State Street Global Advisors Limited (SSGAL)

2018 Pillar 3 Disclosure Statement

Based on Audited Financials 31 December 2018

1. Overview

1.1. Introduction

The European Capital Requirements Directive (CRD) came into effect on 1 January 2007 and is implemented in the UK by the Financial Conduct Authority (FCA) through rules adopted by the regulator. It is a framework to implement the Basel II Accord in the European Union, prepared by the Basel Committee on Banking Supervision. The objective of the Basel Committee was to introduce consistent capital adequacy standards and a supervisory framework. The Basel II Accord is built on three pillars:

Pillar 1: defines the rules and regulations for calculating risk-weighted assets and regulatory minimum capital requirements. These comprise: base capital resources requirements, credit risk and market risk capital requirements, and the fixed overhead requirement;

Pillar 2: addresses a firm's internal process for assessing overall capital adequacy in relation to its risks. This is also referred to as the Internal Capital Adequacy Assessment Process (ICAAP). Pillar 2 further entails the Supervisory Review and Evaluation Process (SREP); and

Pillar 3: complements Pillars 1 and 2 and is designed to promote market discipline by providing market participants with key information on a firm's risk exposure and risk management processes through a set of minimum disclosure requirements.

For the purpose of this disclosure, the applicable prudential requirements are detailed in the FCA's General Prudential Sourcebook (GENPRU) and Prudential Sourcebook for Banks, Building Societies and Investment Firms (BIPRU) as at 31 December 2018.

State Street Global Advisors Limited (SSGAL) is classified as a BIPRU firm and falls outside the scope of CRD IV. It is subject to the FCA's GENPRU and BIPRU requirements.

1.2. Basis of Disclosures

SSGAL ("the Company") has prepared this statement in accordance with the requirements of Pillar 3 in Chapter 11 of BIPRU. Further information on SSGAL and the basis of disclosure is included in the Company overview (section 2) of this document. This Statement has an accounting reference date of 31 December and, unless otherwise stated, all information is as at 31 December 2018.

1.3. Materiality

Certain information has been omitted from the Statement on the basis of materiality if, in the opinion of the management of SSGAL, such information would not change or influence the assessment or decision of a market participant or other user of the Statement.

1.4. Proprietary and Confidential Information

Detailed information deemed to be price-sensitive and such that its disclosure could intrude on the privacy of the Company's clients or other counterparties has been omitted from this Statement on the basis of its status as proprietary and confidential information.

1.5. Verification, Media Location and Frequency

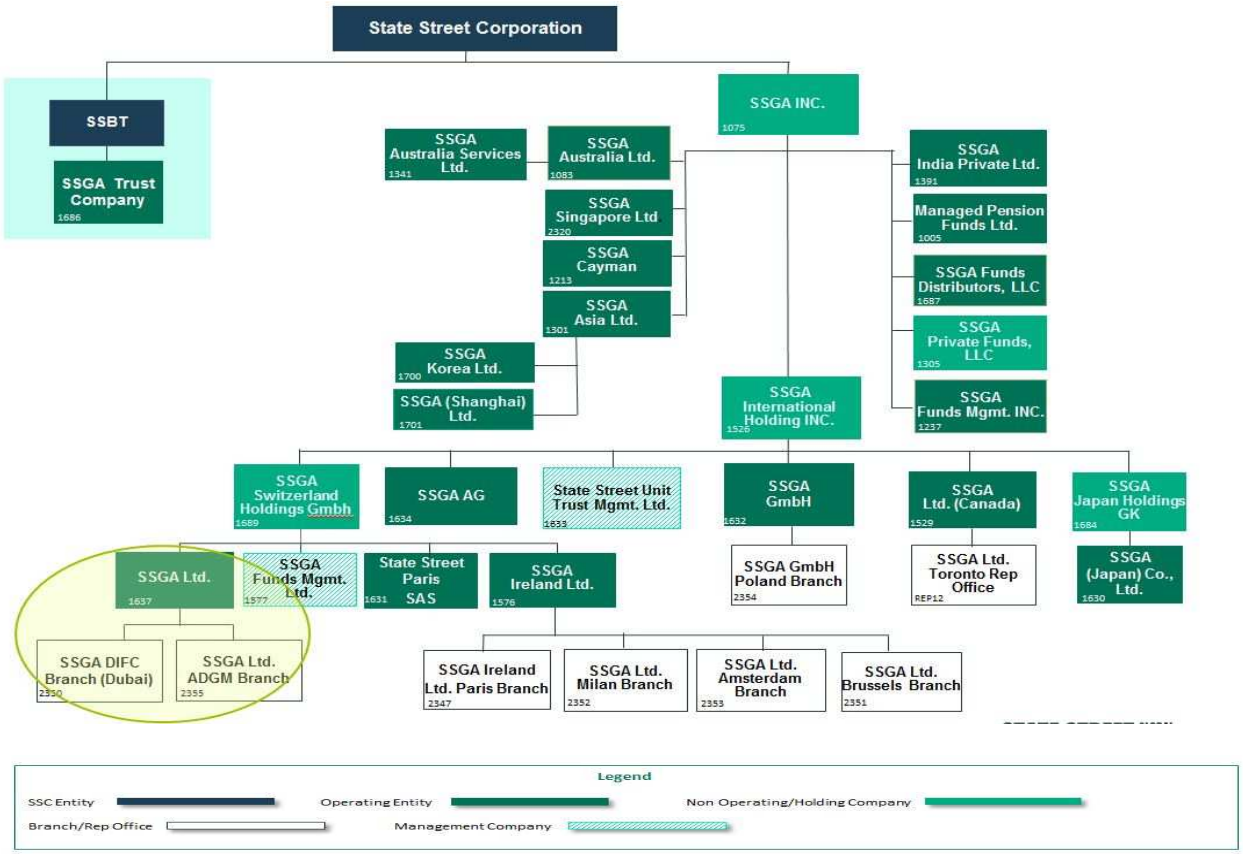
This Statement has been prepared to explain the basis of preparation and disclosure of certain capital requirements and to provide information about the management of certain risks and for no other purpose. This document has not been examined by independent external auditors and does not constitute any form of an audited financial statement. This Statement will be updated at least annually and more frequently if appropriate. Copies of the Statement are available on the internet at www.SSGA.com and at SSGAL's main office, located at 20 Churchill Place, Canary Wharf, London E14 5HJ.

2. Company Overview

2.1. Company Structure

SSGAL is a wholly owned direct subsidiary of State Street Global Advisors Switzerland Holdings GmbH (SSGASHG), and a wholly owned indirect subsidiary of SSC. SSC is subject to supervision and regulation by the Board of Governors of the Federal Reserve System among other US regulatory authorities.

The below diagram demonstrates, visually, the legal entity structure of SSGAL and its branches in relation to the hierarchy of the SSC organisation as at May 2019. The branches of SSGAL provide client service and marketing services.



Note: European branches (Amsterdam, Brussels, and Milan) moved from SSGAL to SSGAIL in February 2019

2.2. Business Profile

SSGAL is a large and diverse UK asset manager. The Company has grown rapidly since it began operations in London in 1990, providing a comprehensive range of investment management services to institutional investors and intermediary channel clients and its subsidiaries. The solutions the Company provides encompass a multitude of asset classes managed across the risk spectrum including index, enhanced and active strategies across equity, fixed income, cash and investment solution products.

A high proportion of SSGAL's assets are managed on an index basis. Net fees on index funds are relatively low, so it is crucial to ensure the business is managed efficiently and at a size where the scalability is appropriate for a sustainable level of profitability. However, SSGAL also recognises the importance of retaining, growing and stabilising higher margin, active management products.

SSGAL believes economic growth will continue at a moderate pace from 2019 while monetary policy will continue to transition away from excessive easing, albeit at a differing pace among the major economies.

The Company acts as the largest business management and investment centre for SSGA Group activities across Europe. The Company provides investment management and investment advisory activities across a wide range of index and actively managed investment strategies to clients. This core activity has performed relatively well over the period of severe economic stress and dislocation in recent years. The Company retains client relationships through separately managed mandates and through mutual fund and pooled investments. The Company is currently the investment manager, or provides sub-advisory functionality, for SSGA fund umbrellas domiciled in the EMEA region.

