

# **State Street Global Advisors Limited**

## **Pillar 3 Disclosure Statement**

**As of 31 December 2019**

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1	Objective	4
2	General Information	4
	2.1 Company Structure	4
	2.2 Business Profile	5
3	Governance and Risk Management Framework	6
	3.1 Governance Framework	6
	3.2 Risk Management Framework (“RMF”)	7
	3.2.1 Risk Culture	8
	3.2.2 Risk Taxonomy	8
	3.2.3 Risk Appetite Statement (“RAS”)	8
	3.2.4 Risk Programme	9
	3.3 Material Risks	10
	3.3.1 Operational Risk	10
	3.3.2 Credit Risk	11
	3.3.3 Market Risk	12
	3.3.4 Pension Obligation Risk	12
	3.3.5 Business Risk	13
	3.3.6 Concentration Risk	13
	3.3.7 Interest Rate Risk	13
	3.3.8 Liquidity Risk	14
	3.3.9 Group Risk	14
	3.3.10 Technology and Resiliency Risk	14
4	Capital	15
	4.1 Capital Structure	15
	4.2 Capital Adequacy Policy	15
	4.3 Capital Resource Requirement	16
	4.4 Compliance with Pillar 2	16
5	Remuneration Practices and Policies	16
	BIPRU 11.5.18 (1)	16
	5.1 Remuneration Governance	16
	5.1.1 SSGAL Remuneration Governance	17
	5.2 EU Identified Staff	18
	5.2.1 Governance	18
	5.2.2 Process	18
	5.3 Information on the link between pay and performance - BIPRU 11.5.18 (2)	19
	5.3.1 Elements of Remuneration	19
	5.3.2 Link between pay and performance for the institution	20
	5.3.3 Link between pay and performance for business units	21
	5.3.4 Link between pay and performance for individuals	21
	5.3.5 Performance Management System	21

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5.4 Characteristics of the remuneration system BIPRU 11.5.18 (3)	22
5.4.1 Structure of variable remuneration awards under State Street's corporate design	22
5.4.2 Structure of IC awards for UK EUIS	23
5.4.3 Other elements of variable pay	24
5.4.4 Risk Adjustment	25
5.4.5 Anti-circumvention and Avoiding Conflicts of Interest	26
5.5 Quantitative Information	27
5.5.1 Remuneration by business area BIPRU 11.5.18 (6)	27
5.5.2 Fixed and Variable Remuneration BIPRU 11.5.18 (7a)	27

## 1 Objective

This disclosure statement (the “Statement”) has been prepared by State Street Global Advisors Limited (“SSGAL”), London, United Kingdom, also referred to as (the “Company”) to provide quantitative and qualitative information on the capital adequacy, risk management framework and remuneration practices of the Company. This Statement fulfils the regulatory disclosure requirements set out by the Financial Conduct Authority (“FCA”) in the Prudential Sourcebook for Banks, Building Societies and Investment Firms (“BIPRU”).

SSGAL is regulated by the FCA that enforces the capital adequacy framework consisting of three pillars in the United Kingdom.

- Pillar 1: defines the rules and regulations for calculating risk-weighted assets and regulatory minimum capital requirements. SSGAL is a €50k BIPRU firm and its Pillar 1 capital requirement is the higher of sum of credit and market risk or fixed overhead requirement (“FOR”);
- 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 by the FCA; 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.

Unless otherwise stated all information in this Statement is based at 31 December 2019 and includes relevant regulatory disclosures for SSGAL in accordance with the rules set out in chapter 11 of BIPRU. Certain information has been omitted from the Statement if, in the opinion of the management of SSGAL, such information is of proprietary nature, price-sensitive, may intrude the privacy of the company’s clients or would not change or influence the assessment or decision of market participants or other users of the Statement.

The document is updated and published annually. It will, however, be published more frequently if there are significant changes to the business such as changes to the scale of operations, range of activities and presence in different countries or financial sectors.

