

STATE STREET

# STATE STREET BANK EUROPE LIMITED

PILLAR 3 DISCLOSURE STATEMENT  
AS OF SEPTEMBER 30, 2009



STATE STREET.

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## 1. BACKGROUND

The Capital Requirement Directive (CRD) came into effect on 1 January 2007, and is the framework for implementing the Basel II Accord in the European Union. It introduced consistent capital adequacy standards and a supervisory framework.

CRD is implemented in the UK by the Financial Services Authority (FSA) through rules<sup>1</sup> adopted by it. Included in the rules are disclosure requirements for banks and building societies under Pillar 3 of the CRD. Pillar 3 is designed to promote market discipline by providing market participants with key information on a firm's risk exposure and risk management processes. It complements the minimum capital requirements under Pillar 1 and the supervisory review process (SREP) under Pillar 2.

### 1.1 Scope of Application

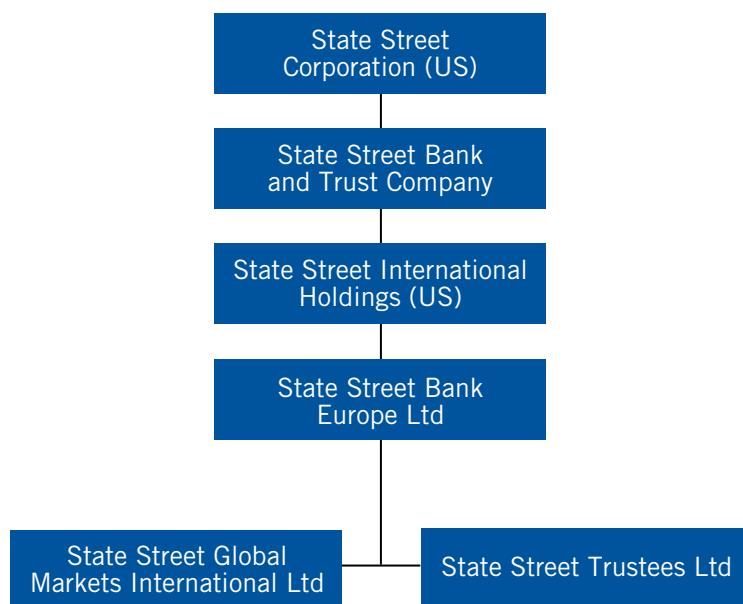
This disclosure statement (the "Statement") has been prepared in accordance with the requirements of Pillar 3 in BIPRU 11 by State Street Bank Europe Limited (SSBEL) also referred to as 'the Group' within this document. The Statement does not contain a discussion of all matters that may affect the capital adequacy of SSBEL. Rather certain information has been omitted from this Statement on the basis of materiality, if in the opinion of the management of SSBEL such information would not change or influence the assessment or decision of a market participant or other user of this Statement.

Future disclosures will be made at least annually and more frequently if appropriate. SSBEL has an accounting reference date of 31 December and unless otherwise stated all figures are as at 30 September 2009. Copies of the Statement are available at SSBEL's main office located at 20 Churchill Place, Canary Wharf, London E14 5HJ. This document has not been examined by independent external auditors.

<sup>1</sup> The relevant rules are contained in the FSA Handbook, General Prudential Sourcebook (GENPRU), Prudential Sourcebook for Banks, Building Societies and Investment Firms (BIPRU) and Senior Management Arrangements, Systems and Controls (SYSC).

## 2. GROUP STRUCTURE

SSBEL is an authorised institution under the United Kingdom Banking Act 1987. It is subject to primary supervision and regulation by the FSA. SSBEL is an indirect, wholly-owned subsidiary of State Street Corporation (“SSC”) and State Street Bank and Trust Company (“SSBT”) and is a direct wholly-owned subsidiary of State Street International Holdings (“SSIH”). SSC, SSBT and SSIH are subject to supervision and regulation by the Board of Governors of the Federal Reserve System, among other U.S. regulatory authorities. As a subsidiary of a U.S. bank, SSBEL must comply with applicable U.S. laws and regulations in addition to the laws and regulations of the jurisdictions where it engages in business.



