

State Street Europe Limited

Pillar 3 Disclosure Statement

According to Part 8 Capital
Requirements Regulations

As of 31 December, 2018



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1 Scope of Application

1.1 Basis of Disclosures

This disclosure statement (the “Statement”) has been prepared by State Street Europe Limited Group (“SSEL Group”), London, United Kingdom, also referred to as (the “Company”) within this Statement, to comply with the disclosure requirements of Part 8 of the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms (Capital Requirements Regulation, henceforth the “CRR”) as well as related delegated and implementing acts and EBA Guidelines.

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, market risk and fixed overhead requirements;

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”) 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 Pillar 3 report is based at 31 December 2018. The document is updated and published annually. It will, however, be published more frequently if there are significant changes to the business. It has not been verified independently.

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

Copies of this Statement are available at www.statestreet.com

Additional disclosure requirements regarding the country-by-country reporting as well as the public disclosure of return on assets of SSEL Group (pursuant to IFPRU 9.1.3) are included in the consolidated annual financial statements of SSEL Group for 31 December 2018 which is available at <https://beta.companieshouse.gov.uk/company/03413759/filing-history>

2 General Information

2.1 Company Structure

SSEL is an authorised institution under the United Kingdom Financial Services and Market Act (2000).

SSEL Group no longer offers the transition management and broker dealer services, and ceased carrying out these related activities at the end of 2017. Consequently, the FCA approved two voluntary variations of permission (“VVOPs”) on 30 April 2018 relating to:

- State Street Europe Limited (“**SSEL**”), the contracting entity for transition management; and
- State Street Global Markets International Limited (“**SSGMIL**”), the entity carrying out the related broker-dealer activity.

As a result of the VVOPs, the prudential classification of each entity has changed as follows:

Entity	Former Classification	New Classification
SSEL	Full-Scope IFPRU investment firm	BIPRU firm
SSGMIL	Full-Scope IFPRU investment firm	IFPRU limited licence firm

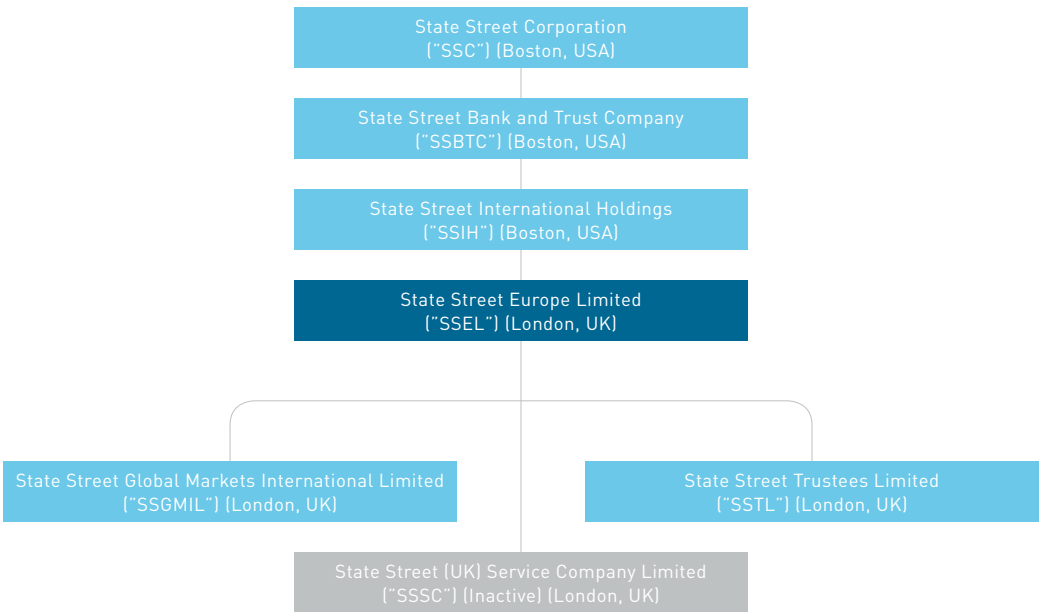
For regulatory capital purposes SSEL Group was re-classified to an IFPRU limited licence firm with three wholly owned subsidiaries:

State Street Global Markets International Ltd. (“SSGMIL”)
 State Street Trustees Ltd. (“SSTL”)
 State Street (UK) Service Co. Ltd. (“SSSC”).

SSEL Group is a wholly owned direct subsidiary of State Street International Holdings (SSIH), Boston, United States of America, the Edge Act subsidiary of State Street Bank and Trust Company (SSBTC), Boston, United States of America, which is wholly owned by State Street Corporation (SSC), Boston, United States of America. The ultimate group parent company SSC is subject to the supervision and regulation of the Board of Governors of the Federal Reserve System (the “Federal Reserve”) and the Federal Deposit Insurance Corporation (FDIC) and SSBTC is subject to the primary supervision and regulation of the Federal Reserve and the Massachusetts Commissioner of Banks.