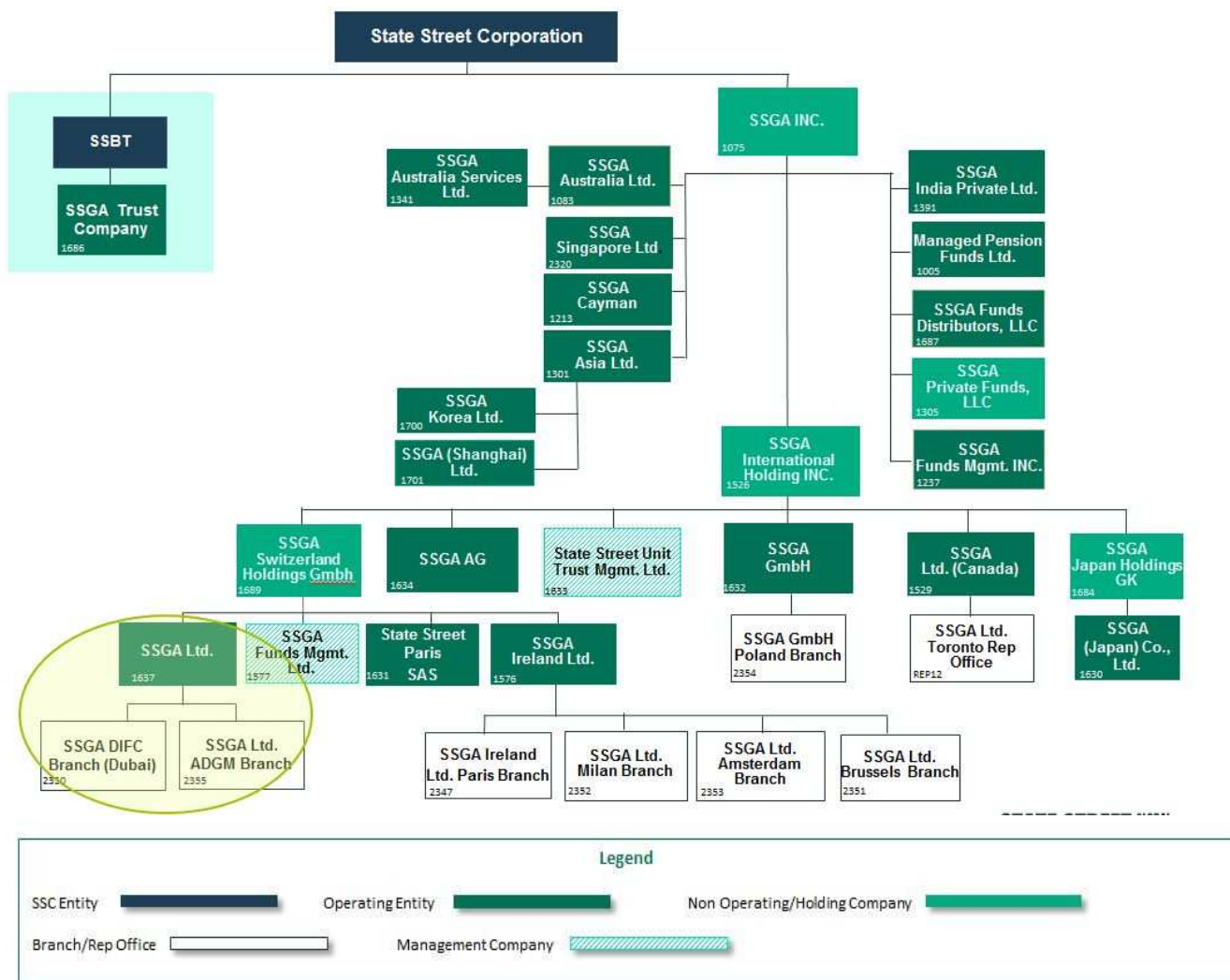
This document has been reviewed internally and approved by the Board of SSGAL for publication on the State Street website [www.statestreet.com](http://www.statestreet.com). Copies of the statement are available at company’s main office located at 20 Churchill Place, Canary Wharf, London E14 5HJ.

## 2 General Information

### 2.1 Company Structure

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

The legal entity structure of SSGAL and its branches in relation to the hierarchy of the SSC organisation as at June 2020 is as follows. The branches of SSGAL provide client and marketing services. The activities of the European branches (Amsterdam, Brussels, and Milan) were moved from SSGAL to State Street Global Advisors Ireland Limited (“SSGAIL”) in February 2019 and SSGAL Dubai branch ceased regulated activity in May 2020.



## 2.2 Business Profile

SSGAL is a large and diverse UK asset manager. The Company provides investment management and advisory services across a wide range of index and actively managed investment strategies to clients that includes defined benefit and defined contribution pension funds, insurance companies, central banks, official institutions, foundations, charities, family offices and intermediaries. The Company also 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. The sales and distribution branches in the United Arab Emirates offer the Company wider distribution capabilities.

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. 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 direct contribution pension sector.

The client base has a diverse international spread albeit there is a concentration in UK-domiciled clients with the remainder spread globally across Middle East, Africa, North America and Asia. As at 31 December 2019, the split of assets managed was approximately 62% equity, 13% fixed income, 14% in cash and currency,

10% 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.

In response to the outcome of the EU referendum held by the UK on 23 June 2016, and in order to enhance SSGA's ability to service clients across Europe the Company transferred the activity of its sales and distribution branches in Amsterdam, Brussels and Milan to its Irish affiliated Markets in Financial Instruments Directive ("MIFID") entity, SSGAIL, which was completed in February 2019.