The client base has a diverse international spread albeit there is a concentration in UK-domiciled clients with the remainder spread globally across the Middle East, Africa, North America and Asia. As at 31 December 2018, the split of assets managed was approximately 47% equity, 18% fixed income, 18% in cash and currency, 16% in multi-asset class solutions, and 1% in other asset classes. The diverse spread of asset classes provides the Company with a degree of protection against product concentration and adverse market movements across the book of business.

The Company is pursuing a dual strategy to grow the core institutional business while seeking to widen and diversify its client base through focusing on the ETF markets. The Company will continue to research and develop innovative products relevant to client investment needs and aspirations. The Company supports the SSGA Group initiatives in ETFs, cash products and the DC pension sector. The new sales and distribution branches in the United Arab Emirates offer the Company wider distribution capabilities.

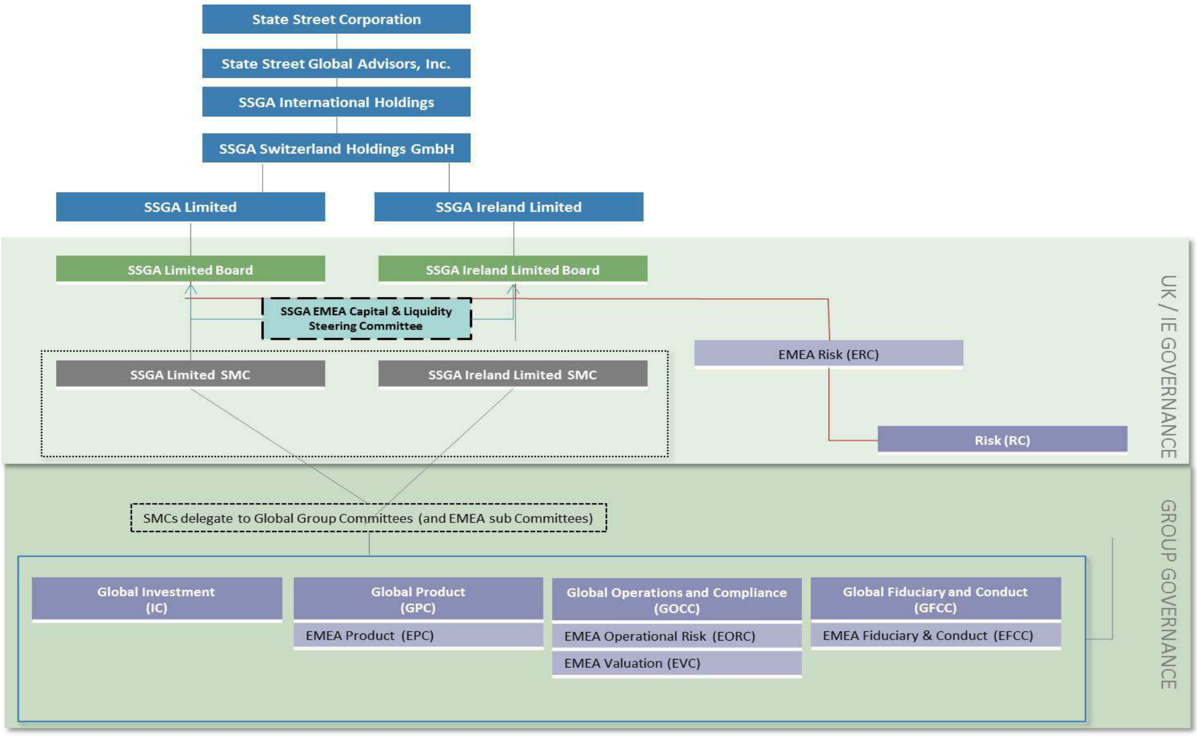
On 1 February 2019, the Company transferred the operation of its sales and distribution branches in Amsterdam, Brussels, and Milan, including staff and establishment liabilities, to newly established corresponding branches under its Irish affiliate SSGA Ireland Limited (SSGAIL). The Company's branches in Amsterdam, Brussels, and Milan are expected to close within the next year, following the settlement of all residual balances. While prepared for a spectrum of scenarios, SSGAL is broadly operating under the assumption that even with the roll-out of Brexit; SSGAL will be able to provide sub-delegated services on behalf of the region's European client base. The transfer of EU branch operations will ensure the continuity of the SSGA Group regional sales and distribution across Europe, after the UK leaves the EU.

The Company provides investment and advisory services to two UK Group companies, namely State Street Unit Trust Management Limited and Managed Pension Funds Limited, which are supported by legal agreements.

3. Governance and Risk Management Framework

3.1. Governance Framework

The following diagram sets out the current Governance Structure of SSGAL:



The Company has also adopted an industry standard Three Lines of Defence model, described below:

Governance

- Strong Board and Management oversight
- Sets "tone from the top" and establishes Corporate risk appetite and strategy

First Line of Defence

Who (examples)

- Businesses: e.g., SSGA
- Functions: e.g., Operations, IT

Overall responsibilities

- **Accountable** for appropriately identifying, assessing, managing, and reporting on risks relevant to achieving business and corporate objectives
- **Accountable** for designing, documenting, implementing, and monitoring effectiveness of internal controls
- **Self-identify** and report internal control deficiencies, analyze their root causes, implement timely corrective actions, and continuously monitor risk

Second Line of Defence

Who (examples)

- Enterprise Risk Management (ERM)
- Corporate Compliance

Overall responsibilities

- Identify and maintain inventory of material risks
- Establish (with approval of Board) risk appetite framework for major risks
- Develop policies, limits, and risk standards for containing risks within risk appetite boundaries
- Monitor and report on risk taking and exposures relative to policies, limits, guidelines
- Independently assess and advise First Line of Defence functions in their risk management responsibilities
- Design and lead the governance framework for risk monitoring and decision-making

Third Line of Defence

Who

- Corporate Audit

Overall responsibilities

- Maintain independence and objectivity in providing assurance relative to the effectiveness of first and Second Line of Defence functions
- Identify and communicate to the E&A Committee instances where the First and Second Lines of Defence are not adhering to establish risk management practices and identify improvement opportunities
- Provide opinion on the overall effectiveness of risk management practices

Culture

- Best in class **culture** that incorporates risk management and controls thinking into business decision making and overall "DNA" for all Lines of Defence.

3.2. Risk Management Framework

The Risk Management Framework (RMF) enables the Company to identify, measure, mitigate, monitor and report risks, and their controls, in compliance with applicable regulatory requirements and internal guidelines. In addition to general oversight, the risk governance process ensures all staff performs their duties in accordance with the RMF, by defining roles, segregating duties, assigning authority to individuals/committees/Board for approval of key risks, risk appetite and actions for risks outside of appetite.

