

STATE STREET CORP  
Form 10-Q  
October 31, 2018  
Table of Contents

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549  
Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
<sup>x</sup> OF 1934

For the quarterly period ended September 30, 2018

OR  
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File No. 001-07511

STATE STREET CORPORATION

(Exact name of registrant as specified in its charter)

Massachusetts 04-2456637

(State or other jurisdiction of incorporation) (I.R.S. Employer Identification No.)

One Lincoln Street 02111  
Boston, Massachusetts

(Address of principal executive office) (Zip Code)

617-786-3000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No   
The number of shares of the registrant's common stock outstanding as of October 29, 2018 was 379,535,689.



STATE STREET CORPORATION  
QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTERLY PERIOD ENDED  
September 30, 2018

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

Table of Contents for Management's Discussion and Analysis of Financial Condition and Results of Operations	<u>3</u>
Management's Discussion and Analysis of Financial Condition and Results of Operations	<u>4</u>
Quantitative and Qualitative Disclosures About Market Risk	<u>51</u>
Controls and Procedures	<u>51</u>
Consolidated Statement of Income (Unaudited) for the three and nine months ended September 30, 2018 and 2017	<u>52</u>
Consolidated Statement of Comprehensive Income (Unaudited) for the three and nine months ended September 30, 2018 and 2017	<u>53</u>
Consolidated Statement of Condition as of September 30, 2018 (Unaudited) and December 31, 2017	<u>54</u>
Consolidated Statement of Changes in Shareholders' Equity (Unaudited) for the nine months ended September 30, 2018 and 2017	<u>55</u>
Consolidated Statement of Cash Flows (Unaudited) for the nine months ended September 30, 2018 and 2017	<u>56</u>
Condensed Notes to Consolidated Financial Statements (Unaudited)	<u>57</u>
Review Report of Independent Registered Public Accounting Firm	<u>100</u>
PART II. OTHER INFORMATION	
Unregistered Sales of Equity Securities and Use of Proceeds	<u>103</u>
Exhibits	<u>104</u>
Signatures	<u>105</u>

Table of Contents

STATE STREET CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS

TABLE OF CONTENTS

<u>General</u>	<u>4</u>
<u>Overview of Financial Results</u>	<u>9</u>
<u>Consolidated Results of Operations</u>	<u>12</u>
<u>Total Revenue</u>	<u>12</u>
<u>Fee Revenue</u>	<u>12</u>
Net Interest Income	<u>14</u>
<u>Expenses</u>	<u>17</u>
<u>Income Tax Expense</u>	<u>19</u>
<u>Line of Business Information</u>	<u>19</u>
<u>Financial Condition</u>	<u>26</u>
<u>Investment Securities</u>	<u>27</u>
<u>Loans and Leases</u>	<u>29</u>
<u>Cross-Border Outstandings</u>	<u>30</u>
<u>Risk Management</u>	<u>31</u>
<u>Credit Risk Management</u>	<u>31</u>
<u>Liquidity Risk Management</u>	<u>31</u>
<u>Operational Risk Management</u>	<u>35</u>
<u>Information Technology Risk Management</u>	<u>35</u>
<u>Market Risk Management</u>	<u>35</u>
<u>Model Risk Management</u>	<u>39</u>
Strategic Risk Management	<u>39</u>
<u>Capital</u>	<u>39</u>
<u>Off-Balance Sheet Arrangements</u>	<u>50</u>
<u>Recent Accounting Developments</u>	<u>50</u>

We use acronyms and other defined terms for certain business terms and abbreviations, as defined on the acronyms list and glossary following the consolidated financial statements in this Form 10-Q.