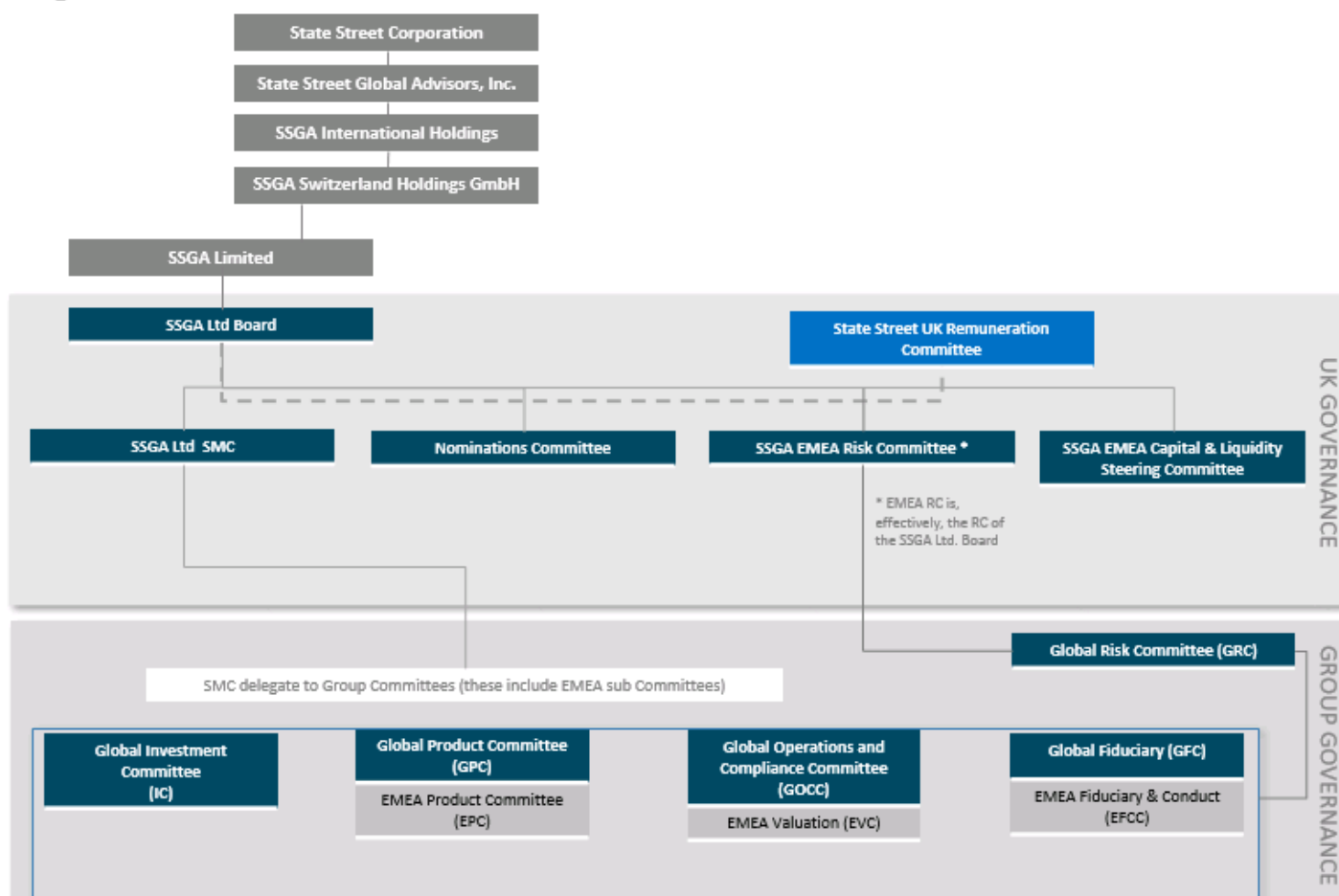
SSGAL, in common with the wider UK asset management industry, has been impacted by the worldwide coronavirus (COVID-19) outbreak which has generated a material effect on the global economic environment. The situation has continued to evolve rapidly, and it is difficult to fully determine its future impact. In April 2020, the FTSE All-World Index had fallen by more than 15% since the start of 2020 which impacted the Company's assets under management and income, but the Company continued to hold sufficient capital and liquid resources to meet its regulatory and operational needs.

### 3 Governance and Risk Management Framework

#### 3.1 Governance Framework

The following diagram sets out the governance structure of SSGAL, as it fits into the wider SSGA EMEA governance model as at 2020:

**Diagram of SSGA Ltd Committee Structures**



SSGAL’s governance structure is designed to support effective decision making and enhance management oversight practices. The SSGAL Senior Management Committee (“SMC”) oversees the activities of the SSGA UK businesses, which includes oversight of the business activities of SSGAL. The SSGAL SMC and SSGAL are also supported by SSGA’s broader committee/governance structure, which includes committees focused on fiduciary and conduct, risk, new products, valuations and investments matters. Significant matters are also escalated to relevant functional heads and to senior governing bodies as needed.

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

<b>Governance</b>		
<ul style="list-style-type: none"> <li>• Strong Board and Management oversight</li> <li>• Sets “tone from the top” and establishes Corporate risk appetite and strategy</li> </ul>		
<b>First Line of Defence</b>	<b>Second Line of Defence</b>	<b>Third Line of Defence</b>
<p><b>Who (examples)</b></p> <ul style="list-style-type: none"> <li>• Businesses: e.g., SSGA</li> <li>• Functions: e.g., Operations, IT</li> </ul> <p><b>Overall responsibilities</b></p> <ul style="list-style-type: none"> <li>• <b>Accountable</b> for appropriately identifying, assessing, managing, and reporting on risks relevant to achieving business and corporate objectives</li> <li>• <b>Accountable</b> for designing, documenting, implementing, and monitoring effectiveness of internal controls</li> <li>• <b>Self-identify</b> and report internal control deficiencies, analyze their root causes, implement timely corrective actions, and continuously monitor risk</li> </ul>	<p><b>Who (examples)</b></p> <ul style="list-style-type: none"> <li>• Enterprise Risk Management (ERM)</li> <li>• Corporate Compliance</li> </ul> <p><b>Overall responsibilities</b></p> <ul style="list-style-type: none"> <li>• Identify and maintain inventory of material risks</li> <li>• Establish (with approval of Board) risk appetite framework for major risks</li> <li>• Develop policies, limits, and risk standards for containing risks within risk appetite boundaries</li> <li>• Monitor and report on risk taking and exposures relative to policies, limits, guidelines</li> <li>• Independently assess and advise First Line of Defence functions in their risk management responsibilities</li> <li>• Design and lead the governance framework for risk monitoring and decision-making</li> </ul>	<p><b>Who</b></p> <ul style="list-style-type: none"> <li>• Corporate Audit</li> </ul> <p><b>Overall responsibilities</b></p> <ul style="list-style-type: none"> <li>• Maintain independence and objectivity in providing assurance relative to the effectiveness of first and Second Line of Defence functions</li> <li>• Identify and communicate to the E&amp;A Committee instances where the First and Second Lines of Defence are not adhering to established risk management practices and identify improvement opportunities</li> <li>• Provide opinion on the overall effectiveness of risk management practices</li> </ul>
<b>Culture</b>		
<ul style="list-style-type: none"> <li>• Best in class <b>culture</b> that incorporates risk management and controls thinking into business decision making and overall “DNA” for all Lines of Defence</li> </ul>		

### 3.2 Risk Management Framework (“RMF”)

The RMF enables the identifying, managing, assessing, mitigating, monitoring and reporting of risks in compliance with applicable regulatory requirements and internal guidelines. In addition to general oversight, the risk governance process ensures all staff perform 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 corporate Risk Appetite Statement (“RAS”) and where relevant, it has been adapted to the specific needs and requirements of the legal entity, including compliance with its own risk policies as well as all applicable SSC corporate risk policies and guidelines.