SSEL Group is subject to regulation by the national competent authority of the United Kingdom (the “UK”) which is the Financial Conduct Authority (“FCA”).

Figure 1:
The SSEL Group Legal
Entity Structure



2.2 Business Profile

State Street Europe Limited (SSEL), London, United Kingdom

SSEL is authorised and regulated by the FCA and is a private company limited by shares under the laws of England and Wales. The Company is the investment holding company of its immediate subsidiaries. The Board of SSEL has oversight of the entity’s investment in its subsidiaries.

SSEL is the contractual party in respect of the provision of currency management. Contracts are executed in SSEL’s name but the related activity is outsourced to SSBTC Boston.

State Street Global Markets International Limited (SSGMIL), London, United Kingdom

SSGMIL is authorised and regulated by the FCA and is a private company limited by shares under the laws of England and Wales. The Company offers electronic trading platform services through the GlobalLink business for Currenex, Fund Connect and two MiFID II compliant multi-lateral trading facilities Currenex MTF and FX Connex MTF. The Company is the contracting party with the clients for the products offered and services are provided by other members of State Street group. The Company is a fully owned subsidiary of SSEL Group.

State Street Trustees Limited (SSTL), London, United Kingdom

SSTL is authorised and regulated by the FCA and is a private company limited by shares under the laws of England and Wales. SSTL acts as the depositary of open-ended investment companies (OEICs) or trustee of authorised unit trusts. In addition, SSTL's FCA permissions include authority to act as trustee or depositary of authorised and unauthorised alternative investment funds (AIFs). SSTL is a fully owned subsidiary of SSEL Group.

State Street (UK) Service Company Limited (SSSC), London, United Kingdom

SSSC was incorporated as of 19th July 2011. SSSC is a fully owned unregulated subsidiary of SSEL Group and is currently dormant.

UK Joint Venture, United Kingdom

In 2009, SSEL entered into a general partnership with SSBTC London Branch, with respect to SSEL Group's operations together with the bulk of SSBTC London Branch's operations. SSEL has a 12.5% interest in the profits and losses of the general partnership. There were no changes to the general partnership during the year. The initial term of the agreement expired in August 2014, after this point either party to the agreement is able to make alterations to the agreement, including terminating the agreement but will be required to provide 6 months' notice prior to implementing any changes. As of 31 December 2018, there has been no notification to amend or terminate this agreement.

2.3 Consolidation

SSEL Group financial statements consolidate the financial statements of the Company and all of its subsidiaries drawn up to 31 December 2018. All companies are fully consolidated for accounting and prudential purposes and held for strategic reasons. The statutory accounts of SSEL Group are based on local UK-GAAP, including FRS 102.

3 Governance and Risk Management Framework

3.1 Structure and Organisation of Risk Management

Board of Directors (the Board)

The Board is responsible for approving SSEL Group's ICAAP, Risk Appetite and the Risk and Compliance Policy, including the business plan and risk strategy of the business. The Board reviews the capital level and ensures that it is in accordance with the stated risk appetite of the business. The Board delegates the responsibility for the design, implementation and monitoring of risk management policies and guidelines to the appropriate stakeholders within the Risk and Compliance functions.

The appropriateness of the knowledge, skillset and expertise of the members of the Board is established via an intense and rigorous membership selection process. Whilst SSEL Group does not have stated policies on the recruitment of its Directors, the appointments are rare enough for each appointment to be considered extensively on a case-by-case basis. In order to be considered for a SSEL Group Director appointment, the candidate must have the required actual knowledge, skills and expertise.

Diversity and its objectives are looked upon favourably in the process. Diversity plays a key role in the selection of the members of the Board and is anchored in a State Street Diversity Policy. The policy addresses no tolerance for discrimination or harassment on the basis of an employee's race, colour, religion, creed, national origin, ancestry, ethnicity, age, disability, genetic information, sex, sexual orientation, gender, gender identity, gender expression, citizenship, marital status, domestic partnership or civil union status, familial status, military and veteran status and other characteristics protected by applicable law. The strategic objectives concerning diversity have been accomplished to a satisfactory degree and their future accomplishment will be monitored.