State Street Corporation | 3

---

Table of Contents

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS

GENERAL

State Street Corporation, referred to as the Parent Company, is a financial holding company organized in 1969 under the laws of the Commonwealth of Massachusetts. Our executive offices are located at One Lincoln Street, Boston, Massachusetts 02111 (telephone (617) 786-3000). For purposes of this Quarterly Report on Form 10-Q for the quarter ended September 30, 2018 (Form 10-Q), unless the context requires otherwise, references to "State Street," "we," "us," "our" or similar terms mean State Street Corporation and its subsidiaries on a consolidated basis. The Parent Company is a source of financial and managerial strength to our subsidiaries. Through our subsidiaries, including our principal banking subsidiary, State Street Bank, we provide a broad range of financial products and services to institutional investors worldwide, with \$34.00 trillion of AUCA and \$2.81 trillion of AUM as of September 30, 2018. As of September 30, 2018, we had consolidated total assets of \$234.01 billion, consolidated total deposits of \$168.20 billion, consolidated total shareholders' equity of \$24.55 billion and 39,020 employees. We operate in more than 100 geographic markets worldwide, including in the U.S., Canada, Europe, the Middle East and Asia. Our operations are organized into two lines of business, Investment Servicing and Investment Management, which are defined based on products and services provided.

Additional information about our lines of business is provided in Line of Business Information in this Management's Discussion and Analysis and Note 17 to the consolidated financial statements in this Form 10-Q.

This Management's Discussion and Analysis is part of the Form 10-Q and updates the Management's Discussion and Analysis in our 2017 Annual Report on Form 10-K previously filed with the SEC (2017 Form 10-K). You should read the financial information contained in this Management's Discussion and Analysis and elsewhere in this Form 10-Q in conjunction with the financial and other information contained in our 2017 Form 10-K. Certain previously reported amounts presented in this Form 10-Q have been reclassified to conform to current-period presentation.

We prepare our consolidated financial statements in conformity with U.S. GAAP. The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions in its application of certain accounting policies that materially affect the reported amounts of assets, liabilities, equity, revenue and expenses.

The significant accounting policies that require us to make judgments, estimates and assumptions that are difficult, subjective or complex about matters that

are uncertain and may change in subsequent periods include:

- accounting for fair value measurements;
- other-than-temporary impairment of investment securities;
- impairment of goodwill and other intangible assets; and
- contingencies.

These significant accounting policies require the most subjective or complex judgments, and underlying estimates and assumptions could be subject to revision as new information becomes available. For additional information about these significant accounting policies refer to pages 115 to 118, "Significant Accounting Estimates" included under Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, in our 2017 Form 10-K. We did not change these significant accounting policies in the first nine months of 2018.

Certain financial information provided in this Form 10-Q, including in this Management's Discussion and Analysis, is prepared on both a U.S. GAAP, or reported basis, and a non-GAAP basis, including certain non-GAAP measures used in the calculation of identified regulatory ratios. We measure and compare certain financial information on a non-GAAP basis, including information (such as capital ratios calculated under regulatory standards then scheduled to be effective in the future) that management uses in evaluating our business and activities.

Non-GAAP financial information should be considered in addition to, and not as a substitute for or superior to, financial information prepared in conformity with U.S. GAAP. Any non-GAAP financial information presented in this Form 10-Q, including this Management's Discussion and Analysis, is reconciled to its most directly comparable then currently applicable regulatory ratio or U.S. GAAP-basis measure.

We further believe that our presentation of fully taxable-equivalent NII, a non-GAAP measure, which reports non-taxable revenue, such as interest income associated with tax-exempt investment securities, on a fully taxable-equivalent basis, facilitates an investor's understanding and analysis of our underlying financial performance and trends.

We provide additional disclosures required by applicable bank regulatory standards, including supplemental qualitative and quantitative information with respect to regulatory capital (including market risk associated with our trading activities) and the liquidity coverage ratio, summary results of semi-annual State Street-run stress tests which we conduct under the Dodd-Frank Act, and resolution plan disclosures required under the Dodd-Frank Act. These additional disclosures are accessible on the “Investor Relations”

State Street Corporation | 4

---

Table of Contents

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS

section of our corporate website at [www.statestreet.com](http://www.statestreet.com).

We have included our website address in this report as an inactive textual reference only. Information on our website is not incorporated by reference into this Form 10-Q.