The key purpose of the RMF is to ensure that the Company’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 using the risk taxonomy;
- **Well understood:** Once the risks are identified, their nature needs to be understood in terms of underlying causes and how individual risks manifest themselves. The ability to measure risks in terms of likelihood and impact is a key part of being able to monitor the risk profile; and
- **Prudently managed:** Ultimately, the Company works to ensure that risk-taking falls within the Board-approved appetite and conforms to applicable policies, limits and guidelines.

### 3.2.1 Risk Culture

The culture of State Street is the foundation for the RMF, focusing on putting risk at the forefront of how all State Street entities do business by embedding risk management into day-to-day decision making. This means effectively managing risk and control environments, complying with risk and regulatory requirements, and demonstrating ethical behaviour with 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 a risk excellence culture.

There are a number of group corporate initiatives embedded which support the risk culture, whilst also reinforcing State Street 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.

The SSC taxonomy has been adapted for use at the Company’s 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:



### 3.2.3 Risk Appetite Statement (“RAS”)

The RAS, together with the accompanying risk limits and capital adequacy goals, is an integral part of the Group’s RMF and describes the level and types of risk that the Company is willing to accommodate in executing its business strategy. The RAS enables the monitoring of each risk through quantitative limits and qualitative requirements, as well as setting out the process for risk escalation. For certain risks, Company-specific metrics and thresholds are established. Other risks may be managed through the global business lines by SSC. Thus, it is accepted that certain risks should be managed with the assistance of global functions and the Company’s senior management should be cognisant of the appetite for these risks and maintain awareness of the exposures to them.



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Formulation of the risk appetite takes into account risk capacity, capital and financial position, core earnings strength and the integrity of the State Street reputation and brand. SSGAL's risk appetite is cascaded from the corporate risk appetite.

Given the dynamic nature of the environment in which the SSGAL operates, these limits and capital adequacy goals may be modified or supplemented as appropriate subject to review and approval by the SSGAL Board, upon recommendation by the SSGA EMEA Risk Committee ("ERC").

The objectives of the RAS are to:

- Establish transparency on the types and amount of risk the business is willing to take in executing its objectives;
- Serve as an early warning mechanism allowing managers to take proactive action to manage and mitigate risk;
- Ensure that risks are considered and integrated both in strategic planning and in the day-today management of the business;
- Serve as a guide in establishing the risk-taking parameters and setting risk limits;
- Establish the quantitative limits and qualitative parameters to measure and monitor risk taking;
- Define responsibilities for measuring and monitoring risk against thresholds; and
- Define responsibilities for reporting, escalating, approving and addressing exceptions.

#### **Risk Appetite Execution:**

The Business Plan is constructed from the most recent financial actuals, adjusted for known and anticipated events. This baseline view ensures that the Business Plan reflects the ongoing risk appetite accepted by the business as articulated in the RAS as it relates to strategic risks to the Company. Risks are assessed through the material risk identification ("MRI") exercise. The execution of RAS is translated into reports and dashboards. Risks are mainly monitored through appetite metrics, Key Risk Indicators ("KRI") and Event & Loss management processes, which enable the production of timely risk reports and data which is subsequently presented to relevant committees for review, challenge and, where necessary, remediation and escalation.

Additional support functions (Human Resources, Legal, Finance, Audit, Information Technology, and Compliance) enrich the risk appetite process by providing insight, data and challenge.

Risk appetite statements, metrics, thresholds and limits are reviewed annually or more frequently in event of new product or material changes in the underlying business environment.

#### **3.2.4 Risk Programme**

The following processes or programs enable to capture and assess risks within the Company. They also enable the company to evaluate and test the effectiveness of the controls that are in place to manage and mitigate those risks.

##### **Risk Identification**

Risk identification is the foundation of SSGAL's risk management framework, playing an important role in establishing a strong risk culture. Its purpose is to consider the full scale and scope of exposures and assess materiality of all relevant risks. Risk identification also enables analysis of how business activities may evolve as economic and market conditions change, so as to continue to accommodate the identified risks and ensure they remain within appetite. The risk identification process is completed on an annual basis or more frequently where necessary.

##### **Integrated Non-Financial Risk Assessment Standard ("INFRA")**

The INFRA establishes a common methodology and process for the identification, assessment and measurement of non-financial risks. Relevant stakeholders in first and second line of defence actively participate in annual workshop-based sessions in order to form a comprehensive view of the relevant risks.

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The INFRA results are used to appropriately direct risk monitoring programmes, enabling a co-ordinated approach to management of non-financial risks. These results also inform the capital adequacy programmes, as well as the risk identification process.