As of 31 December 2018, the Board of Directors was composed of the following persons:

Name of Director	Directorship	Number of Directorships
D. Arnum	Non-executive Chairman	2
S. Craig	Executive Director	6
C. Moran	Executive Director	1
R. Shah	Chief Executive Officer	1
R. Stansbury	Non-executive Director	6

3.2 The Three Lines of Defence

The Company has adopted the three lines of defence model as defined by the Group:

Primary Responsibilities for each of the Three Lines of Defence		
Governance Strong Board and Management oversight. Sets “tone from the top” and establishes Corporate risk appetite and strategy.		
First Line of Defence	Second Line of Defence	Third Line of Defence
Who (examples) Businesses: e.g., SSGM. Functions: e.g., Operations, IT.	Who (examples) Enterprise Risk Management (ERM). Corporate Compliance.	Who Corporate Audit.
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, analyse their root causes, implement timely corrective actions and continuously monitor risk.	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 and 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.	Overall responsibilities Maintain independence and objectivity in providing assurance relative to the effectiveness of First and Second Lines of Defence functions. Identify and communicate to the E&A Committee instances where the First and Second Lines of Defence are not adhering to established 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.		

3.3 Risk Profile and Strategy

The strategy of the Risk Management Framework (“RMF”) is to identify, manage, assess, mitigate, monitor and report risks in compliance with applicable regulatory requirements and internal guidelines. This risk management strategy is formalised and executed under the RMF.

The RMF is aligned with the SSC corporate RAS (“Risk Appetite Statement”) and where relevant, it has been adapted to the specific needs and requirements of SSEL Group, regulated by the FCA. In this regard, SSEL Group complies with its own risk policies as well as all applicable SSC corporate risk policies and guidelines.

These policies and guidelines assist SSEL Group in the identification of material risks, including potential risks to which it may be exposed and the implementation of strategies and controls to mitigate those risks.

The key purpose of the RMF is to ensure that SSEL Group’s risks are:

- **Proactively identified**
Risks cannot be managed unless they are first identified. A primary responsibility of the RMF is to ensure that the risks are regularly considered and reassessed to maintain a consistent view as to the risk profile of the Group;
- **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 plausibility and impact/severity is a key part of being able to monitor the risk profile; and
- **Prudently managed**
Ultimately, SSEL Group works to ensure that risk-taking falls within the Risk Appetite for SSC, and conforms to the associated SSC and SSEL Group risk policies, limits and guidelines.

3.4 Risk Culture

The culture of SSEL Group is the foundation for the RMF. SSEL Group strives for a risk culture that focuses on putting risk at the forefront of how it does business. It is embedded into the day-to-day decision-making. This means effectively managing risk and control environments, complying with risk and regulatory requirements, and demonstrating ethical behaviour. This is achieved through ensuring a strong tone from the top focused on risk; awareness and education for all individuals to 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.

A number of group corporate initiatives are embedded at SSEL Group and support a “risk culture” to drive and embed the four 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. Further information regarding risk excellence driving a strong risk culture is detailed in the entity’s Risk Appetite Statement.

3.5 Risk Taxonomy

A standard risk taxonomy is used across SSC to provide a framework for consistently identifying risks. The risk taxonomy is based on a “top of mind” risk assessment which captures the key most critical and relevant risks as per the view of senior management. The identification of the “top of mind” risks is led by executives from the business and key control groups. To mitigate bias, the business lines, Enterprise Risk Management (ERM), Compliance and Audit prepare the top three to five risks facing SSEL Group ahead of the meeting, which allows the various participants to independently identify potential risks before engaging in group discussions that could influence their thought process. Along with top of mind risks, the workshop also aims to trigger a discussion on new sources of risks and emerging risk issues. For this discussion, results of the emerging risk survey that is conducted as part of the global material risk identification programme are leveraged as a starting point since the survey is conducted on a global level and incorporates inputs from senior risk and control function executives across EMEA.

The “top of mind” risks that form the risk taxonomy are then grouped into categories: financial, non-financial and business risks. The financial risks cover credit, market and liquidity. The non-financial risks arise from SSEL Group’s operational processes, human failure or external events. Business risks are the risks to SSEL Group’s ability to generate consistent and sustainable earnings. Reputational risks are not allocated a specific grouping (see below).

Figure 2:
Risk Taxonomy

Financial Risks	Non-Financial Risks	Business Risks
Investment Portfolio Mark-to-Market Risk	Operational Execution Risk	Strategic Risk
Interest Rate Risk	Technology and Resiliency Risk	Model Risk
Trading (Market) Risk	Business Conduct and Compliance Risk	Investment Management Risk
Credit Risk		
Liquidity Risk		
Reputational Risk		

The Company maintains an ICAAP for measuring the risks to which SSEL Group is exposed and for monitoring the adequacy of its capital over a five year projected period. SSEL Group has taken into consideration the current environment and has identified and thoroughly considered its current businesses, potential new opportunities, significant risks and future plans. The ICAAP process is intended to affirm SSEL Group’s capital adequacy by demonstrating the appropriateness of its risk management practices which are employed to manage all risks related to achieving SSEL Group’s sound business and risk management practices.