SSBEL and its subsidiaries engage in securities finance, transition management and currency management activities, and additional services are offered through SSBEL’s direct wholly-owned subsidiaries:

**State Street Global Markets International Limited (SSGMIL)** — The company is authorised and regulated by the FSA. The company is a securities broker and is also a member of the London Stock Exchange, XETRA and EURONEXT. Its principal activities relate to securities brokerage services and the execution of order flow derived from the transition management business.

**State Street Trustees Limited (SSTL)** — The company is authorised and regulated by the FSA to act as the depository of open-ended investment companies (OEICs) or trustee of authorised unit trusts. In addition, the company is authorised to establish, operate or wind-up unregulated collective investment schemes.

## **2.1 Consolidation**

The accounts of SSBEL are prepared in accordance with United Kingdom Generally Accepted Accounting Principles. There are no differences in the basis of consolidation for accounting and regulatory purposes. All of SSBELs subsidiaries are wholly-owned entities and are fully consolidated with SSBEL for both accounting and regulatory purposes.

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

### 3. CAPITAL

#### 3.1 Capital Structure

The total capital of SSBEL currently consists entirely of Tier 1 capital.

<b>Total Eligible Capital as at 30 September 2009</b>	<b>\$ in millions</b>
<b>Tier 1 — Core Capital:</b>	
Paid up share capital/common stock	10
Reserves (including revaluation reserves loss)	212
<b>Deductions from tier one capital</b>	
Intangible assets	(8)
<b>Total Tier 1 capital after deductions</b>	<b>214</b>
<b>Tier 2</b>	
Revaluation reserves gain	—
<b>Total Capital</b>	<b>214</b>

The total capital of SSBEL significantly exceeds Basel II and FSA requirements, as well as our own self assessed capital requirements.

#### 3.2 Regulatory Capital Requirements

<b>Pillar 1 Capital Requirements</b>	<b>\$ in millions</b>
Credit Risk (standardized approach)	5
Market Risk	1
Operational Risk (standardized approach)	34
<b>Total Pillar 1 Capital</b>	<b>40</b>

### 3.3 Capital Adequacy

SSBEL's capital management process focuses on SSBEL's risk exposures and regulatory capital requirements. SSBEL's Board members are responsible for overseeing the management of capital and are responsible for ensuring capital adequacy with respect to regulatory requirements and internal targets. As part of its Internal Capital Adequacy Assessment Process ("ICAAP") and in determining the capital required in order to support its current and future activities, SSBEL has taken into consideration the current environment and has identified and thoroughly considered its current businesses, potential new opportunities, significant risks and future plans. The ICAAP is intended to affirm SSBEL's capital adequacy by demonstrating the appropriateness of the risk management practices which are employed to manage all risks related to achieving its business objectives. One of the purposes of the ICAAP is to provide confidence around SSBEL's business and risk management practices.

As SSBEL undertakes a diversified range of business activities, the risks are analysed and quantified by each business unit with a consolidated view taken at the Group level. SSBEL has assessed and quantified its current and expected risks over a five year projected period by considering the risk profiles inherent in the business activities of its underlying subsidiaries. A 'Pillar 1 plus' approach is adopted to determine capital requirements. A bottom-up and top-down methodology is used to quantify and validate the adequacy of SSBEL's Pillar 1 and Pillar 2 capital add-on requirements and to ensure completeness and comprehensiveness.

The bottom-up approach entails the completion of a risk register based on all risks relevant to the businesses. Each subsidiary determines the materiality of the risks to which its own business is exposed. Significant risks are then quantified by the subsidiaries using actual internal loss experiences, where available, and management's expert judgment. The risk controls, systems, policies and procedures of the Group are factored into the quantification to determine the probability of occurrence and net impact on the Group's profitability and capital reserves.

For operational risk the adequacy of the Pillar 1 capital requirement is assessed by comparing it with the losses determined under the bottom-up approach. For other risks the Pillar 2 capital add-on is determined by calculating the impact of risk on the Group's net profit after tax and capital reserves should the risk crystallise.