We use acronyms and other defined terms for certain business terms and abbreviations, as defined in the acronyms list and glossary following the consolidated financial statements in this Form 10-Q.

Forward-Looking Statements

This Form 10-Q, as well as other reports and proxy materials submitted by us under the Securities Exchange Act of 1934, registration statements filed by us under the Securities Act of 1933, our annual report to shareholders and other public statements we may make, may contain statements (including statements in the Management's Discussion and Analysis included in such reports, as applicable) that are considered "forward-looking statements" within the meaning of U.S. securities laws, including statements about our goals and expectations regarding our business, financial and capital condition, results of operations, strategies, cost savings and transformation initiatives, investment portfolio performance, dividend and stock purchase programs, outcomes of legal proceedings, market growth, acquisitions, joint ventures and divestitures, client growth and new technologies, services and opportunities, as well as industry, governmental, regulatory, economic and market trends, initiatives and developments, the business environment and other matters that do not relate strictly to historical facts.

Terminology such as "plan," "expect," "intend," "objective," "forecast," "outlook," "believe," "priority," "anticipate," "estimate," "may," "will," "trend," "target," "strategy" and "goal," or similar statements or variations of such terms, are intended to identify forward-looking statements, although not all forward-looking statements contain such terms.

Forward-looking statements are subject to various risks and uncertainties, which change over time, are based on management's expectations and assumptions at the time the statements are made, and are not guarantees of future results. Management's expectations and assumptions, and the continued validity of the forward-looking statements, are subject to change due to a broad range of factors affecting the national and global economies, regulatory environment and the equity, debt, currency and other financial markets, as well as factors specific to State Street and its subsidiaries, including State Street Bank. Factors that could cause changes in the expectations or assumptions on which forward-looking statements are based cannot be foreseen with certainty and include, but are not limited to:

the financial strength of the counterparties with which we or our clients do business and to which we have investment, credit or financial exposures or to which our clients have such exposures as a result of our acting as agent, including as an asset manager;

increases in the volatility of, or declines in the level of, our NII, changes in the composition or valuation of the assets recorded in our consolidated statement of condition (and our ability to measure the fair value of investment securities) and changes in the manner in which we fund those assets;

the volatility of servicing fee, management fee, trading fee and securities finance revenues on a quarterly basis in certain of our business lines due to, among other factors, market rates and levels, the volume of client transaction activity and the timing of revenue recognition with respect to processing fees and other revenues;

the liquidity of the U.S. and international securities markets, particularly the markets for fixed-income securities and inter-bank credits; the liquidity of the assets on our balance sheet and changes or volatility in the sources of such funding, particularly the deposits of our clients; and demands upon our liquidity, including the liquidity demands and requirements of our clients;

the level and volatility of interest rates, the valuation of the U.S. dollar relative to other currencies in which we record revenue or accrue expenses and the performance and volatility of securities, credit, currency and other markets in the U.S. and internationally; and the impact of monetary and fiscal policy in the U.S. and internationally on prevailing rates of interest and currency exchange rates in the markets in which we provide services to our clients;

the credit quality, credit-agency ratings and fair values of the securities in our investment securities portfolio, a deterioration or downgrade of which could lead to other-than-temporary impairment of such securities and the recognition of an impairment loss in our consolidated statement of income;



our ability to attract deposits and other low-cost, short-term funding; our ability to manage the level and pricing of such deposits and the relative portion of our deposits that are determined to be operational under regulatory guidelines; and our ability to deploy deposits in a profitable manner consistent with our liquidity needs, regulatory requirements and risk profile;

the manner and timing with which the Federal Reserve and other U.S. and foreign regulators implement or reevaluate the regulatory framework