3.6 Relevant Risk Types

The principal risks SSEL Group assumes in its business are Operational Risk and Business/Strategic Risk and the ways in which they manifest themselves are described below. Other risk types which impact on the business are also considered and discussed below:

- Credit Risk;
- Operational Risk;
- Market Risk;
- Liquidity Risk;
- Business/Strategic Risk;
- Pension Obligation Risk.

3.6.1 Credit Risk

Risk Definition

The current or prospective risk to earnings and capital arising from an obligor's failure to meet the terms of any contract with the institution or its failure to perform as agreed. This risk includes residual risk, spread risk, credit risk in securitisation and cross border (or transfer) risk.

3.6.1.1 Credit Risk – On-Balance Sheet

Risk Situation

SSEL Group's principal exposures to credit risk is through its placements with counterparties for which a capital charge has been allocated under Pillar 1 as well as bad debts that may arise from the fees that have been billed.

The majority of Credit Risk assumed by SSEL Group is in placing monies with highly rated companies for fixed terms of three months or less.

Risk Strategy

SSEL Group's credit risk management framework ensures that these exposures are regularly monitored and assessed. Exposure to credit risk is managed on a daily basis according to SSC's Global Credit Risk Policy and Credit Risk Guidelines, which reflect the company's conservative approach towards and appetite for credit and counterparty risk.

Risk Quantification

To measure the degree to which default risks are covered by capital, the Group is applying the Standardised Approach pursuant to Part Three Title II Chapter 2 CRR. To quantify Credit Risk applying the Standardised Approach, the Credit Risk Exposure Values are weighted by risk weights determined by the type of counterparty, and its external rating (Article 114 to 134 CRR).

3.6.1.2 Further Information on the Standardised Approach for Credit Risk

To determine the risk weighting for Credit Risk applying the Standardised Approach, SSEL Group has nominated the following rating agencies (ECAI):

Table 1: Rating Agencies

Credit assessment-related asset category	Rating agency
Central governments or central banks	Standard & Poor's, Moody's, Fitch Ratings
Institutions	Standard & Poor's, Moody's, Fitch Ratings

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

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

Table 2: Credit Risk Exposures by Exposure Type

Exposure type	Gross exposure (in kGBP)
*Credits, commitments and other non-derivative off-balance sheet positions	271,888
Total	271,888

*The balance in this category represents the Credit Risk exposures derived from the total assets in the Balance Sheet. SSEL Group does not have any commitments and does not have any exposure to non-derivative off-balance sheet positions as at the Balance Sheet date 31 December 2018.

b) An analysis of exposures by geographic region:

Table 3: Credit Risk Exposures by Region

Exposure class	Europe (in kGBP)	North America (in kGBP)	Total (in kGBP)
Central governments or central banks	117,990	–	117,990
Institutions	66,708	81,635	148,343
Other items	5,555	–	5,555
Total	190,253	81,635	271,888

c) An analysis of exposures by economic sector:

Table 4: Credit Risk Exposures by Economic Sector

Exposure class	Banks (in kGBP)	Other services (in kGBP)	Total (in kGBP)
Central governments or central banks	–	117,990	117,990
Institutions	148,343	–	148,343
Other items	–	5,555	5,555
Total	148,343	123,545	271,888

There were no exposures to SMEs during 2018.

d) An analysis of exposures by residual contract maturity:

Table 5: Credit Risk Exposures by Maturity

Exposure class	< 1 year (in kGBP)	≥ 1 year and < 5 year (in kGBP)	Total (in kGBP)
Central governments or central banks	117,832	159	117,991
Institutions	148,342	–	148,342
Other items	5,555	–	5,555
Total	271,729	159	271,888

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

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

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

Table 6: Credit Risk Exposures by Risk Weight

Risk weight	Total of CRSA position values before CRM (in kGBP)	Total of CRSA position values after CRM (in kGBP)
0%	117,832	117,832
20%	148,342	148,342
100%	5,555	5,555
250%	159	159
Total	271,888	271,888

SSEL Group considers its exposure to Credit Risk to be low, primarily as a result of its short-term cash placements with highly rated institutions. All SSEL Group exposures are subject to the firm risk limits established in the CRG. SSEL Group does not apply CRM.

3.6.1.3 Definition and Process – Impaired and Past Due

Definition of Impaired

A default (impaired) is defined as a debtor not meeting its legal obligations according to the debt contract. Default may occur if the debtor is either unwilling or unable to pay their debt. This can occur with all debt obligations a client holds with a credit granted.

With regard to Article 178 CRR, a default is considered to have occurred when the obligor is past due more than 90 successive calendar days on any material part of its overall credit obligation to the institution or to a group enterprise belonging to the group of institutions or financial holding group to which the institution belongs or the obligor is unlikely to pay its credit obligations to SSEL Group or any of the above enterprises in full, without recourse by SSEL Group to actions such as realising security.