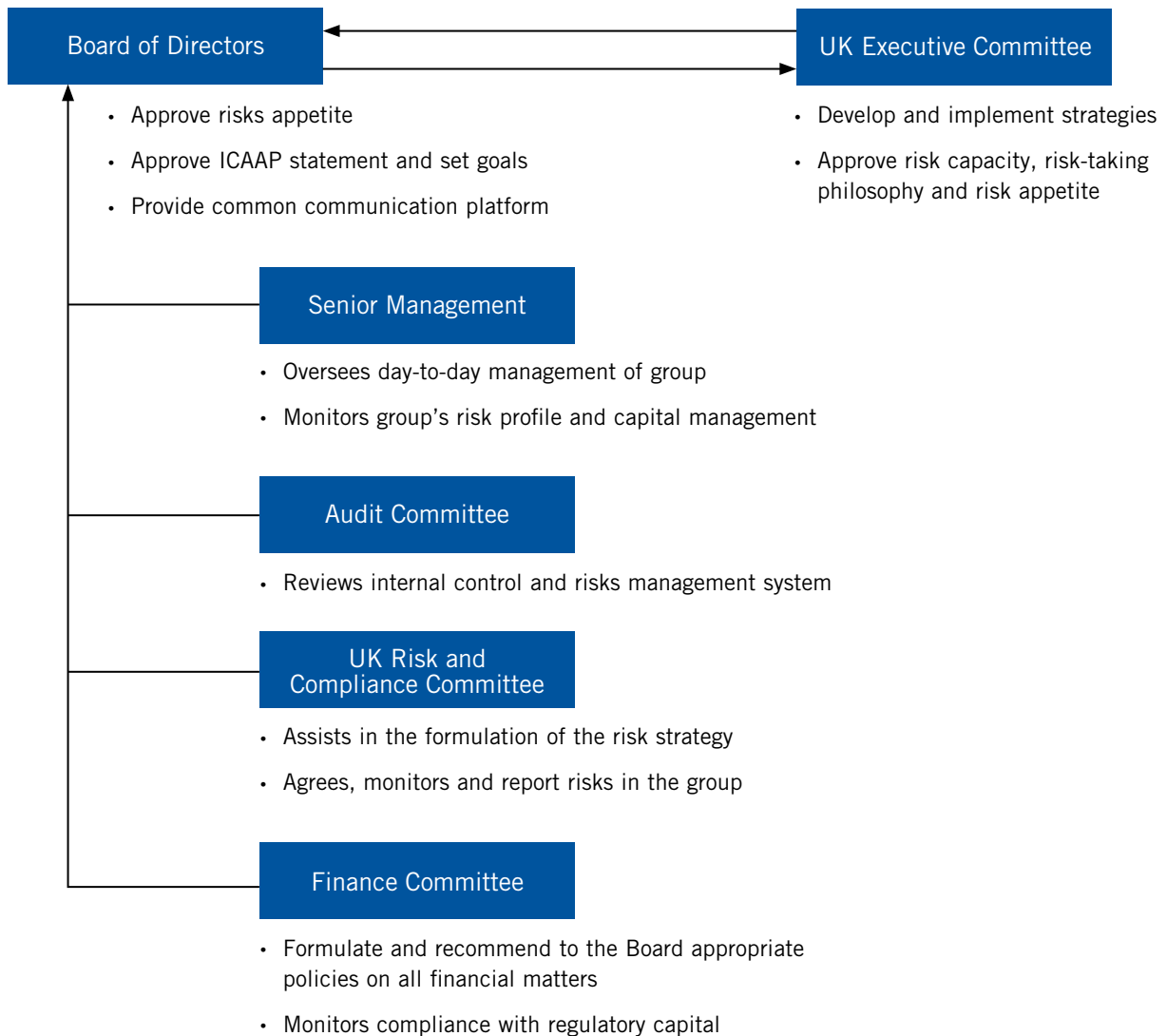
A top-down (scenario analysis) approach validates the Pillar 1 and Pillar 2 capital assessment conclusions determined using the process described above to assess the Group's ability to absorb severe shocks/ events and remain adequately capitalised. In addition to the analysis described a capital buffer has also been included to ensure compliance with SSBEL's risk appetite and to further strengthen available capital resources and SSBEL's ability to absorb unexpected potential market, business and operational risk losses.