### **Internal Loss Management**

The collection of internal operational loss data is a key component of a sound operational risk programme and provides important information to support the effective management and measurement of operational risk. Collection and analysis of internal operational loss data is used to:

- Provide a current and historical indication of the operational loss experience of SSGAL, and where appropriate global SSGA and State Street-wide;
- Identify risk, for instance, processes or areas where control enhancement is required;
- Support risk processes such as Risk Identification, INFRA and scenario analysis; and
- Support estimation of SSGAL's Operational Risk capital requirement.

### **External Loss Management**

External operational risk events provide information on control breakdowns and lessons learnt from large risk events occurring within the financial services industry. External operational risk data can provide essential content for a variety of purposes, including:

- Indication of the operational loss experience of peers, local UK and global SSGA;
- Self-Assessment programmes and control benchmarking exercises;
- Educational efforts;
- Lessons-learnt dialogues and management discussions;
- Scenario generation; and
- Risk measurement.

### **New Business and Product Review and Approval (“NBPRA”)**

All potential new business lines are reviewed through the State Street NBPRA process which ensures a full assessment is made for all new business lines and that the proposed control framework is fully documented. Risk, capital and liquidity assessments form part of this process. As required, the EMEA Product Committee (“EPC”) coordinates with the NBPRA team to determine the extent to which new products are approved. The EPC is responsible for the oversight of the product development and management processes across all SSGA business units in EMEA and for ensuring compliance with the SSGA New Product Approval Policy.

The role of EPC includes an evaluation of the risks inherent in new business and product proposals to the sponsoring business unit, other relevant business units and SSC. This includes a risk assessment of new products, including impact on the risk profile of the Company. As part of this process, EPC is challenged as to whether the new product will have any capital implications. If a material adjustment is required, an interim internal capital assessment is triggered, which will require re-approval by the Board.

## **3.3 Material Risks**

### **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 subsets 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 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 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.

SSGAL's credit risk arises from exposure to institutions and corporates from the period fees become accrued to the period it is paid. In addition, SSGAL bears credit risk on balances held with banks.

To mitigate the exposure to credit risk, SSGAL invested monies placed with external counterparties in a SSGA Money Market Fund in order to spread out the company's concentration risk. The Company also actively monitors outstanding fees and other debts in order to keep them at a minimum. The RAS metrics specify all receivables which are outstanding for greater than ninety days providing the Board with an early insight into the Company's credit risk exposure and an approach to managing credit risk which is consistent with UK market practice.

The Company has adopted standardised approach to calculate its credit risk requirement, which is 8% of the total risk-weighted exposure amounts of the Company.

The credit risk requirement as at 31 December 2019 was £6,735k. The following tables detail SSGAL's regulatory credit risk exposure as at 31 December 2019.

- Geographic distribution by exposure classes
- Maturity breakdown by exposure classes
- Past due exposures

#### Credit exposure by geographical distribution and exposure class

Exposure Class (in £'000)	UK exposure	Non-UK exposure	Total exposure	Risk weighted assets	Credit Risk
Central Governments and Central Banks	3,352	3,370	6,722	3,121	250
Regional governments or local authorities	637	-	637	127	10
Multilateral Development Bank	313	41	355	-	-
Institution	189,312	17,831	207,143	46,768	3,741
Corporate	9,755	16,593	26,349	26,349	2,108
Past Due	1,824	305	2,130	3,195	256
Other	4,628	-	4,628	4,628	370
<b>Total</b>	<b>209,821</b>	<b>38,141</b>	<b>247,963</b>	<b>84,189</b>	<b>6,735</b>

**Credit exposure by maturity profile:**

Exposure Class (in £'000)	<3 months exposure	> 3 months exposure	Total exposure	<3 months credit risk	>3 months credit risk
Central Governments and Central Banks	6,722	-	6,722	250	-
Regional governments or local authorities	637	-	637	10	-
Multilateral Development Bank	355	-	355	-	-
Institution	200,468	6,675	207,143	3,207	534
Corporate	26,349	-	26,349	2,108	-
Past Due	-	2,130	2,130	-	256
Other	1,531	3,098	4,628	122	248
<b>Total</b>	<b>236,060</b>	<b>11,902</b>	<b>247,963</b>	<b>5,698</b>	<b>1,037</b>

**Past Due exposures:**

Exposure Class (in £'000)	UK exposure	Non-UK exposure	Total exposure	Risk weighted assets	Credit Risk
Central Governments and Central Banks	-	22	22	33	3
Multilateral Development Bank	330	20	350	525	42
Corporate	1,494	264	1,758	2,637	211
<b>Total</b>	<b>1,824</b>	<b>305</b>	<b>2,130</b>	<b>3,195</b>	<b>256</b>

**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 have trading book positions or positions in commodities. However, it has foreign exchange rate risk from non-GBP fee accruals until the date of settlement and non-GBP bank balances held to support the branches located in United Arab Emirates.

The Company follows the rules set out in BIPRU 7.5 to calculate the foreign currency position risk requirements, which are 8% of the sum of the absolutes of all open currency positions. The market risk capital requirement was £347k as at 31 December 2019.

The market risk from non-GBP balances is managed through the limits set out in the risk appetite statement and frequent sweep of foreign currency balances to reduce the exposure to foreign exchange fluctuations.

**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 operated by the State Street UK Group of companies and sponsored by State Street Bank and Trust Company.

SSGAL has the potential risk of having to make unplanned contributions to the scheme in the future as a result of the scheme's funding position worsening. However, the risk is mitigated because the scheme is closed to new members, the scheme is closed to future accrual of benefits and the scheme has moved to an investment policy of matching its liabilities more closely. The scheme was fully funded, per accounting basis, as at 31 December 2019.

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Pension Obligation risk is quantified by an external actuarial company every three years and is conservatively maintained during the internal assessment of capital requirements.