State Street Corporation | 5

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Table of Contents

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS

applicable to our operations (as well as changes to that framework), including implementation or modification of the Dodd-Frank Act and related stress testing and resolution planning requirements, implementation of international standards applicable to financial institutions, such as those proposed by the Basel Committee and European legislation (such as the AIFMD, UCITS, the Money Market Funds Regulation and MiFID II / MiFIR); among other consequences, these regulatory changes impact the levels of regulatory capital and liquidity we must maintain, acceptable levels of credit exposure to third parties, margin requirements applicable to derivatives, restrictions on banking and financial activities and the manner in which we structure and implement our global operations and servicing relationships. In addition, our regulatory posture and related expenses have been and will continue to be affected by changes in regulatory expectations for global systemically important financial institutions applicable to, among other things, risk management, liquidity and capital planning, resolution planning, compliance programs and changes in governmental enforcement approaches to perceived failures to comply with regulatory or legal obligations; adverse changes in the regulatory ratios that we are, or will be, required to meet, whether arising under the Dodd-Frank Act or implementation of international standards applicable to financial institutions, such as those proposed by the Basel Committee, or due to changes in regulatory positions, practices or regulations in jurisdictions in which we engage in banking activities, including changes in internal or external data, formulae, models, assumptions or other advanced systems used in the calculation of our capital or liquidity ratios that cause changes in those ratios as they are measured from period to period; requirements to obtain the prior approval or non-objection of the Federal Reserve or other U.S. and non-U.S. regulators for the use, allocation or distribution of our capital or other specific capital actions or corporate activities, including, without limitation, acquisitions, investments in subsidiaries, dividends and stock purchases, without which our growth plans, distributions to shareholders, share repurchase programs or other capital or corporate initiatives may be restricted; changes in law or regulation, or the enforcement of law or regulation, that may adversely affect our business activities or those of our clients or our counterparties, and the products or services that we sell, including additional or increased taxes or assessments thereon, capital adequacy

requirements, margin requirements and changes that expose us to risks related to the adequacy of our controls or compliance programs; economic or financial market disruptions in the U.S. or internationally, including those which may result from recessions or political instability; for example, the U.K.'s decision to exit from the European Union may continue to disrupt financial markets or economic growth in Europe or potential changes in trade policy and bi-lateral and multi-lateral trade agreements proposed by the U.S.; our ability to create cost efficiencies through changes in our operational processes and to further digitize our processes and interfaces with our clients, any failure of which, in whole or in part, may among other things, reduce our competitive position, diminish the cost-effectiveness of our systems and processes or provide an insufficient return on our associated investment; our ability to promote a strong culture of risk management, operating controls, compliance oversight, ethical behavior and governance that meets our expectations and those of our clients and our regulators, and the financial, regulatory, reputation and other consequences of our failure to meet such expectations; the impact on our compliance and controls enhancement programs associated with the appointment of a monitor under the deferred prosecution agreement with the DOJ and compliance consultant appointed under a settlement with the SEC, including the potential for such monitor and compliance consultant to require changes to our programs or to identify other issues that require substantial expenditures, changes in our operations, payments to clients or reporting to U.S. authorities; the results of our review of our billing practices, including additional findings or amounts we may be required to reimburse clients, as well as potential consequences of such review, including damage to our client relationships or our reputation and adverse actions by governmental authorities;

the results of, and costs associated with, governmental or regulatory inquiries and investigations, litigation and similar claims, disputes, or civil or criminal proceedings;

changes or potential changes in the amount of compensation we receive from clients for our services, and the mix of services provided by us that clients choose;

the large institutional clients on which we focus are often able to exert considerable market influence and have diverse investment activities, and this,

State Street Corporation | 6

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Table of Contents

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS

combined with strong competitive market forces, subjects us to significant pressure to reduce the fees we charge, to potentially significant changes in our AUCA or our AUM in the event of the acquisition or loss of a client, in whole or in part, and to potentially significant changes in our fee revenue in the event a client re-balances or changes its investment approach or otherwise re-directs assets to lower- or higher-fee asset classes;

the potential for losses arising from our investments in sponsored investment funds;