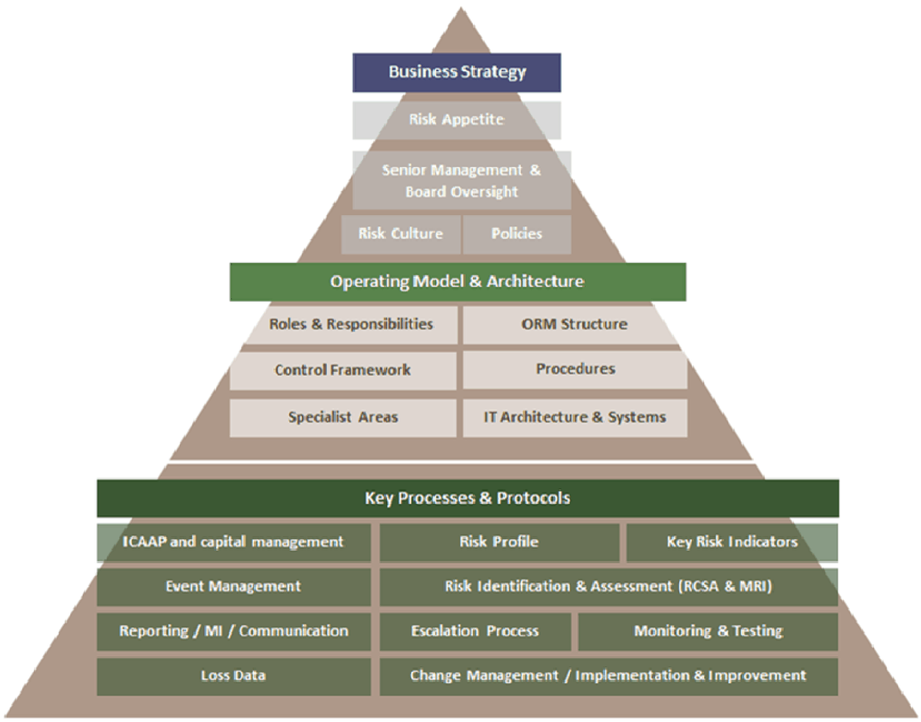
The RMF is aligned with the SSC RAS, Global SSGA RAS, and where relevant, it has been adapted to the specific needs and requirements of SSGAL. In this regard, SSGAL complies with its own risk policies as well as all applicable SSC risk policies and guidelines. These policies and guidelines assist SSGAL in the identification of material risks, including potential risks to which it may be exposed in the future, and the implementation of strategies and controls to mitigate those risks.

The key purpose of the RMF is to ensure that SSGAL's risks are:

- Proactively identified: Risks cannot be managed unless they are first identified. The first step in identifying risks is to define the risk universe, which is done as part of the risk taxonomy. Risks are regularly considered and reassessed to maintain a current view of the risk profile of the Company;

- Well understood: Once the risks are identified, their nature needs to be understood in terms of underlying causes and how individual risks manifest themselves. A materiality assessment is also undertaken. The ability to measure risk in terms of plausibility and impact/severity is a key part of monitoring the risk profile; and

- Prudently managed: Ultimately, SSGAL works to ensure that risk-taking falls within appetite and conforms to the associated SSC and SSGA Group risk policies, limits and guidelines.



3.2.1. Risk Culture

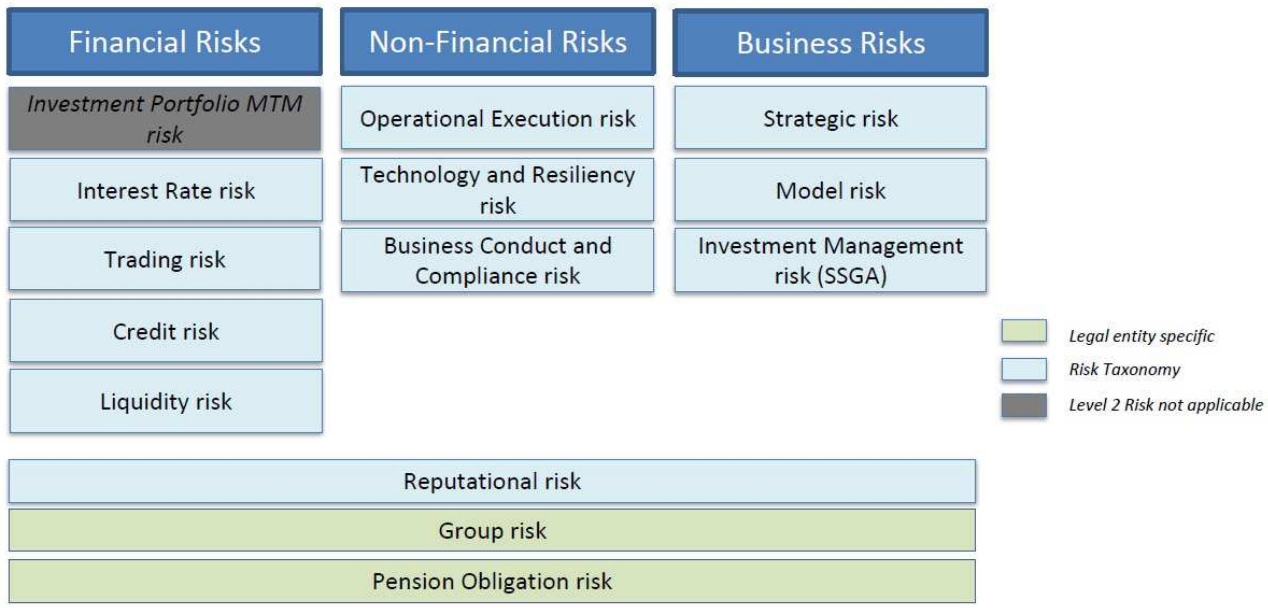
The culture of SSGAL is the foundation for the RMF. SSGAL strives for a risk culture that focuses on putting effective risk management at the forefront of how it does business, by embedding risk management into the day-to-day decision-making process. This means effectively managing risk and control environments, complying with regulatory requirements, and demonstrating ethical behaviour, achieved through senior management leading by example; risk awareness and education so all individuals understand their role in managing risk; personal accountability with respect to risk excellence; and governance, reward and recognition systems which support SSGAL's culture.

A number of group corporate initiatives are embedded at SSGAL and support a risk culture to drive and embed the corporate values. These include the 'Standard of Conduct' policy and framework; the 'Speak up, Listen up' activities aimed at raising challenge and escalating issues; the 'Ethical Decision-Making Framework' which supports decision making at all levels across the organisation; and the regular 'Pulse Surveys' to monitor trends in the 'risk excellence' profile.

3.2.2. Risk Taxonomy

SSC's risk profile is articulated through ERM's Risk Taxonomy, which forms a top-down view of the most significant risk exposures as determined by senior management.

As part of the ICAAP, the SSC taxonomy has been adapted for use at the legal entity level, such that the top risks are mapped to GENPRU 1.2.30R, risks not applicable to the Company marked as such, and Company-specific risks added in; namely group risk and pension obligation risk. The Top Risk Framework for SSGAL is shown below.



3.3. Material Risks Faced

3.3.1. Operational Risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes and systems, human failure or from external events. Operational risk also includes fiduciary risk and legal risk. Operational risk is recognised as a critical risk for SSGAL operations and receives Senior Management focus. SSGAL seeks to effectively manage operational risk in support of achieving its objectives and to fully comply with all regulatory requirements. Included as part of operational risk is the business conduct that encompasses the failure to meet regulatory and contractual obligations, fiduciary and other legal duties, policies and standards, corporate culture and standards of ethical business conduct. Information Technology risk (including cyber security), compliance risk and model risk are also considered as sub sets of operational risk for capital allocation purposes. In relation to material outsourced activities, the risks associated with engaging service providers are managed through the monitoring of Key Performance Indicators and Key Risk Indicators and taking appropriate action to ensure the continuation of a satisfactory standard of service. Contracts and/or Service Level Agreements are in place with service providers.

SSGAL's risk oversight framework recognises the fundamental differences between its agency and principal risks and is based on the following goals: achieve ongoing profitable growth, preserve SSGA's franchise value and ensure that SSGA does not have a significant negative impact on SSC's Income Statement, Statement of Financial Position, risk profile or reputation. In this context, SSGAL's risk oversight framework recognises its principal risks to its capital and additionally emphasises the top risk exposures that are unique to its agency businesses, which include: investment risk, liquidity risk and credit risk. Events that could materialise from these risks are captured as part of the underlying operational risk management framework.

SSGAL seeks to mitigate operational risk by implementing a strong control environment and proactive risk management framework. The Company works within the framework of SSC's Operational Risk Policy and Operational Risk Guidelines as adopted by State Street UK and operational procedures adopted by the business units. These documents codify State Street's approach to operational risk and describe the cycle to identify measure, monitor, evaluate and report operational risks, which together support all decision-making processes.

3.3.2. Credit Risk

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.

This risk includes residual risk, spread risk, credit risk in securitisation and cross-border (or transfer) risk, which does not apply to SSGAL given its operating model.

SSGAL is exposed to credit risk in the normal course of its business activities. SSGAL does not extend credit to any counterparty and the extent of the credit exposure from its capital position relates to bank balances held with highly rated institutions.

