensation is awarded.

For members of SSC's MC, 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.

Maximum Ratio of Variable 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. This shareholder approval was last renewed in 2016.

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

Mid-year and year-end progress reviews are conducted and the employee's performance level is reviewed and rated on a five-point scale ("consistently exceeded expectations", "often exceeded expectations", "consistently achieved expectations", "sometimes achieved expectations" and "unacceptable performance"). This rating is a key factor used by managers in determining incentive compensation and salary decisions during the annual compensation planning process. Typically, employees receiving a rating of "sometimes achieved expectations" 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. Stage two 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.

From the 2015 performance year, an additional 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.

All EVPs have an IC target structure 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, State Street 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 2016 performance year (paid in March 2017), 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 2016 IC. In general, the more senior an employee is, the greater the percentage of IC that was paid as a deferred award. IC awards for EUIS are compliant with the relevant regulatory requirements.

Guaranteed Bonuses and Buy-out Awards

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

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

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

It should be noted that SSBL 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 SSBL applies a certain number of the remuneration requirements, such as risk adjustment, deferral policy and vesting criteria, and the payment of part of the variable remuneration in financial instruments.

5.2 Quantitative Information

Art. 450 (1) lit. g CRR

"Aggregate quantitative information on remuneration, broken down by business area"

Note: all EUIS for SSBL 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 19: Quantitative Information for Financial Year 2016 (in EUR k)

	Senior Management	Other EUIS	All EUIS
Number of EUIS	6	21	27
Total Fixed Remuneration	3,035	5,681	8,716
Total Variable Remuneration	2,802	3,328	6,130
Number of EUIS	0	0	0
Total Sign-On Payments	0	0	0
Number of EUIS	1	0	1
Total Severance Payments	See note below	0	See note below

Note: In order to safeguard confidentiality due to the low number of recipients, this information has been omitted.

Art. 450 (1) lit. i CRR

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

Table 20: Number of EU Identified Staff by Range

Band 1	
Above 1,0 million not exceeding 5,0 million	4
Above 1,0 million not exceeding 1,5 million	2
Above 1,5 million not exceeding 2,0 million	2
Above 2,0 million not exceeding 2,5 million	0
Above 2,5 million not exceeding 3,0 million	0
Above 3,0 million not exceeding 3,5 million	0
Above 3,5 million not exceeding 4.0 Million	0
Above 4,0 million not exceeding 4,5 million	0
Above 4,5 million not exceeding 5,0 million	0

Band 2	
Above 5 million	0
Above 5,0 million not exceeding 6,0 million	0

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

Art. 450 (1) lit. h CRR

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

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

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

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

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

6 Glossary

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

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

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 $28.77 trillion in assets under custody and administration and $2.47 trillion* in assets under management as of December 31, 2016, State Street operates globally in more than 100 geographic markets and employs 33,783 worldwide. For more information, visit State Street's website at www.statestreet.com.

*Assets under management include the assets of the SPDR® Gold ETF (approximately $30.62 billion as of December 31, 2016), for which State Street Global Markets, LLC, an affiliate of SSGA, serves as the distribution agent

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