Definition of Past Due

A loan is overdue (past due) if the debtor is not able to fulfil its payment obligations or is fulfilling its payment obligations past due the contractual due dates, as long as the debtor is not defaulted in the sense mentioned above.

3.6.1.4 Risk Provision

For the financial year ending 2018, SSEL Group did not take any Credit Risk provisions. As such no further disclosure according to Article 442 (g) to (i) CRR is necessary.

3.6.2 Operational Risk

Risk Definition

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, human error and systems or from external events.

Risk Situation

Operational Risks can be found mainly in the services and products which the Company supplies and sells, in the technology used and in the processes applied by employees to maintain daily operations. While the use of information processing systems can minimise Operational Risks, dependence on these systems and the applications on which they are based can itself represent a significant Operational Risk. Moreover, there are significant Operational Risks inherent in processes that require manual processing.

Risk Strategy and Management

SSEL Group seeks to mitigate operational risk by implementing a strong control environment and proactive risk management framework. This framework is documented in SSC's Operational Risk Policy and Operational Risk Guidelines and are adopted by State Street UK.

A risk tolerance for operational risks have been assigned through the RAS ("Risk Appetite Statement") and are monitored with the appropriate level of frequency and reported to the Board.

Risk Quantification

Risks are quantified by reviewing both the corporate risk library during Operational Risk workshops and historical internal and external loss data. Operating gains and losses are recorded in a structured fashion in a loss database and monitored closely. The review of operating losses can result in specific measures to avoid the risks in the future. To measure the degree to which Pillar 1 Operational Risks are covered by the capital, SSEL Group has applied the Standardised Approach pursuant to the Article 317 CRR.

Compliance

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

SSEL Group's Board of Directors reviews the Company's Operational Risk profile on a regular basis.

3.6.3 Market Risk

Risk Definition

Market risk is defined as the current or prospective risk to earnings and capital arising from adverse movements in bond prices, security or commodity prices or FX rates. This risk includes FX risk defined as the current or prospective risk to earnings and capital arising from adverse movements in currency exchange rates.

Risk Situation, Strategy and Management

SSEL Group and its subsidiaries do not maintain trading risk. Daily monitoring occurs to ensure that positions are not taken or those that result from errors or failed trades are resolved as soon as possible. Market Risk was considered to be low as at 31 December 2018.

Risk Quantification

Market risk is subject to capital requirements under Pillar I for which SSEL Group has opted for the standardised approach for foreign exchange risk [CRD IV – CRR Article 351-352]. As of 31 December 2018 the net currency position considered for FX risk is a long consolidated position below the 2% of Eligible Own Funds threshold.

3.6.4 Liquidity Risk

Risk Definition

Liquidity risk is defined as the current or prospective risk to earnings and capital arising from an institution's inability to meet its liabilities when they become due.

Risk Situation, Strategy and Management

SSEL Group manages its liquidity risk in accordance with its Board approved Liquidity Risk Guidelines and within the wider global framework established by SSC's Global Treasury guidelines and associated policies, which are applicable to all of its subsidiaries and underlying entities. SSC's Global Treasury guidelines are written and maintained by SSC's Global Treasury group, with approval provided annually by ALCO. SSEL Group maintains high quality liquid assets to cover expected cash outflows as defined by its liquidity risk appetite statement.

3.6.5 Business Risk/Strategic Risk

Risk Definition

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.

Risk Situation, Strategy and Management

SSEL Group's exposure to business/strategic risk is derived from concentration of client relationships in single clients and geography of clients serviced. Strong client management programs are designed for early detection and resolution of client service issues. Client relationships are spread across senior management and sales professionals. Product and revenue diversification mitigates revenue exposure to market volatility. SSEL Group is also exposed to business/strategic risk through its Joint Venture agreement with State Street Bank and Trust Company London Branch.

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

3.6.6 Pension Obligation Risk

Risk Definition

This is the risk to the Company 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 Company will make payments or other contribution to, or with respect to, a pension scheme because of a moral obligation or because the Company considers that it needs to do so for some other reason.

Risk Situation, Strategy and Management

SSEL Group is exposed to the contractual and reputational obligation relating to potential unplanned pension deficit obligations in its legacy Defined Benefit pension scheme (DB Plan). This risk has been assessed as material. This risk to SSEL Group is mitigated because the scheme is closed to new members, the scheme is closed to future accrual of benefits and the scheme has changed its investment policy to better match its liabilities. The plan undergoes a triennial valuation and the schedule of contributions is adjusted accordingly.

3.7 Risk Reporting

Risk Guidelines prescribe that reporting shall be generated with the appropriate frequency and level of detail to facilitate the effective management of risk by senior management. Key risk and performance indicators are used to monitor risk exposure. These indicators are utilised to establish SSEL Group's actual risk profile which is measured against its target risk profile as established through the risk appetite setting process. These key indicators are intended to trigger a management response when indicator threshold breaches are observed. Measures and thresholds established for these indicators are consistent with corporate standards, industry best practices and the risk appetite established for SSEL Group.