SSGAL's credit risk is managed conservatively in accordance with SSC's Credit and Counterparty Risk Policies and Guidelines and Risk Approval Authorities. SSGAL's business model is as an institutional investment manager and its clients are primarily large institutional investors that are normally invoiced on a quarterly basis. The Company does not have significant experience of bad debts and the receivable accounts are constantly monitored by the finance department. It has in place an ageing receivable policy where bad debt provisions are established for doubtful receivables greater than 180 days.

SSGAL's credit risk arises from exposure to institutional clients for the period when the fees become accrued to the date the fees are paid. In addition, SSGAL bears credit risk on balances held with counterparty banks.

The Company has adopted the standardised approach prescribed in BIPRU 3 to calculate its credit risk requirement. The credit risk capital component of the Company is 8% of the total of its risk-weighted exposure amounts for exposures falling under BIPRU 3.1.6 R.

The credit risk requirement as at 31 December 2018 was £8.3m.

The following tables detail SSGAL's regulatory credit risk exposure as at 31 December 2018.

1. Analysis of credit exposure by geographic distribution of exposures (based on country of residence or domicile) by significant asset class.
2. Residual maturity breakdown by exposure classes.
3. Past-due exposures.
4. Credit quality step for central governments and central banks.
5. Credit quality step for institutions.
6. Credit quality step for corporates.
7. Credit risk capital requirement.
8. Credit risk capital requirement by residual maturity.

Table 1: Credit Exposure by geographical distribution of exposures (based on country of residence or domicile) and by significant asset class (£'000)

Exposure Class	Non UK	UK	Total
Central Governments and Central Banks	735	95	830
Multilateral Development Bank	37	842	878
International Organisations	0	0	0
Institution	1,617	275,885	277,502
Regional Governments or local authorities	0	258	258
Corporate	15,033	15,312	30,345
Past Due	866	942	1,808
Other	0	15,170	15,170
Total Credit Risk Exposure	18,288	308,503	326,791

Table 2: Maturity Breakdown by exposure class (£'000)

Exposure Class	<3 months	>3 months
Central Governments and Central Banks	830	0
Multilateral Development Bank	878	0
International Organisations	0	0
Institution	277,502	0
Regional Governments or local authorities	258	0
Corporate	30,345	0
Past Due	0	1,808
Other	15,170	0
Total Credit Risk Exposure	324,983	1,808

Table 3: Past due exposures (£'000)

Exposure Class	Non UK	UK	Total
Central Governments and Central Banks	334	0	334
Multilateral Development Bank	35	0	35
International Organisations	0	0	0
Institution	0	0	0
Regional Governments or local authorities	0	0	0
Corporate	497	942	1,439
Other	0	0	0
Total Credit Risk Exposure	866	942	1,808

Table 4: Credit quality step (CQS) for central government and central banks (£'000)

CQS	Maturity	Risk weight	Fitch	Moody's	Credit Risk exposure	Capital Requirement
1	< 3month	0%	AAA to AA-	Aaa to Aa3	274	0
2	< 3month	20%	A+ to A-	A1 to A3	454	7
3	< 3month	50%	BBB+ to BBB-	Baa1 to Baa3	102	4
4	< 3month	100%	BB+ to BB-	Ba1 to Ba3	0	0
5	< 3month	100%	B+ to B-	B1 to B3	0	0
6	< 3month	150%	CCC+ and below	Cca1 and below	0	0
Total					830	11

Table 5: Credit quality step (CQS) for institutions (£'000)

CQS	Maturity	Risk weight	Fitch	Moody's	Credit Risk exposure	Capital Requirement
1	< 3month	20%	AAA to AA-	Aaa to Aa3	274,969	4,400
2	< 3month	50%	A+ to A-	A1 to A3	559	22
3	< 3month	50%	BBB+ to BBB-	Baa1 to Baa3	1,974	79
4	< 3month	100%	BB+ to BB-	Ba1 to Ba3	0	0
5	< 3month	100%	B+ to B-	B1 to B3	0	0
6	< 3month	150%	CCC+ and below	Cca1 and below	0	0
Total					277,502	4,501

Table 6: Credit quality step (CQS) for corporates (£'000)

CQS	Maturity	Risk weight	Fitch	Moody's	Credit Risk exposure	Capital Requirement
1	< 3month	20%	AAA to AA-	Aaa to Aa3	0	0
2	< 3month	50%	A+ to A-	A1 to A3	0	0
3	< 3month	50%	BBB+ to BBB-	Baa1 to Baa3	0	0
4	< 3month	100%	BB+ to BB-	Ba1 to Ba3	30,345	2,428
5	< 3month	100%	B+ to B-	B1 to B3	0	0
6	< 3month	150%	CCC+ and below	Cca1 and below	0	0
Total					30,345	2,428

Table 7: Credit risk capital requirement (£'000)			
Exposure Class	**Total**	**Risk Weighted Assets**	**Pillar 1 Requirement (8% RWA)**
Central Governments and Central Banks	830	142	11
Multilateral Development Bank	878	0	0
International Organisations	0	0	0
Institution	277,502	56,260	4,501
Regional Governments or Local Authorities	258	52	4
Corporate	30,345	30,345	2,428
Past Due	1,808	2,712	217
Other	15,170	15,170	1,214
Total Credit Risk Exposure	326,791	104,680	8,374

Table 8: Credit risk capital requirement by residual maturity (£'000)		
Exposure Class	**<3 months**	**>3 months**
Central Governments and Central Banks	11	0
Multilateral Development Bank	0	0
International Organisations	0	0
Institution	4,501	0
Regional Governments or Local Authorities	4	0
Corporate	2,428	0
Past Due	0	217
Other	1,214	0
Total Credit Risk Exposure	8,157	217

External ratings from External Credit Assessment Institutions Fitch and Moody's are used in the credit quality steps.

3.3.3. Market Risk

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.

SSGAL does not undertake proprietary trading hence is only exposed to foreign exchange rate risk. Exposure to foreign exchange rate risk is for the period when the non-GBP debtor fees are accrued until the date of invoice settlement. In addition, the Company bears foreign exchange risk on the non-GBP bank balances held to support the SSGAL European branches.

The Company follows the general rules prescribed in BIPRU 7.5 to calculate the foreign currency position risk requirement. The market risk capital component of the Company is 8% of the sum of the absolutes of all open currency positions.

The total Foreign Currency Position Risk Requirement as at 31 December 2018 was £1.4m.

3.3.4. Pension Obligation Risk

SSGAL shares joint and several liabilities with other State Street UK companies with respect to the UK defined benefit scheme ("the Scheme") operated by the State Street UK Group of companies and sponsored by State Street Bank and Trust Company (SSBTC). 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 contributions to, or with respect to, a pension scheme because of a moral obligation the Group considers that it has for some other reason. The risk to SSGAL 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, per accounting basis, as at 31 December 2018.

Pension obligation risk is quantified by an external actuarial company every three years and is conservatively maintained flat throughout the five-year horizon period.

3.3.5. Business Risk

Per GENPRU 1.2.31R (4), 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. It also includes risks arising from a firm's remuneration policy'.

Business risk corresponds to Business Conduct and Compliance Risk, Strategic Risk, Model Risk and Investment Management Risk in the SSGAL Top Risk Taxonomy.

With regards to changes in its business, SSGAL is exposed to risk through its activities as a global asset manager where revenue can be affected by macroeconomic factors as well as a business plan that may not be suitable for the market and wider environment in which it operates.

With regards to business risk linked to the Company's remuneration policy, SSGAL ensures remuneration levels do not lead to excessive risk taking and there exist controls which comply with the remuneration principles per SYSC 19C.3.

3.3.6. Concentration Risk

Concentration risk may arise from:

a) exposures to each counterparty, including central counterparties, groups of connected counterparties and counterparties in the same economic sector, geographic region or from the same activity or commodity;
b) the application of credit risk mitigation techniques; and
c) risks associated with large indirect credit exposures, such as a single collateral issuer.

SSGAL has exposure to concentration risk in the normal course of its business activities.