## 4. RISK EXPOSURE AND ASSESSMENT

### 4.1 Governance Framework

SSBEL's Board members are responsible for overseeing the management of SSBEL and exercising their business judgment in what they believe to be in the best interests of SSBEL and its shareholders. To ensure that the business affairs of SSBEL are adequately monitored and controlled, specific responsibilities are allocated amongst the Board members in accordance with the senior management arrangements, systems and controls (SYSC) policy statement applicable to State Street entities operating and regulated in the UK.

The SSBEL Board includes members of the senior management team from its major subsidiaries. Its primary function is to ensure that a common communication platform is in place to enable each member to regularly report subsidiary specific information to the Board. The Board also serves to ensure that appropriate strategies, policies and guidelines are implemented across the underlying businesses.



Members of senior management of SSBEL are responsible for the ongoing operations of SSBEL, including day-to-day management of risk within their respective areas of the business. Members of senior management provide reports on the activities of SSBEL to a specified member of the Board of SSBEL who is responsible for overseeing certain areas of SSBEL's business. Members of senior management and the Board may also have additional reporting lines to members of senior management of SSBT or SSC.

The UK Risk and Compliance Committee and the Finance Committee provide support to SSBEL and they meet regularly to review and discuss general risk management topics and issues. In addition a UK Executive Committee (ExCo), has recently been established, which is the most senior UK governing body which provides management review, counsel, input and challenge for State Street's business areas operating in the UK.

#### **4.2 Risk Management**

The risk management strategy of SSBEL is to develop and implement effective processes to identify, assess, measure, and manage risks incurred by the business and to comply with applicable regulatory requirements and internal guidelines associated with risk management. SSBEL complies with its own risk policies as well as all applicable SSC corporate risk policies and guidelines, including those governing credit risk, operational risk, trading and market risk, and new business and new product approvals. These policies and guidelines assist SSBEL 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.

SSBEL has implemented an appropriate risk management programme and seeks to maintain an adequate level of capital. The Group and each of its underlying subsidiaries put the highest priority on ensuring prudent management of their overall risk profile, as well as business-specific risks. Effective risk management is expected to manifest itself in many ways, which include, but are not limited to, the following:

- > Identification of key business performance metrics with acceptable levels of risk defined throughout established policies
- > Effective management of all material risks and avoidance of undue risk concentrations
- > A culture of risk awareness that extends across the Group and all of its activities, driving comprehensive risk mitigation techniques, and ensuring that identification and escalation of potential risks represent a core responsibility at all levels
- > Reputational integrity that ensures State Street's ongoing position of trust as a premier investment manager and servicer
- > Full compliance with applicable laws, regulations, and policies
- > Faithful adherence to the State Street Code of Ethics by senior financial officers and Standard of Conduct by all employees

As a provider of financial products and services, SSBEL incurs some level of risk. These risks are managed through broad-based operational controls and risk management programs. Though responsibility for the management and control of risk lies with every individual in SSBEL, key responsibilities are allocated as shown below.

**Board of Directors (the “Board”)** —The Board is responsible for approving the Risk and Compliance Policy, including the risk strategy of the business. The Board reviews the capital level and ensures that it is in accordance with the stated risk appetite of the business. The Board delegates the responsibility for the design, implementation, and monitoring of risk management policies and guidelines to the appropriate stakeholders within the Risk and Compliance functions.

**Senior Management** — Senior management is responsible for managing business performance in line with SSBEL’s overall risk appetite. Senior management holds primary responsibility for the day-to-day management and control of risk. Senior management ensures that the business complies with applicable SSC policies and guidelines, as amended from time to time, and those risk guidelines and policies established specifically for SSBEL or applicable to its businesses, as amended from time to time.

**Risk Function** — The specialists in the risk function assist with the formulation of risk strategy and support the Board to fulfill the specialists’ delegated responsibilities in respect of risk governance. The risk function assists in the identification and quantification of risks associated with the ICAAP and assists in the overall development of the ICAAP. They also assist with the documentation and maintenance of the risk strategy, and related risk management policies and procedures, which outline the methodology for identifying, measuring, managing, controlling and reporting of risk in SSBEL.