Key risk and performance indicators are incorporated into management reporting which is provided to all relevant management committees, the Board and where appropriate the Risk Committee. Threshold breaches are escalated in accordance with established escalation procedures. Commentary and analysis addressing cause and corrective actions should accompany reporting of any threshold breaches.

4 Capital

4.1 Own Funds

SSEL Group determines its own funds pursuant to Article 72 CRR. SSEL Group's own funds consist of the sum of Tier 1 capital. SSEL Group has not issued any Tier 2 capital.

As per Annex I of Commission Implementing Regulation (EU) No 1423/2013 of 20 December 2013 laying down implementing technical standards with regard to disclosure of own funds requirements for institutions according to Regulation (EU) No 575/2013 of the European Parliament and of the Council ("Commission Implementing Regulation (EU) No 1423/2013"), SSEL Group has defined the following method to reconcile own funds with the audited balance sheet of 31 December 2018:

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

Table 7: Balance Sheet Reconciliation Methodology

Own Funds Reconciliation	Financial Statements in kGBP	Regulatory in kGBP
Total Equity breakdown	266,428	266,428
Subscribed and paid up capital	6,384	6,384
Capital Contribution	105,908	105,908
Reserves including retained earnings	133,608	133,608
Income from current year	20,528	20,528
(-) Deductions breakdown	-	-
(-) Adjustments breakdown	-	-
(-) Other transitional adjustments to CET1 Capital	-	-
Total Common Equity Tier 1 Capital		266,428
Total Tier 1 Capital	-	266,428
Total Own Funds	-	266,428

As of 31 December 2018, SSEL Group's own funds are only made of Common Equity Tier 1 (CET1) instruments with no change from 31 December 2017. The main features of the CET1 instruments in accordance with Article 437(1)(b) CRR follows from the table below (Annex II of Commission Implementing Regulation (EU) No 1423/2013):

Table 8: Capital Instruments Main Features

Capital instruments main features template pursuant to Art. 437 (1) (b) CRR in conjunction with Article 3 of Commission Implementing Regulation (EU) No 1423/2013

No. Capital instruments main features		
1	Issuer	State Street Europe Limited
2	Unique identifier [e.g., CUSIP, ISIN or Bloomberg identifier for private placement]	Not Applicable
3	Governing law(s) of the instrument	England and Wales
Regulatory treatment		
4	Transitional CRR rules	Common Equity Tier 1
5	Post-transitional CRR rules	Common Equity Tier 1
6	Eligible at solo/(sub-)consolidated/solo&(sub-)consolidated	Consolidated
7	Instrument type (types to be specified by each jurisdiction)	Ordinary Shares
8	Amount recognised in regulatory capital	€6,384,000.00
9	Nominal amount of instrument	\$10,000,000.00
9a	Issue price	\$1.00
9b	Redemption price	Not Applicable
10	Accounting classification	Shareholders Equity
11	Original date of issuance	Not Applicable
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	Not Applicable
16	Subsequent call dates, if applicable	Not Applicable
Coupons/dividends		Not Applicable
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	Not Applicable
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Non cumulative
23	Convertible or non-convertible	Not Applicable
24	If convertible, conversion trigger(s)	Not Applicable
25	If convertible, fully or partially	Not Applicable
26	If convertible, conversion rate	Not Applicable
27	If convertible, mandatory or optional conversion	Not Applicable
28	If convertible, specify instrument type convertible into	Not Applicable
29	If convertible, specify issuer of instrument it converts into	Not Applicable

Table 8: Capital Instruments Main Features

Capital instruments main features template pursuant to Art. 437 (1) (b) CRR in conjunction with Article 3 of Commission Implementing Regulation (EU) No 1423/2013

No.	Capital instruments main features	
30	Write-down features	No
31	If write-down, write-down trigger(s)	Not Applicable
32	If write-down, full or partial	Not Applicable
33	If write-down, permanent or temporary	Not Applicable
34	If temporary write-down, description of write-up mechanism	Not Applicable
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Tier 1
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	Not Applicable

The corporate capital is set at 10,000,000 shares of US\$1 each fully paid-up, which translates to £6,384,000 using the balance sheet rate of 1.56625 on the date of conversion to the Company's basis of a sterling functional currency (1 January 2011).