the possibility that our clients will incur substantial losses in investment pools for which we act as agent, the possibility of significant reductions in the liquidity or valuation of assets underlying those pools and the potential that clients will seek to hold us liable for such losses; and the possibility that our clients or regulators will assert claims that our fees with respect to such investment products are not appropriate or consistent with our fiduciary responsibilities;

our ability to anticipate and manage the level and timing of redemptions and withdrawals from our collateral pools and other collective investment products;

the credit agency ratings of our debt and depositary obligations and investor and client perceptions of our financial strength;

adverse publicity, whether specific to us or regarding other industry participants or industry-wide factors, or other reputational harm;

our ability to control operational risks, data security breach risks and outsourcing risks, our ability to protect our intellectual property rights, the possibility of errors in the quantitative models we use to manage our business and the possibility that our controls will prove insufficient, fail or be circumvented;

our ability to expand our use of technology to enhance the efficiency, accuracy and reliability of our operations and our dependencies on information technology and our ability to control related risks, including cyber-crime and other threats to our information technology infrastructure and systems (including those of our third-party service providers) and their effective operation both independently and with external systems, and complexities and costs of protecting the security of such systems and data;

changes or potential changes to the competitive environment, including changes due to regulatory and technological changes, the effects of industry consolidation and perceptions of State Street as a suitable service provider or counterparty;

our ability to complete acquisitions, joint ventures and divestitures, including our ability to obtain regulatory approvals, the ability to arrange financing as required and the ability to satisfy closing conditions;

the risks that our acquired businesses, including our acquisition of Charles River Systems, Inc. (Charles River Development), and joint ventures will not achieve their anticipated financial, operational and product innovation benefits or will not be integrated successfully, or that the integration will take longer than anticipated; that expected synergies will not be achieved or unexpected negative synergies or liabilities will be experienced; that client and deposit retention goals will not be met; that other regulatory or operational challenges will be experienced; and that disruptions from the transaction will harm our relationships with our clients, our employees or regulators;

our ability to integrate Charles River Development's front office software solutions with our middle and back office capabilities to develop a front-to-middle-to-back office platform that is competitive and meets our clients' requirements;

our ability to recognize evolving needs of our clients and to develop products that are responsive to such trends and profitable to us; the performance of and demand for the products and services we offer; and the potential for new products and services to impose additional costs on us and expose us to increased operational risk;

our ability to grow revenue, manage expenses, attract and retain highly skilled people and raise the capital necessary to achieve our business goals and comply with regulatory requirements and expectations;

changes in accounting standards and practices; and

the impact of the U.S. tax legislation enacted in 2017, and changes in tax legislation and in the interpretation of existing tax laws by U.S. and non-U.S. tax authorities that affect the amount of taxes due.

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Actual outcomes and results may differ materially from what is expressed in our forward-looking statements and from our historical financial results due to the factors discussed in this section and elsewhere in this Form 10-Q or disclosed in our other SEC filings. Forward-looking statements in this Form 10-Q should not be relied on as representing our expectations or assumptions as of any time subsequent to the time this Form 10-Q is filed with the SEC. We undertake no obligation to revise our forward-looking statements after the time they are made. The factors discussed herein are not intended to be a complete statement of

State Street Corporation | 7

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Table of Contents

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS

all risks and uncertainties that may affect our businesses. We cannot anticipate all developments that may adversely affect our business or operations or our consolidated results of operations, financial condition or cash flows. Forward-looking statements should not be viewed as predictions, and should not be the primary basis on which investors evaluate State Street. Any investor in State Street should consider all risks and uncertainties disclosed in our SEC filings, including our filings under the Securities Exchange Act of 1934, in particular our annual reports on Form 10-K, our quarterly reports on Form 10-Q and our current reports on Form 8-K, or registration statements filed under the Securities Act of 1933, all of which are accessible on the SEC's website at [www.sec.gov](http://www.sec.gov) or on the "Investor Relations" section of our corporate website at [www.statestreet.com](http://www.statestreet.com).