- Client concentration - arises when the Company's AUM and revenue base become concentrated in a few large clients. Due to the Company's allocation of residual profits through the transfer-pricing mechanism, client concentration exists at the SSGA group level and not at the individual operating level.
- Counterparty concentration - arises from the balance sheet exposure to the Company's cash held on deposit with various highly rated financial institutions.

SSGAL has a diverse, global customer base and is not significantly over-exposed to any one customer or client type. Diversification across businesses, geographies and risk types is an important consideration in managing risk and reducing earnings volatility. SSGAL also strives to avoid undue exposure and risk concentrations in its activities in the ordinary course of business and in the event of geopolitical, macroeconomic and market shocks.

Concentration risk is more likely to occur in SSGAL's exposure to financial institutions where funds are held on deposit. Concentration risk to a single counterparty is monitored as part of the quarterly reporting to the SSGAL Board through quantitative thresholds evaluating the percentage of aggregate cash balances in relation to the overall portfolio.

3.3.7. Interest-Rate Risk in the Non-Trading Book

Interest-rate risk is defined as the risk that changes in interest rates can negatively impact State Street's profitability, capital adequacy and the economic value of the firm's assets and liabilities. Interest-rate risk also arises due to potential adverse changes in interest-sensitive income and expenses in State Street's core business lines.

Non-trading interest-rate risk is defined as the potential impact of adverse movements in interest rates in the non-trading book and the impact on planned future cash flows. The Company does not rely on interest income to fund its operations and currently has no debt. SSGAL holds a significant amount of cash as part of the normal cash management process. As a result, the Company would not be materially affected by a 200-basis-points movement in interest rates.

3.3.8. Liquidity Risk

Liquidity risk is the current or prospective risk to earnings and capital arising from an institution's inability to meet its liabilities when they come due. The majority of SSGAL's capital is maintained as cash balances in highly rated institutions which are on the SSGA approved counterparty list.

SSGAL has a Board approved SSGAL legal entity principal liquidity risk policy ("Policy") and LRMF in place which allow SSGAL to identify, monitor, quantify and manage liquidity risks in both business-as-usual (BAU) and stressed conditions and to meet internal and regulatory requirements for liquidity risk management. The Policy sets out a broad structure for principal liquidity risk management within the entity which is aligned to the corporate policy. The LRMF provides the details of how SSGAL implements the Policy and includes details of the liquidity risk appetite, stress testing and contingency funding plan. SSGAL aims to maintain sufficient liquidity at all times to meet its operational and regulatory requirements in both BAU and stress conditions.

3.3.9. Group Risk

Per GENPRU 1.2.32R (6), group risk is the risk that the financial position of a firm may be adversely affected by its relationships (financial or non-financial) with other entities in the same group or by risks which may affect the financial position of the whole group, for example reputational contagion.

Group risk can be broken down into the following risk categories:

- Contagion risks arising across the broader SSC as a result of reputational damage, operational or financial pressures;
- Intra-group exposure including both credit and operational;
- Concentration risks arising from client or business type concentration which could put a strain on capital resources across entities simultaneously (see above); and
- Complex group structures with dependencies, complex split of responsibilities and accountabilities.

SSGAL has exposure to group risk through intra-group exposures as a result of its heavy reliance on intra-group operational support services such as Investment Operations, IT and corporate functions.

Group risk occurs through SSGAL's use of the transfer-pricing mechanism, a residual profit split method where operating losses incurred in other parts of the SSGA group could potentially impact the profitability of SSGAL. As SSGAL is a beneficiary from the transfer pricing, senior management are cognizant that this source of revenue could potentially be adversely impacted, or indeed disappear, in the event of a material loss elsewhere in the Group. Senior management believe this risk is mitigated through the strong management and control culture within the SSGA Group.

In assessing the capital adequacy of SSGAL for the year ending 31 December 2018, senior management have made no assumption or allowance for parental guarantees or commitments. Parental support is not used as a risk mitigant. However, if required, SSGAL would seek support from its Parent as the first source of capital support.

4. Capital

4.1. Capital Structure

The total capital of the Company as at 31 December 2018 consists entirely of Tier 1 capital.

Total Eligible Capital	£'000
Capital	
Paid up share capital (ordinary shares of £1 each)	62,350
Reserves (including revaluation reserves loss)	226,836
Total capital before deductions	289,186
Deductions from Capital	
Intangible assets	13,511
Total capital resources after deductions	275,675

4.2. Capital Adequacy Policy

SSGAL's policy is to maintain capital in excess of the required minimum regulatory risk-based and non-risk-based capital levels according to its Capital Adequacy Process. SSGAL's Capital Adequacy Process assesses overall capital levels in relation to its risk profile, considering all material risks across multiple stress scenarios, up to, and including, resolution. The Capital Adequacy Process provides a strategy for maintaining appropriate capital levels in current and future periods, accounting for changes in its strategic direction, economic and market conditions, idiosyncratic events as well as existing and future regulatory expectations.

SSGAL seeks to 1) manage its business activities so that they do not compromise the corporate objective to maintain group capital in excess of the required minimum regulatory-risk-based and non-risk-based capital levels according to its Capital Adequacy Process; and 2) ensure that the UK-incorporated entities maintain capital in excess of the levels required to meet their regulatory mandates.

4.3. Capital Resources Requirement

The Company is authorised as a BIPRU Firm by the FCA. For regulatory capital purposes, the Company is classified as a Limited Licence firm. BIPRU Firms are required to calculate their capital requirements in accordance with the criteria set out in BIPRU and GENPRU.

As a BIPRU Limited Licence Firm, the Company's Pillar 1 capital requirements are the greater of (GENPRU 2.1.45):

- Base capital requirement of €50,000;
- The sum of its credit and market risks requirements; or fixed overhead requirement

A summary of the Company's capital requirements is highlighted below:

Capital Resources Requirement	£'000
(a) Base Capital Resources Requirement (BIPRU €50k Firm)	45
(b) Credit Risk Capital Requirement	8,374
(c) Market Risk Capital Requirement	1,404
(d) Sum of (b) and (c)	9,779
(e) Fixed Overhead Requirement	21,738
Variable Capital Requirement – higher of (a), (d) and (e)	21,738

4.4. Compliance with Pillar 2

Under Pillar 2 of the Basel II framework and the FCA's capital requirements, the Company has undertaken an internal assessment of the adequacy of capital based on all material risks to which it is exposed. This has been assessed in the SSGAL ICAAP and, as part of the ICAAP process, the Company considered the impact on capital resources of significant risks in addition to an assessment of the costs to wind down the business in an orderly manner.

Additional capital is maintained under Pillar 2 based on management evaluation of its material risks and relates primarily to SSGAL's exposure to operational, credit, market, business and pension obligation risk.

5. Remuneration Practices and Policies: State Street in the UK

"*Information concerning the decision-making process used for determining the remuneration policy, 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*" (BIPRU 11.5.18R – 1)

5.1. Remuneration Governance

At the State Street Group level, the Executive Compensation Committee (ECC) of State Street Corporation (SSC) has oversight of all compensation and benefits programs at State Street. ECC members are senior professionals with strong financial/business knowledge, who are independent members of the Board of Directors of SSC. They are appointed by the Board on the recommendation of the Nominating and Corporate Governance Committee of the Board. At 31 December 2018, there were three members of the ECC. During 2018, the ECC held eight meetings.

The ECC oversees all of State Street's compensation plans, policies, and programs in which senior executives participate and incentive, retirement, welfare and equity plans in which certain other employees of SSC participate. It also oversees the alignment of the incentive compensation arrangements with State Street's financial safety and soundness consistent with applicable related regulatory rules and guidance. One member of State Street's corporate Risk Committee (RC) is also a member of the ECC, providing continuity between the committees. In addition, other independent directors who are not members of the ECC attend the ECC meetings from time to time. The ECC engages Meridian Compensation Partners, a compensation consulting firm, to provide compensation consulting as part of the ECC's review of executive compensation.

The corporate Incentive Compensation Control Committee (ICCC) consists of senior representatives of the Enterprise Risk Management ("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 the 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.