### 3.3.5 Business Risk

GENPRU 1.2.31R (4) defines business risk 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.

Business risk is managed by early identification of potential business exposures and related implementation of risk mitigation measures, through monthly monitoring. The identification and remedial action plan are facilitated by the NBPRA process through the EPC, which provides a dialogue platform for the various stakeholders. Information about the client wins and losses during the month, and relationships viewed as "at risk" are provided to the Board on at least a quarterly basis. Additionally, metrics specified in the RAS, including assessment of actual losses, qualitative assessments by control and support functions, actual revenue and expenses as a percentage of budget revenue and expenses respectively, allow monitoring of the risk to ensure it is within appetite, or taking of appropriate action where necessary.

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 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; the application of credit risk mitigation techniques; and risks associated with large indirect credit exposures, such as a single collateral issuer.

Given the size, scale and scope of SSGAL's business lines, it is unlikely to experience concentration to a single customer or client type. Diversification across businesses, geographical sectors, and risk types is an important consideration in managing risk and reducing earnings volatility. SSGAL also strives to avoid undue exposure and risk concentration 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. The risk from concentration of deposits with financial institutions is managed by monitoring the percentage of aggregate cash balances held with a single counterparty and considering how this relates to the risk appetite of the Company. To mitigate its exposure to credit risk, SSGAL invested a significant portion of its regulatory capital in SSGA Money Market GBP Fund. The transition of monies placed with external counterparties to the MMF occurred between 2019 and 2020 in an effort to spread out the company's concentration risk, reduce its exposure to counterparty and group risks, while continuing to maintain liquid resources.

### 3.3.7 Interest Rate Risk

Interest-rate risk is defined as the risk that changes in interest rates can negatively impact company's profitability, capital adequacy and the economic value of assets and liabilities.

Interest rate risk is not deemed material for SSGAL due to the insignificance of exposures in the balance sheet that are interest rate sensitive. 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 and is not materially affected by the movements 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 Liquidity Risk Management Framework ("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 Company 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

GENPRU 1.2.32R (6) defines Group risk as 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.

SSGAL has significant group risk as a result of its heavy reliance on intra-group operational support services such as investment operations, information technology and corporate functions. In financial terms, the group risk is 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 2019, 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.

SSGAL has credit risk and transfer pricing policies as well as an outsourcing framework in place to help monitor and mitigate group risk. In addition, group risk is monitored as a quantitative metric as part of the RAS measuring poor performance or adverse impact from a reputational event emanating from other entities within the SSGA group, such that it results in a net group operating loss; the metric reports net loss allocation as a percentage of capital.

Outsourcing and Group risk types are monitored through risk appetite metrics in quarterly reporting to the Board. The specific metrics include measures covering service level agreements breaches and compliance issues as well as credit ratings.

### 3.3.10 Technology and Resiliency Risk

Technology and resiliency risk is defined as the risk that the Company's computer, communications, data processing, networks, backup, business continuity or other operating, information or technology systems and facilities fail to operate properly, thus adversely affecting SSGAL's ability to process transactions, provide services or maintain systems availability.

Technology risk is a natural consequence of any business. SSGAL is heavily reliant on effective systems to operate within its regulatory and contractual obligations, meet its strategic and operational objectives, as well as providing clients with a high quality of service.

Technology risk is managed by the establishment of IT policies, controls and operating procedures, as well as implementing governance, monitoring and assurance functions. The Company seeks to reduce this risk to the minimum possible, whilst balancing this with its business objectives.

The Board has a low appetite for disruptions caused by technology issues; additionally, through its cyber security program, SSGAL seeks to protect clients, staff and assets from the full range of global cyber threats.

Technology and resiliency risk are monitored via a qualitative assessment undertaken by the EMEA Infrastructure Committee which cover business disruption and technology resiliency; cyber and information security; and third party and vendor management risk. Furthermore, technology key risk indicators cover IT availability and material business continuity or disaster recovery events.

## 4 Capital

### 4.1 Capital Structure

The total capital resources, also known as Own Funds, held by the Company as at 31 December 2019 consists of Tier 1 capital. This is the highest form of capital and consists of share capital, retained profit and other relevant qualifying reserves. There is no tier 2 capital within the Company.

Total Eligible Capital as at 31 <sup>st</sup> December 2019		Amount in £'000
Paid up share capital (ordinary shares of £1 each)	(A)	62,350
Add: Audited reserves	(B)	157,016
Total capital before deductions	(A+B)	219,366
Less: Intangible assets	(C)	13,511
Total capital resources after deductions	(A+B-C)	<b>205,855</b>

### 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 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 ensure that the UK-incorporated entities maintain capital in excess of the levels required to meet their regulatory mandates.

### 4.3 Capital Resource Requirement

SSGAL is a BIPRU Firm regulated by the FCA. The Company's Pillar 1 capital requirements are the higher of base capital requirement of €50,000 or sum of its credit and market risks requirements or fixed overhead requirement. The capital requirements of SSGAL as at 31 December 2019 are highlighted below:

Total Capital Requirement as at 31 <sup>st</sup> December 2019		Amount in £'000
Base capital requirement of BIPRU firm (A)		42
Credit risk capital requirement (B)		6,735
Market risk capital requirement (C)		347
Fixed overhead requirement (D)		27,011
Total capital requirement	Max {(A), (B+C), (D)}	<b>27,011</b>

### 4.4 Compliance with Pillar 2

In accordance with Pillar 2 requirements set out by the FCA, SSGAL has undertaken an internal capital adequacy and assessment process based on all material risks to which the company is exposed. The company has 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 company's material risks and relates primarily to the company's exposure to operational, business and pension obligation risk.