**Compliance Officer** — The Compliance officer is responsible for the compliance framework applicable to SSBEL, and advises the Board and senior management on compliance with applicable laws, rules and regulations. The Compliance Officer is also responsible for ensuring that compliance issues are identified, escalated to the appropriate person and reported to the Board, and oversees the resolution of compliance issues.

**UK Risk and Compliance Committee** — The UK Risk and Compliance Committee provides assistance to the Board in order to ensure compliance with SSC policies and relevant local regulations and in identifying risk and compliance issues within SSBEL that could result in material financial loss or damage to SSBEL’s reputation.

**Finance Officer** — The Finance Officer is responsible for preparing the annual financial and capital plans for SSBEL. The Finance Officer prepares and submits statutory reporting and monitors compliance with regulatory capital limits, and is also responsible for providing periodic reporting to the Board and senior management on capital levels and management.

**Corporate Audit** — Corporate Audit is responsible for performing independent reviews of the application of risk management practices and methodologies. This involves ensuring that controls are in place and are working in accordance with SSBEL’s policies and procedures as well as with laws and regulations, and that SSBEL’s records and reports are accurate and reliable. Corporate Audit reports to the Audit Committee of the Board of Directors of SSC and to the Audit Committee, Board and senior management of SSBEL.

### 4.3 Category of Risks

SSBEL's primary risk exposures are operational risk and business/strategic risk. These risks and the ways in which they manifest themselves are described below. The adequacy of SSBEL's regulatory capital in relation to these and other risks is assessed through its ICAAP. The Board reviews and approves the ICAAP on an annual basis and uses it as part of business planning and capital management.

#### 4.3.1 Operational Risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. For operational risk measurement purposes, this definition includes legal/compliance risk, which is risk of loss resulting from failure to comply with laws and contractual obligations as well as prudent ethical standards in addition to exposure to litigation from all aspects of SSBEL's and SSC's activities. The definition also includes fiduciary risk, which arises when, in acting on behalf of our clients, we fail to properly exercise discretion or do not properly monitor or control the exercise of discretion by a third party. Reputational risk has been considered as part of operational risk and has been treated as a consequential risk rather than an independent risk. For the purpose of calculating the operational risks pillar 1 charge SSBEL uses the standardized approach under Basel II.

	\$ in millions
Operational Risk Capital Requirement	34
<b>Total Operational Risk Capital Requirements</b>	<b>34</b>

SSBEL complies with SSC's operational risk policy and guidelines, which codify SSC's approach to identifying, measuring, managing, and controlling operational risk. The guidelines document SSC's practices to ensure that operational risk is managed and measured in a consistent manner across SSC and describe the key elements that should be present in business areas' operational risk management programs. SSBEL's Board reviews its operational risk profile regularly.

#### 4.3.2 Business/Strategic Risk

Business risk is defined as any risk to a firm arising from changes in its business, including the risk that the firm may not be able to carry out its business plan and its desired strategy. Concentrations risk which is concentration to individual customers or sectors that can magnify the impact of loss of customers is also considered here. SSBEL has a new business approval process that is used to capture and monitor this risk and management regularly reviews business won and lost.

### 4.3.3 Credit Risk

Credit risk is defined as the current or prospective risk to earnings and capital arising from an obligor's failure to meet the terms of any contract with the institution or its failure to perform as agreed. This risk includes residual risk, the credit risk in securitizations and cross-border (or transfer) risk. SSBEL is exposed to counterparty credit risk in the normal course of its business activities. SSBEL's credit risk is managed through adherence to SSC's credit and counterparty risk policies and guidelines and risk approval authorities.

The majority of credit risk assumed by SSBEL is in placing monies with banks for fixed terms of three months or less, or overnight. SSBEL's overall minimum capital requirement for credit risk under the standardised approach is expressed as 8% of the risk weighted exposure amounts for each of the applicable standardised credit risk exposure classes. External ratings from External Credit Assessments Institutions (ECAIs), Standard & Poor's (S&P) and Moody's are used in the credit quality steps.