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 confirmation by the RC before the ECC may use it to determine the appropriate level of incentive compensation (IC) pool funding for any compensation year. The RC annually evaluates the material risks applicable to State Street, as well as management actions during the year designed to mitigate those risks. In addition, State Street Group's Audit function completes an annual audit of GHR IC practices and compliance with regulatory guidance.

State Street has a separate, independent, UK Remuneration Committee (RemCo) which held four meetings in 2018. The UK RemCo operates under a charter that sets out its mission, scope, authority, composition, frequency of meetings and reporting obligations. The UK RemCo reviews and reassesses the adequacy of its charter annually. Under this charter, the UK RemCo's primary duties are:

- Oversight of the process for identifying and determining the remuneration of UK EUIS;
- Oversight of decisions made by those with authority to determine the remuneration of EUIS in the UK; and
- Holistic oversight of non-UK EUIS remuneration matters, with a view to providing a central forum for consideration of issues and thereby enhancing consistency of approach across State Street EMEA.

In light of the global nature of State Street's organisation, State Street's remuneration plans and programs are generally established at the level of SSC and implemented locally/regionally, to the extent required, to comply with the applicable local legal and regulatory requirements. Therefore, the UK remuneration policy, which is applicable to State Street Global Advisors Limited (SSGAL), reflects the nature of SSC's global remuneration approach while complying with local/regional regulatory remuneration requirements that are applicable for SSGAL and those performing activities on behalf of SSGAL. SSGAL only makes use of remuneration-related plans and programs that exist at the SSC level. As described above, SSGAL, therefore, also benefits from State Street's global and EMEA remuneration governance.

5.2. EU Identified Staff

State Street identifies those employees throughout its global organisation who individually or as a group are responsible for activities that may expose State Street to material amounts of risk, namely EU Identified Staff (EUIS)[1] and FRB MRTs[2]. State Street annually reviews the variable pay arrangements used to compensate these employees and also annually reviews the effectiveness of the design and operation of State Street's incentive compensation system in providing risk-taking incentives that are consistent with the organisation's safety and soundness.

Governance

State Street takes a robust approach to identifying EUIS within its businesses and subsidiaries. Various key bodies are involved in the process of identifying, reviewing or approving State Street's EUIS. These key groups include the following:

- UK RemCo - This body represents the ultimate oversight governing body for the EUIS identification process
- EUIS Advisory Group - This Advisory Group meets during the year to consider recommendations on positions to be taken by the EUIS Working Group. In 2018 it was made up of senior stakeholders from the control functions within State Street EMEA.
- The EUIS Working Group evaluates new EUIS positions to be implemented due to regulatory feedback, external advice and ongoing internal governance restructuring. In 2018 it was made up of representatives of GHR, Legal, Compliance, Finance and ERM.

[1] EUIS is the State Street internal nomenclature for material risk takers pursuant to Commission Delegated Regulation (EU) No 604/2014 of 4 March 2014 (EBA Regulatory Technical Standards)

[2] 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)

Process

Qualitative Review of the EUIS identification

In recognition that individuals may be EUIS without meeting specific criteria under the EBA Regulatory Technical Standards (RTS), State Street applies a broad interpretation when identifying the list of individuals who may potentially be EUIS. State Street then undertakes a detailed process of review for each individual, considering their role, responsibility, independent authority and potential ability to impact State Street's main material risks to determine if an individual should be EUIS, even if they do not meet a specific qualitative criterion.

Quantitative Exclusions of the EUIS Identification

The detailed qualitative review helps inform State Street's quantitative identification approach for EUIS. State Street no longer puts forward quantitative exclusion requests or notifications to the regulators; anyone meeting the quantitative criteria under Article 4(1)(a) or (b) will become EUIS. For those under Article 4(1)(c), some of these individuals are reviewed as part of the qualitative review process and therefore, their roles and responsibilities had already been reviewed by both the relevant business head and members of ERM. 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. As an additional step, a secondary review is then carried out by GHR for anyone caught under Article 4(1)(c), with verification and input from the relevant business head and ERM where appropriate. The role and responsibilities of each individual are carefully reviewed and seniority, risk impact, and the organisational structure and control framework are specifically considered.

5.3 Information on the Link Between Pay and Performance (BIPRU 11.5.18R-2)

State Street's overall aim with respect to compensation is to reward and motivate high-performing employees and to provide competitive incentive opportunities, encouraging employees to learn and grow in their careers.

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

1. We emphasise total rewards.
2. We target the aggregate annual value of our Total Rewards Program to be competitive with our business peers.
3. We unequivocally support equal pay for work of equal value.
4. Funding for our Total Rewards Program is subject to affordability and is designed to be flexible based on corporate performance.
5. We differentiate pay based on performance.
6. We align employees' interests with shareholders' interests.
7. Our compensation plans are designed to comply with applicable regulations and related guidance, including prohibiting incentives to take excessive risks.

5.4. Elements of Remuneration

Fixed Pay

Base Salary and Benefits

Base salary is one element of an employee's compensation. Employees' base salaries are determined by role, bank title and by a number of other factors such as individual performance, proficiency level, year-over-year increase guidelines, statutory requirements, budget and position to market.

Benefits, both in form and value, are generally positioned at the median of relevant business peer groups and geographic markets. Most benefits are generally consistent across all job bands in a market although sometimes benefits may vary by job band, grade or other factors based on prevailing market practices or applicable regulations.

Role-Based Allowance (RBA)

RBAs are an element of fixed compensation for a very limited number of individuals to permit State Street to deliver compensation that is reflective of an individual's role, responsibility, experience, the competitive marketplace, and is in compliance with its regulatory obligations. The key characteristics are:

- Contractual cash payment, i.e. non-discretionary.
- No fixed term, i.e. continuous.
- Paid in equal instalments.
- Not subject to deferral or performance conditions/adjustments.
- Amount or receipt of an RBA subject to review only if there is a material change in role and responsibilities.
- Not subject to risk-based adjustment (e.g. malus/clawback).
- Subject to comparable role analysis.

Variable Pay

Maximum Pay Ratio

Variable compensation awards for EUIS are restricted to 2x fixed compensation to ensure compliance with the maximum ratio permitted under CRD IV and UK regulations. SSGAL has obtained the relevant shareholder approvals to extend the default maximum ratio from 1x fixed compensation to 2x fixed compensation, which has been notified to the relevant regulators. Those performing control function roles (Audit, ERM, and Compliance) have their remuneration delivered with an emphasis on fixed pay.

Incentive Compensation (IC) Plan

The Incentive Compensation Plan is an integral part of the remuneration strategy. The IC Plan is the primary scheme for the provision of annual discretionary bonuses and is intended to motivate staff to perform as well as possible and produce superior results whilst not incentivising inappropriate risk-taking.

Executive Vice Presidents (EVPs) generally 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, performance trend, competitive and market factors and internal equity.

- *Annual Incentive:* The annual incentive is designed to reflect the executive's performance for the year. Corporate and individual annual performance evaluations include scorecard-based assessments of strategic, financial and risk management performance. The final annual incentive award can range between 0% and 200% of target.
- *Long-Term Incentive:* For 2018, the long-term incentive is composed of Deferred Stock Awards (DSAs) and 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, including actions or behaviours that provide long-term value to State Street, such as:

- the executive's impact on State Street's long-term performance trend;
- the executive's leadership behaviours as measured by factors such as diversity and inclusion, talent development, employee engagement and personal leadership qualities (e.g. enterprise thinking and encouraging professional challenge); and
- the executive's achievements in a given year that are particularly significant to the long-term success of State Street and are not captured in annual results.

Typically, the long-term incentive varies within a range of 80% to 120% of the target but may be reduced below or exceed this range in the Committee's discretion

Associates' Bonus Plan (ABP)

Individuals in Associate roles participate in the ABP (subject to limited exceptions), which is designed to link total compensation opportunities to organisational and individual performance, motivate and reward eligible employees as the business unit and State Street attain profit growth, and provide participants with a variable pay opportunity. To be eligible to receive an award under the Associate Bonus Plan, employees must be employed and in good standing on the date of the total funded incentive compensation plan pool results are certified.