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

Table 9: Transitional Own Funds Disclosure Template

		Amount at disclosure date in kGBP	Regulation (EU) No 575/2013 Art Reference
Common Equity Tier 1 capital: instruments and reserves			
1	Capital instruments and the related share premium accounts	112,291	26 (1), 27, 28, 29 EBA list 26 (3)
	of which: Ordinary shares	6,384	EBA list 26 (3)
2	Retained earnings	154,137	26 (1) (c)
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	–	26 (1)
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	266,428	
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
8	Intangible assets (net of related tax liability) (negative amount)	–	36 (1) (b), 37
26a	Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468	–	468
28	Total regulatory adjustments to Common equity Tier 1 (CET1)	–	
29	Common Equity Tier 1 (CET1) capital	266,428	
59	Total capital (TC = T1+T2)	266,428	
59a	Risk weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e., CRR residual amounts)	52,118	
60	Total risk weighted assets	52,118	
Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of risk exposure amount)	511.20%	92 (2) (a), 465
62	Tier 1 (as a percentage of risk exposure amount)	511.20%	92 (2) (b), 465
63	Total capital (as a percentage of risk exposure amount)	511.20%	92 (2) (c)
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	506.70%	CRD 128
Amounts below the thresholds for deduction (before risk weighting)			
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	159	36 (1) (c), 38, 48, 470, 472 (11)

Capital Conservation Buffer (CCoB) and Countercyclical Capital Buffer (CCyB)

SSEL Group, as an IFPRU limited licence firm, is exempt from holding CCyB or CCoB on the basis of IFPRU 10.1.1.

4.2 Capital Adequacy

SSEL Group may transfer funds to or be the recipient of funds from its parent companies or subsidiaries from time to time as the need arises or circumstances warrant. In any case, SSEL Group's ability to transfer such funds or the ability of SSEL Group's parent companies and subsidiaries, as applicable, to transfer such funds to SSEL Group may be limited by regulatory capital requirements or other legal obligations or restrictions imposed on SSEL Group, its parent companies or subsidiaries, as applicable.

The information in sections 4.2.1 to 4.2.4 discloses SSEL Group's capital requirements by risk class.

4.2.1 SSEL Group's Regulatory Requirement for Credit Risk

The Company follows the Standardised Approach for the calculation and reporting of Credit Risk.

The following table sets forth SSEL Group's Pillar 1 capital requirement expressed as the 8% risk-weighted exposure amounts for each of the applicable standardised Credit Risk exposure classes as of 31 December 2018.

Table 10 shows credit risk exposures as at 31 December 2018 and the average amount of the exposures over the period broken down by different types of exposure classes.

Table 10: Credit Risk Requirements

Asset class	RWA 2018 in kGBP	Capital Requirement 2018 in kGBP	RWA Average 2018 in kGBP	Capital Requirement Average 2018 in kGBP
Standardised approach (SA)				
Central governments or central banks	398	32	980	78
Institutions	29,668	2,373	28,078	2,246
Other Items	5,555	444	6,332	507
Total Regulatory Requirement for Credit Risk	35,621	2,850	35,389	2,831

4.2.2 SSEL Group's Regulatory Requirement for Market Risk

The Company follows the Standardised Approach for the calculation and reporting of Market Risk. Currently the Company is exposed to:

- **FX Risk**

The Standardised Approach is used to calculate FX risk. FX risk arises as a result of movements in relative values of various currencies. As per Article 351 CRR if the overall net currency position exceeds 2% of the credit institution's own funds, a capital requirement shall be applied in respect of FX risk.

As of 31 December 2018, the net currency position considered for FX was below 2% of the Eligible Own Funds threshold and, was, therefore, reported as zero.

- **Interest Rate Risk**

SSEL Group was not exposed to any material interest rate risk as of 31 December 2018.

4.2.3 SSEL Group's Own Funds Requirements and Fixed Overheads Requirement

As a result of the VVOPs and SSEL Group's classification as a limited licence firm, the Own Funds Requirements was calculated in accordance with Article 95 CRR and the Fixed Overheads Requirement was calculated in accordance with Article 97 CRR.

4.2.4 SSEL Group's Total Regulatory Capital Requirements

The Company's overall regulatory capital requirement for all Pillar 1 risk types in accordance with Article 95 CRR are illustrated as follows:

Table 11: Overview of RWA

Risk type	RWA in kGBP	Capital Requirements in kGBP
Credit Risk	35,621	2,850
Market Risk	0	0
of which: FX Risk	0	0
of which: Settlement/Delivery Risk	0	0
Additional Risk Exposure Amount Due to Fixed Overheads	16,497	1,320
Total Regulatory Requirement	52,118	4,170

4.2.5 SSEL Group's CET Tier 1, Tier 1 and Total Capital Ratios

The Common Equity Tier 1, Tier 1 and Total Capital Ratios of the Company as of 31 December 2018 were as follows:

Table 12: Capital Ratios

Ratio	Required Min 2018	Required Buffers 2018	Required Ratio 2018	SSEL Group 2018
CET1 Capital ratio	4.50%	0.00%	4.50%	511%
T1 Capital ratio	6.00%	0.00%	6.00%	511%