#### Credit exposure by exposure class

Exposure Class	Exposure Value
Institutions	216
Fixed and other assets	14
<b>Total</b>	<b>230</b>

#### Credit exposure by geographical area

Exposure Class	UK	Total
Institutions	216	216
Fixed and other assets	14	14
<b>Total</b>	<b>230</b>	<b>230</b>

#### Credit exposure by credit quality step

Credit Quality Step	Risk Weight	Standard and Poor	Moody's	Exposure Value	Exposure Value after Mitigation
1	20%	AAA to AA-	Aaa to Aa3	-	-
2	20%	A + to A-	A1 to A3	216	216
3	20%	BBB + to BBB-	Baa1 to Baa3	-	-

Credit Risk Capital Requirement	\$ in million
Institutions	4
Fixed and other assets	1
<b>Total Credit Risk Capital Requirements</b>	<b>5</b>

#### 4.3.4 Concentration Risk

As part of credit risk, concentration risk includes (i) large (connected) individual exposures and (ii) significant exposures to groups of counterparts whose likelihood of default is driven by common underlying factors, e.g. sector, economy, geographical location, instrument type. The risk is mitigated by ensuring that client service meets the expectations of customers and efforts are made to diversify the customer base hence reducing exposure to one particular customer.

#### 4.3.5 Market Risk

Market risk is defined as the current or prospective risk to earnings or fair value (hence capital) arising from changes in interest rates, foreign exchange rates, commodity prices, or equity prices, including indices related to these. For the purposes of this definition, interest-rate risk in the non-trading book is treated separately. Market risk can arise from positions (whether long or short) that expose the firm to any of the above risk factors.

Market Risk Capital Requirements	\$ in millions
Foreign Exchange Requirement	1
Equity Position Risk Requirement	–
<b>Total Market Risk Capital Requirements</b>	<b>1</b>

Although the Group has little direct exposure to foreign exchange, equity, commodity or interest rate risk, SSBEL has identified a specific area where the Group may be exposed to first or second order market risk. The Group has a secondary exposure to exchange rate risk arising through its revenue generation. Both SSBEL's fund management businesses and broker/dealer transact in non-sterling based trades, therefore earning revenues in a range of currencies but having the vast majority of the non-trading/administration costs in sterling. This mismatch of revenues and costs leads to a potential foreign exchange risk if sterling appreciates against the other currencies to such an extent that the multi-currency revenues are not sufficient to cover the sterling costs.

#### **4.3.6 Interest-Rate Risk in the Non — Trading Book**

This is defined as the potential impact of adverse movements in interest rates in the non-trading book and the impact these have on planned future cash flows. The Group is exposed to interest rate risk only as a result of placements held with highly rated banks. All placements are short term in nature (less than one year). Borrowings in the Group are limited to overnight lending provided by SSBT in line with the Group's overall approach to liquidity management, see 4.3.7 below.

#### **4.3.7 Liquidity Risk**

Liquidity risk is defined as the current or prospective risk to earnings and capital arising from an institution's inability to meet its liabilities when they become due. SSBEL manages its liquidity in accordance with its own Liquidity Policy Statement and within the wider global framework established by SSC's global treasury guidelines and associated policies, which are applicable to all of its subsidiaries and underlying entities. SSC's global treasury guidelines are written and maintained by SSC's Global Treasury group, with review and approval provided annually by SSC's Asset and Liability Committee.

#### **4.3.8 Pension Obligations Risk**

This is the risk to the Group 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 Group will make payments or other contribution to or with respect to a pension scheme because of a moral obligation or because the Group considers that it needs to do so for some other reason. This risk to SSBEL is mitigated because the scheme is closed to new members, the scheme is closed to future accrual of benefits and the scheme is moving to an investment policy of matching its liabilities more closely. The scheme was fully funded as at November 2008.



## THE STATE STREET ADVANTAGE

With €11.7 trillion in assets under custody and administration and €1.1 trillion in assets under management\*, State Street is one of the world's leading providers of financial services to institutional investors.

Our broad and integrated range of services spans the entire investment spectrum, including research, investment management, trading services and investment servicing. By using any combination of these services, our customers can deliver more value to their clients, control costs, launch new products and expand globally.

With operations in 27 countries serving customers in more than 100 markets, State Street delivers the tools and services that global institutional investors need to be successful.

\*As of 30 June 2009

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