Structured Incentive Plan (SIP)

A small number of employees participate in SIPs, which aim to bring the variable compensation granted to plan participants in line with the financial results they generate. SIPs also take into account non-financial qualitative performance indicators. In addition, all SIP participants receive sufficiently high fixed compensation, which aims to eliminate incentives for excessive risk-taking. Variable compensation is assigned on an individual basis by way of a review of both quantitative and qualitative factors. All SIPs are reviewed annually by State Street's ICCC and an employee's eligibility to participate in a SIP, and all amounts paid under a SIP, are subject to management approval.

5.5. Link Between Pay and Performance for the Institution

In a first step the corporate IC pool is budgeted and accrued based on group-wide budget and financial performance. The ECC has flexibility to adjust the overall global IC pool and, in doing so, evaluates a number of factors, including capital, risk, business and other considerations. Moreover, the ECC approves the funding of the corporate IC pool.

5.6. Link Between Pay and Performance for Business Units

Secondly, the CEO allocates IC pools to Management Committee members for their respective business units or corporate functions based upon a variety of factors, which may include budget performance, achievement of key goals, risk and compliance performance and other considerations. The discretionary business unit allocation process entails the use of a business unit-level risk scorecard, which captures qualitative and quantitative data across ERM, Audit, Compliance, Legal and Regulatory areas for every business unit and corporate function. Details on State Street's Compensation Assessment Framework and Corporate Performance can be found in State Street's 2018 Proxy Statement filed with the US Securities Exchange Commission and available publicly on its website.

5.7. Link Between Pay and Performance for Individuals

Thirdly, the sub-allocation of the business unit bonus pool to an individual is then further determined by an individual's business manager with reference to the individual's performance measured on both financial and non-financial criteria. Individual accountability for business unit scorecard results (positive or negative) is assessed as appropriate and may also inform compensation decisions.

Individual incentive awards are completely discretionary. In addition to the formal two-pronged risk adjustment process (ex-ante and ex-post compensation adjustments) described below, in making individual incentive awards, State Street permits the use of discretionary adjustments to awards for both financial and non-financial criteria. These include (but are 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.

State Street's performance management process has been updated from 2018. It involves a collaborative planning process and ongoing assessments, enabling flexibility to account for evolving business priorities, more opportunities for professional challenge and discussions on risk excellence and better performance differentiation across the workforce.

Performance management at State Street utilises a four-stage approach:

1. Expectation Setting: The first stage takes place at the beginning of the year as a discussion about Job Expectations and, for certain employees, Performance Priorities. Job expectations are the tasks an employee is expected to accomplish on a day-to-day basis to meet the requirements of the job. They are set in partnership between the manager and employee. Performance Priorities are dynamic personalised goals - often shorter term in nature - that tie to a larger business or company goal and develop the employee's skills beyond core responsibilities. Performance Priorities help ensure that an employee's time is spent where it makes the biggest impact on the business and can be updated throughout the year
2. Check-Ins: Stage two focuses on the facilitation of regular review and feedback between the employee and manager throughout the year. Ongoing performance discussions about job expectations and/ or performance priorities take place as monthly check-ins throughout the year. Check-ins are coaching conversations between the manager and employee about progress towards job expectations and/ or performance priorities. Employees have a regular opportunity to receive transparent feedback about performance, respond to feedback, and engage in career development and internal mobility discussions
3. Snapshots: The third stage is the manager's evaluation of employee performance three times per year (two times for 2018) using performance assessments called Snapshots. Snapshots enable managers to evaluate employee performance from the following perspectives: Job Expectations, Performance Priorities (where applicable), Performance vs. Peers, Risk Excellence, and Leadership Qualities.
4. Year-End Summary/Recap: The final stage is the Year-End Summary/Recap conversation between manager and employee. These discussions typically take place at the last Check-in of the year and recap performance feedback the manager provided the employee throughout the year. During this Year-end conversation, managers summarise performance by assigning a Performance Category to the employee designed to recap performance. Performance categories are set on a five-point scale (Frequently Exceeding, Sometimes Exceeding, Achieving, Under Performing, and Progressing/New to Role)

Compensation Guidelines to help managers prioritise pool allocations to make Pay-for-Performance decisions are generated from the results of the Snapshots. At the end of the year, Snapshot results are assessed, and employees are prioritised into three Pay-for-Performance categories for Compensation Guideline decisions.

Both the Year-End Performance Summary and the Snapshots inform compensation decisions.

5.8. Characteristics of the Remuneration System (BIPRU 11.5.18R – 3)

For the 2018 performance year (paid in the first quarter of 2019), IC awards under State Street's corporate design consisted of deferred awards and immediate cash payments.

Under State Street's corporate design, all Deferred Awards are subject to a four-year deferral period and vest on a quarterly basis without the application of a retention period.

Deferred Equity is awarded in the form of Deferred Share Awards (DSAs). DSAs are a contractual right to receive, on each vesting date, a set number of shares in the common stock of State Street Corporation, subject to affordability requirements and applicable terms, which may include malus, clawback, forfeiture, restrictive covenants and other conditions. The number of shares to be delivered on each vesting date is set at the award date but may be adjusted between the award date and each vesting date through the ex-post performance adjustment measures described below.

In order to reduce employee concentration in State Street stock that would result from using equity instruments alone to deliver the entirety of the Deferred Award, State Street also uses non-equity deferral vehicles, called the SSGA Long-Term Incentive (SSGA LTI) for those in the SSGA business. Most SSGA employees may choose from among three notional investment options under the SSGA LTI, including a money market option. For most active investment teams, the SSGA LTI award notionally tracks the performance of a set of funds managed by the team during the deferral period. For the remainder of the population, including SSGA corporate or control functions, State Street offers Deferred Value Award (DVA) that notionally track the value of a money market fund. SSGA LTI and DVAs are delivered in cash on the vesting date. The earnings credited to the DVAs vary based on the actual performance of fund; however, there is no ownership interest in the fund or any other actual investment. Earnings generally result in the credit of additional notional units as the money market fund is managed to a $1.00 USD unit price. As with DSAs, SSGA LTIs and DVAs may be adjusted between the award date and each vesting date through the ex-post performance adjustment measures described below.

Under State Street's corporate design the allocation of immediate (i.e. cash) and deferred compensation (i.e. DSAs, SSGA LTIs and DVAs) is based on total value of an individual's 2018 IC. In general, the greater the amount of IC, the greater is the percentage that is paid as deferred awards. The deferred award is typically composed of equal percentages of SSGA LTIs/DVAs and DSAs, resulting in employees at higher variable pay levels being awarded a higher percentage of equity, given their higher deferral percentage. For the 2018 IC the following allocation regime has been used:

Allocation of Cash and Deferred Awards

IC Min	IC Max	2018 Standard Design	
		Cash	Deferred
$0	$50,000	100%	0%
$50,000.01	$75,000	45%	55%
$75,000.01	$100,000	45%	55%
$100,000.01	$120,000	45%	55%
$120,000.01	$150,000	45%	55%
$150,000.01	$200,000	35%	65%
$200,000.01	$250,000	35%	65%
$250,000.01	$500,000	25%	75%
$500,000.01	$800,000	20%	80%
$800,000.01	$1,000,000	15%	85%
$1,000,000+		10%	90%

Structure of IC Awards for UK EUIS[3]

For UK EUIS, the IC award differs from State Street's corporate design and is based on relevant regulatory requirements. It is delivered in two separate elements, the immediate non-deferred award (an "Immediate Cash" award delivered in cash and an "Immediate Equity" award delivered in equity) and the deferred award (delivered partly in equity and partly in SSGA LTIs or DVAs). More significant deferral and instrument thresholds are in place for more senior staff, i.e. the higher the total amount of variable remuneration, the higher the percentage of variable remuneration that will be deferred.

Immediate Award (Immediate Cash and Immediate Equity)

This is the portion of the IC that is delivered immediately following the date of communication of the award to the employee. This typically takes place during the first quarter following the performance year to which the award relates. An Immediate Equity award immediately vests in full upon grant but can only be sold or transferred after the retention period mentioned below under "Retention Period".