4.2.6 Asset Encumbrance

SSEL Group determines its asset encumbrance pursuant to EBA guidelines on the disclosure of encumbered and unencumbered assets as mandated by Articles 100 and 443 of the CRR. The following table outlines SSEL Group's encumbered assets as of 31 December 2018:

Table 13: Disclosure on Asset Encumbrance

Carrying amount of encumbered assets in kGBP

	Carrying amount of encumbered assets 010	Fair value of encumbered assets 040	Carrying amount of unencumbered assets 060	Fair value of unencumbered assets 090
010 Assets of the reporting institution	–		271,888	
030 Equity instruments	–	–	–	–
040 Debt securities	–	–	114,746	114,746
120 Other assets	–		157,143	

5 Remuneration Practices and Policies

“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 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 (3) members of the ECC. During 2018, the ECC held eight (8) 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 (4) 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.

5.1.1 State Street Europe Limited's Remuneration Governance

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 Europe Limited ("SSEL") reflects the nature of SSC's global remuneration approach while complying with local/regional regulatory remuneration requirements that are applicable for SSEL and those performing activities on behalf of SSEL. SSEL only makes use of remuneration-related plans and programs that exist at the SSC level. As described above, SSEL 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., 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.

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 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.

5.2.2 Process

Qualitative 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.

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).

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) 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

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 Program to be competitive with our business peers;
- We unequivocally support equal pay for work of equal value;
- Funding for our Total Rewards Program 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 bands in a market although sometimes benefits may vary by job band, grade or other factors based on prevailing market practices or applicable regulations.

5.3.1.2 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

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. SSEL 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, Compliance) have their remuneration delivered with an emphasis on fixed pay.

5.3.1.4 Incentive Compensation (“IC”) Plan

The Incentive Compensation Plan (“IC 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.

5.3.1.5 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.

5.3.1.6 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.

5.3.2 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.

5.3.3 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.

5.3.4 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.

Performance Management System

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.

5.4 Design Characteristics of the Remuneration System

"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 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 a non-equity deferral vehicle, called the Deferred Value Award ("DVA"). DVAs notionally track the value of the SSGA Prime Money Market Fund and are delivered in cash on the vesting date. The earnings credited to the DVAs vary based on the actual performance of the SSGA Prime Money Market 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, 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 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 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:

Table 14: 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%

5.4.2 Structure of IC Awards for UK EUIS³

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 cash that notionally tracks a money market instrument). 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.

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.

1 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.”

2 Deferred Award (DSA and DVA)

EUIS receive a Deferred Award, which is delivered partly in DSAs and partly in 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
 - Senior Managers: 7 year deferral with vesting from year 3;
 - Risk Managers: 5 year deferral with annual vesting allowed from year 1;
 - 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.

5.4.3 Other Elements of Variable Pay

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 those under PRA rules for EUIS 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.

Recognitions 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.

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 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.

5.4.5 “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 at least seven years from the date of grant. One hundred percent of DSAs and DVAs are subject to malus performance adjustments and one hundred percent of all variable pay is subject to clawback.

5.5 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 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.

Quantitative Information⁴

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

	Asset Management	Investment Banking	Independent Control Functions	All Others⁵	All UK EUIS
Total Remuneration of UK EUIS (£ k)	19,970	14,336	9,785	30,671	74,762

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

⁴ Provided on the basis of all UK EUIS.

⁵ Global Services and Corporate Functions.

6 Glossary

The following acronyms are used in this document:

CET1	Common Equity Tier 1 Capital
CRD	Capital Requirements Directive
CRR	Capital Requirements Regulation
EBA	European Banking Authority
EMEA	Europe, Middle East and Africa
ERM	Enterprise Risk Management Team
EU	European Union
FCA	Financial Conduct Authority
FX	Foreign Exchange
ICAAP	Internal Capital Adequacy Assessment Process
IFPRU	Prudential Sourcebook for Investment Firms
NBPRA	New Business and Product Review and Approval Process
OEICs	Open Ended Investment Companies
PRA	Prudential Regulation Authority
RMF	Risk Management Framework
RWA	Risk Weighted Asset
SSBTC	State Street Bank and Trust Company
SSC	State Street Corporation
SSEL	State Street Europe Limited
SSIH	State Street International Holdings
SSGMIL	State Street Global Markets International Limited
SSSC	State Street (UK) Service Company Limited
SSTL	State Street Trustees Limited

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*This figure is presented as of December 31, 2018 and includes approximately \$32.44 billion of assets with respect to SPDR products for which State Street Global Advisors Funds Distributors, LLC (SSGA FD) acts solely as the marketing agent. SSGA FD and State Street Global Advisors are affiliated.

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