## 5 Remuneration Practices and Policies

### BIPRU 11.5.18 (1)

*"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"*

### 5.1 Remuneration Governance

At the State Street Group level, the Executive Compensation Committee ("ECC") of SSC has oversight of all compensation and benefits programmes 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 2019, there were five (5) members of the ECC<sup>1</sup>. During 2019, the ECC held eight (8) meetings.

The ECC oversees all of State Street's compensation plans, policies, and programmes in which senior executives participate and incentive, retirement, welfare and equity plans in which senior executives and certain other employees of SSC participate. It also oversees the alignment of the incentive compensation

<sup>1</sup> The ECC only had 3 members from 1 January 2019 to 20 May 2019



("IC") arrangements with State Street's financial safety and soundness consistent with applicable related regulatory rules and guidance.

Members of the ECC regularly communicate with the Board's Risk Committee ("RC") and its Examining and Audit Committee ("EAC") to integrate input from these other committees into remuneration decisions. The ECC's Chairman is also a member of the EAC. The ECC also reviews the recommendations of other committees of the Board with respect to the remuneration of control function heads. 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 IC arrangements throughout the State Street Group. This review and assessments are intended to promote the consistency of the IC 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 that the integrated, systemic role control functions have in IC 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 the 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 ("UK RemCo") which held four (4) meetings in 2019. It is comprised of three State Street Executive Vice Presidents ("EVPs") appointed by the ECC who do not perform an executive role in relation to the UK businesses under the remit of the UK RemCo. 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 EU Identified Staff ("EUIS")<sup>2</sup>;
- Oversight of decisions made by those with authority to determine the remuneration of UK EUIS; 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.

### 5.1.1 SSGAL Remuneration Governance

In light of the global nature of State Street's organisation, State Street's remuneration plans and programmes 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 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 programmes that

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<sup>2</sup> EUIS is the State Street internal nomenclature for Material Risk Takers pursuant to Commission Delegated Regulation (EU) No 604/2014

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 (i.e., EUIS and FRB Material Risk Takers)<sup>3</sup>. State Street annually reviews the variable pay arrangements used to compensate these employees and annually reviews the effectiveness of the design and operation of State Street's IC system in providing risk-taking incentives that are consistent with the organisation's safety and soundness.

### 5.2.1 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 2019, State Street's senior stakeholders in EMEA functions represented were Total Rewards/HR (Chair), ERM, Compliance and Legal
- the EUIS Working Group evaluates new EUIS positions to be implemented due to regulatory feedback, external advice and ongoing internal governance restructuring. In 2019, State Street's EMEA functions represented were Total Rewards/HR (Chair), ERM, Compliance and Legal

### 5.2.2 Process

#### Qualitative EUIS Identification

In line with Commission Delegated Regulation (EU) No 604/2014 ("the RTS"), a detailed review process is performed for each individual, considering their role, responsibilities, independent authority and potential ability to impact SSGAL's main risks. In 2019, State Street introduced a set of internal criteria for the identification of EUIS beyond those specifically set out in the RTS.

Recognising that individuals may be EUIS without meeting the qualitative criterion specified by the RTS, or State Street's internal criteria, State Street applies a broad interpretation when identifying individuals who may potentially be EUIS. It may identify individuals as EUIS given their material impact on the risk profile although their role does not fulfil any specified criteria.

#### Quantitative 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) of the RTS will become EUIS. For those under Article 4(1)(c) of the RTS, some of these individuals are reviewed as part of the qualitative review process. 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) of the RTS, with verification and input from the relevant business head and ERM where appropriate. The role and responsibilities of each individual are carefully reviewed based on seniority and risk impact. Also, the organisational structure and control framework are specifically considered.

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<sup>3</sup> FRB Material Risk Takers are individuals who have been identified pursuant to the guidance of the Board of Governors of the United States Federal Reserve System

## 5.3 Information on the link between pay and performance - BIPRU 11.5.18 (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:

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

### 5.3.1 Elements of Remuneration

#### Fixed Pay

##### 5.3.1.1 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 grades in a market, although sometimes benefits may vary by job grade or other factors based on prevailing market practices or applicable regulations.

##### 5.3.1.2 Role Base Allowance ("RBA")

RBAs are contractual elements 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
- 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

##### 5.3.1.3 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.

#### 5.3.1.4 Incentive Compensation Plan (“IC plan”)

The IC plan is an integral part of the remuneration strategy. It 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. To be eligible to receive an award, employees must be employed and in good standing on the date of the total funded IC plan pool results are certified.

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 as set out below:

- *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 Plan:* 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;
  - 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
  - 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 at the UK RemCo’s discretion.

For the 2019 performance year, Performance-Based Restricted Stock Units (“PRSUs”) were also granted to EMEA EVPs. The number of PRSUs earned is based on financial metrics with risk adjustment factored into the calculation of PRSUs eligible to vest, if any, under the applicable PRSU award. The PRSU payout varies within a range of 0% to 150%.

#### 5.3.1.5 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 ICC. An employee’s eligibility to participate in a SIP and all amounts paid under a SIP are subject to management approval.

### 5.3.2 Link between pay and performance for the institution

First, 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.

### 5.3.3 Link between pay and performance for business units

Second, the Chief Executive Officer 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 2019 Proxy Statement filed with the US Securities Exchange Commission and available publicly on its website.

### 5.3.4 Link between pay and performance for individuals

Third, 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 or a material risk management failure in respect of State Street or a material business unit.