Deferred Award (DSA, SSGA LTI and DVA)

EUIS receive a Deferred Award, which is delivered partly in DSAs and partly in SSGA LTIs/DVAs. Award Distribution for EUIS:

- Cash/Equity Split
  - At least 50% of Immediate Award delivered as Immediate Equity.
  - At least 50% of Deferred Award delivered as DSAs.

- Deferral Amounts
  - At least 40% of IC delivered as Deferred Award.
  - For particularly high variable pay amounts (i.e. amounts of £500,000 or more), at least 60% of IC delivered as Deferred Award.

- Deferral Period and Vesting Schedule
  - Risk Managers: 5-year deferral with annual vesting allowed from year 1.

3 EUIS receiving a total compensation of not more than £ 500,000 and with variable remuneration of no more than 33% of total remuneration are exempt from this regulatory deferral requirement. Instead, these EUIS receive their variable pay per State Street's corporate design based on variable pay amount

- Other UK EUIS: 4-year deferral with annual vesting allowed from year 1.

No discount rate is applied to those with deferrals in instruments for a period of at least 5 years.

- Retention Periods
  - All equity is subject to 12-month retention period post-vest during which the recipient is prohibited from sale or other transfer of the equity.

Guaranteed Variable Remuneration

State Street does not generally award guaranteed variable remuneration. 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 not last longer than 12 months (i.e. no multi-year guarantees).
- Awards may only be made in exceptional circumstances.
- Awards must only be made to new employees.

Replacement of Awards from Previous Employers

State Street may, from time to time, provide awards to new hires to compensate them for the loss of incentive compensation awards as a result of their termination of employment with their previous employer. When such awards are made, State Street will, as far as possible, match the structure (including vesting schedule and use of performance criteria) of the awards of the previous employer and will seek appropriate evidence of existing awards prior to the award of a buy-out. The quantum of awards will be an amount reasonably expected to fairly compensate the new hire for the loss of incentive compensation from their previous employer and attract them to join State Street, but not exceed the quantum of existing awards.

Buyouts are subject to the relevant variable pay regulations and appropriate evidence is sought of existing awards being lapsed prior to the award of a buyout.

Retention Awards

Additional variable remuneration may be awarded to retain employees and forms part of the variable remuneration. Retention awards must meet the following criteria:

- Awards may only be made if there is a strong business case, on an exceptional basis, and their payment is aligned with the applicable organisational and risk strategies.
- Awards are granted after the retention period/retention event has been achieved.

Recognition Awards

Certain employees with exemplary risk management performance are eligible for additional “top-up” awards in recognition of their contributions to our culture of Risk Excellence. These recognition awards form part of the variable remuneration.

Severance

Severance payments are considered variable pay in certain circumstances. State Street has developed a UK-specific severance framework document that provides guidelines for the consideration of these types of payments in relation to the termination of an employment relationship and how payments should be structured and documented to comply with regulatory requirements.

Risk Adjustment

State Street applies both “ex-ante” and “ex-post” adjustments to its award process for EUIS.

Ex-Ante Risk Adjustment

Ex-ante adjustments are guided by the corporate multi-factor risk scorecard, developed by ERM, which is used to measure firm-wide risk performance. The scorecard is overseen by the Management Risk and Capital Committee and the RC and serves as an input into State Street’s corporate incentive compensation pool size and allocation processes. The scorecard framework utilises several different risk inputs and perspectives to assess State Street’s top risks. Risk factors are evaluated using a five-point rating scale that ranges from “significantly above expectations” to “significantly below expectations” for each of the following five categories:

- Actual performance vs. expectations for financial and non-financial risks, such as operational, legal/fiduciary, credit, liquidity, and market risk;
- Capital strength;
- Business Unit risk performance;
- State Street’s regulatory posture; and
- A Management overlay to account for factors not explicitly captured in the risk scorecard.

The corporate risk scorecard creates a mechanism that, in the first instance, adjusts the overall pool of incentive compensation to reflect the inventory of risks taken during the year, and in the second instance, can affect allocations based on appropriate risk-taking behaviour by unit or individual. Moreover, any red flags will automatically trigger a review of the appropriateness of an ex-ante adjustment to the associated individual EUIS. Therefore, State Street ex-ante adjustments would allow adjustments for the pool at group level and can also reduce variable pay at the individual level.

Performance against the scorecard metrics is completed using data sourced from various systems in State Street’s control functions, including ERM, Finance and Treasury, among others. Poor risk performance, including significant or repeated compliance or risk-related violations of State Street’s policies, may result in ex ante adjustments to an individual’s incentive compensation as part of a progressive discipline structure to hold individual employees accountable for risk performance.

Ex-Post Risk Adjustment

State Street includes malus-based forfeiture and clawback provisions in the deferred award agreements of all UK EUIS. The malus-based forfeiture provision includes a statement of intention to comply with and meet the requirements of applicable banking regulations and guidance on incentive compensation, including both that of the Board of Governors of the United States Federal Reserve System and the PRA/FCA in the UK. It provides specifically that the ECC may reduce or cancel any deferred award to the extent required to do so under any such applicable rules. In this way, the forfeiture provision permits consideration by the corporate Malus Committee of any criteria, to the extent required by applicable law to be considered in an investigation and forfeiture decision.

Malus-based forfeiture review will be triggered by the occurrence of a material loss, the establishment of a reserve for a material loss, or the investigation of facts or circumstances, which, if determined adversely to

State Street or a material business unit of State Street, could reasonably be expected to result in a material loss or reserve.

In addition, State Street has for several years included in its deferred award agreements for all employees, a contractual provision requiring any unvested deferred awards to be forfeited in the case of termination on account of gross misconduct. Gross misconduct is determined in State Street's discretion and includes conduct that gives rise to a significant risk management failure in respect of State Street or a material business unit. This could include placing State Street at legal or financial risk.

State Street also includes a clawback provision in its incentive compensation awards to UK EUIS for a period of seven years from the date of grant. One hundred per cent of Deferred Awards are subject to malus performance adjustments and one hundred per cent of all variable pay is subject to clawback.

Anti-Circumvention and Avoiding Conflicts of Interest

All State Street staff are required to certify to the Standard of Conduct which prohibits them from short selling, hedging, purchasing or selling futures and options in State Street stock. In addition, EUIS are explicitly also prohibited from using personal hedging strategies or liability-related contracts of insurance to undermine the risk alignment effects embedded in their remuneration arrangements. State Street's Ethics Office team oversees and administers personal investment policies in several areas of State Street's business conducting particular regulated business activities or where employees have access to pre-trade information.

The policies contain different requirements, tailored to the specific risk within each business area. For example, all purchases and sales of State Street stock outside of the IC schemes require prior clearance for certain employees. For these employees, broker statements are submitted which are reconciled to the employee records to ensure all trades have been submitted. There are also blackout periods for relevant staff which are implemented and monitored to ensure that no relevant employees trade State Street stock during such periods. Any violations are escalated to the ECC for consideration and action to be taken.

To avoid conflicts of interest for State Street's control functions, each control function has a reporting line that is independent from the business units they support. 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 that individual control function employees support. The IC payable to senior risk and compliance officers in the UK is considered and approved by the UK RemCo.

State Street has implemented a process pursuant to which a committee of the Board 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 Risk Committee conducted these reviews with respect to our Chief Risk Officer and our ERM 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.

5.9. Quantitative Information[4]

Remuneration by Business Area (BIPRU 11.5.18R - 6)

	Asset management	Investment Banking	Independent Control Functions	Global Services and Corporate Functions	All UK EUIS
Total Remuneration of UK EUIS (£'000)	19,970	14,336	9,785	30,671	74,762

Fixed and Variable Remuneration (BIPRU 11.5.18R – 7a)

"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 firm indicating the amounts of remuneration for the financial year, split into fixed and variable remuneration, and the number of beneficiaries."

	Asset management	Other UK EUIS	All UK EUIS
Number of UK EUIS	37	140	177
Total Fixed Remuneration (£'000)	15,688	31,753	47,441
Total Variable Remuneration (£ '000)	6,982	20,339	27,321

[4] Provided on the basis of all UK EUIS

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