### 5.3.5 Performance Management System

State Street's performance management process 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:

- *Expectation Setting*: the first stage takes place at the beginning of the year as a discussion about Performance Priorities. 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
- *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 Performance Priorities take place as monthly check-ins throughout the year. Check-ins are coaching conversations between the manager and employee about progress towards achieving 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
- *Snapshots*: the third stage is the manager's evaluation of employee performance three times per year using performance assessments called Snapshots. Snapshots enable managers to evaluate employee performance from the following perspectives: Performance Priorities, Performance vs. Peers, Risk Excellence and Leadership Qualities

- *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.

## 5.4 Characteristics of the remuneration system BIPRU 11.5.18 (3)

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

### 5.4.1 Structure of variable remuneration awards under State Street’s corporate design

For the 2019 performance year (paid in the first quarter of 2020), IC awards under State Street’s corporate design consisted of Deferred Awards<sup>4</sup> 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 DSAs. DSAs are a contractual right to receive, on each vesting date, a set number of shares in the common stock of SSC, 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 Awards, State Street also uses non-equity deferral vehicles, called the SSGA Long-Term Incentive Plan (“SSGA LTIP”) for those in the SSGA business. SSGA employees with titles Vice President or higher may choose from among three notional investment options under the SSGA LTIP, including a money market option.

For most active investment teams, the SSGA LTIP 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 LTIP 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 LTIPs 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 Awards is based on total value of an individual’s 2019 IC. In general, the greater the amount of IC, the greater the percentage that is paid as Deferred Awards. The Deferred Award is typically composed of equal percentages of SSGA LTIPs/DVAs and DSAs, resulting in employees at higher variable pay levels being awarded a higher

<sup>4</sup> Deferred Stock Awards, SSGA Long-Term Incentive Plan and Deferred Value Awards

percentage of equity, given their higher deferral percentage. However, employees at Associate level typically receive IC entirely in immediate cash.

For the 2019 IC, the following allocation regime has been used:

#### Allocation of cash and Deferred Awards

IC Min	IC Max	2019 Standard Design	
		Cash	Deferred
\$0	\$52,000	100%	0%
\$52,000.01	\$75,000	75%	25%
\$75,000.01	\$100,000	75%	25%
\$100,000.01	\$120,000	60%	40%
\$120,000.01	\$150,000	60%	40%
\$150,000.01	\$200,000	50%	50%
\$200,000.01	\$250,000	45%	55%
\$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%

#### 5.4.2 Structure of IC awards for UK EUIS

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. 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**

EUIS receive a Deferred Award, which is delivered partly in DSAs and partly in SSGA LTIPs/DVAs. Award distribution for EUIS is set out below:

- 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/FCA Senior Management Function: 5-year deferral with annual vesting allowed from year 1<sup>5</sup>
- Other UK EUIS: 4-year deferral with annual vesting allowed from year 1
- Retention Period
  - 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

### 5.4.3 Other elements of variable pay

#### 5.4.3.1 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 are only made in the following circumstances:

- It is exceptional;
- It occurs in the context of hiring a new employee;
- The firm has a sound and strong capital base; and
- It is limited to the first year of service

#### 5.4.3.2 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 IC 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 IC 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.

#### 5.4.3.3 Retention awards

Additional variable remuneration may be awarded to retain employees and forms part of the variable remuneration. To ensure compliance with the EBA Guidelines on sound remuneration policies, 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
- award must not be based on performance but on time factors such as where an employee stays in the business for a predetermined period of time or until a certain event
- awards are granted after the retention period/retention event has been achieved
- awards are taken into account within the calculation of the ratio between the variable and fixed remuneration as variable remuneration

EUIS are generally not eligible for retention awards.

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<sup>5</sup> No discount rate is applied to those with deferrals in instruments for a period of at least 5 years



#### 5.4.3.4 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. EUIS are not eligible to participate in recognition award programmes.

#### 5.4.3.5 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.

### 5.4.4 Risk Adjustment

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

#### 5.4.4.1 “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 IC 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
- 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 IC 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 business 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, amongst 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 IC as part of a progressive discipline structure to hold individual employees accountable for risk performance.

#### 5.4.4.2 “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 IC, 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 IC awards to UK EUIS for a period of seven years from the date of grant. One hundred percent of Deferred Awards are subject to malus performance adjustments and one hundred percent of all variable pay is subject to clawback.

#### **5.4.5 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 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 Personal Account Dealing 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 IC recommendations for the heads of the relevant control function, as well as an overview of the performance and compensation for the entire control function. Annually, the RC conducts these reviews with respect to the Chief Risk Officer and ERM Department. This process is designed, amongst 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.

## 5.5 Quantitative Information<sup>6</sup>

### 5.5.1 Remuneration by business area BIPRU 11.5.18 (6)

*“Aggregate quantitative information on remuneration, broken down by business area”*

Amount in £'000	Asset Management	Independent Control Functions	Corporate Functions and All Others <sup>7</sup>	All EUIS
Total Remuneration	19,678	2,830	696	23,204

### 5.5.2 Fixed and Variable Remuneration BIPRU 11.5.18 (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.”*

	Senior Management	Other EUIS	All EUIS
Number of EUIS	7	27	34
Total Fixed Remuneration (£'000)	2,392	9,015	11,407
Total Variable Remuneration (£'000)	1,598	10,199	11,797

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<sup>6</sup> Provided on the basis of UK EUIS (including Non-Executive Directors identified as UK EUIS) for SSGAL Revised in April 2021.

<sup>7</sup> Includes Non-Executive Directors