State Street Corporation | 8

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Table of ContentsMANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS

## OVERVIEW OF FINANCIAL RESULTS

TABLE 1: OVERVIEW OF FINANCIAL RESULTS

	Three Months Ended September 30,		
(Dollars in millions, except per share amounts)	2018	2017	% Change
Total fee revenue <sup>(1)(2)</sup>	\$2,280	\$2,242	2 %
Net interest income <sup>(2)</sup>	672	603	11
Gains (losses) related to investment securities, net	(1 )	1	nm
Total revenue <sup>(1)</sup>	2,951	2,846	4
Provision for loan losses	5	3	67
Total expenses <sup>(1)</sup>	2,079	2,021	3
Income before income tax expense	867	822	5
Income tax expense	102	137	(26 )
Net income	\$765	\$685	12
Adjustments to net income:			
Dividends on preferred stock <sup>(3)</sup>	\$(55 )	\$(55 )	—
Earnings allocated to participating securities <sup>(4)</sup>	(1 )	(1 )	—
Net income available to common shareholders	\$709	\$629	13
Earnings per common share:			
Basic	\$1.89	\$1.69	12
Diluted	1.87	1.66	13
Average common shares outstanding (in thousands):			
Basic	374,963	372,765	1
Diluted	379,383	378,518	—
Cash dividends declared per common share	\$.47	\$.42	12
Return on average common equity	14.0 %	13.0 %	100 bps
Pre-tax margin	29.4	28.9	50

	Nine Months Ended September 30,		
(Dollars in millions, except per share amounts)	2018	2017	% Change
Total fee revenue <sup>(1)(2)</sup>	\$7,016	\$6,675	5 %
Net interest income <sup>(2)</sup>	1,974	1,688	17
Gains (losses) related to investment securities, net	6	(39 )	nm
Total revenue <sup>(1)</sup>	8,996	8,324	8
Provision for loan losses	7	4	75
Total expenses <sup>(1)</sup>	6,494	6,138	6
Income before income tax expense	2,495	2,182	14
Income tax expense	335	375	(11 )
Net income	\$2,160	\$1,807	20
Adjustments to net income:			
Dividends on preferred stock <sup>(3)</sup>	\$(146 )	\$(146 )	—
Earnings allocated to participating securities <sup>(4)</sup>	(2 )	(2 )	—
Net income available to common shareholders	\$2,012	\$1,659	21
Earnings per common share:			

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Basic	\$5.45	\$4.41	24
Diluted	5.38	4.35	24
Average common shares outstanding (in thousands):			
Basic	369,368	376,430	(2 )
Diluted	374,064	381,779	(2 )
Cash dividends declared per common share	\$1.31	\$1.18	11
Return on average common equity	13.8 %	11.9 %	190 bps
Pre-tax Margin	27.7	26.2	150

(1) The new revenue recognition standard contributed approximately \$70 million and \$205 million in total revenue and total expenses in the three and nine months ended September 30, 2018, respectively, compared to the same periods in 2017, respectively. These contributions comprise the following: in the three months ended September 30, 2018, revenues increased approximately \$50 million in management fees, \$12 million in trading services and \$8 million across other revenue lines, and expenses increased approximately \$38 million in other expenses, \$18 million in transaction processing and \$14 million across other expense lines; and in the nine months ended September 30, 2018, revenues increased approximately \$140 million in management fees, \$47 million in trading services and \$18 million across other revenue lines, and expenses increased approximately \$128 million in other expenses, \$48 million in transaction processing and \$29 million across other expense lines.

(2) Approximately \$15 million of swap costs in 1Q18 were reclassified from processing fees and other revenue within fee revenue to net interest income to conform to current presentation. No other prior periods were revised.

(3) Additional information about our preferred stock dividends is provided in Note 12 to the consolidated financial statements in this Form 10-Q.

(4) Represents the portion of net income available to common equity allocated to participating securities, composed of unvested and fully vested SERP shares and fully vested deferred director stock awards, which are equity-based awards that contain non-forfeitable rights to dividends, and are considered to participate with the common stock in undistributed earnings.

<sup>nm</sup> Not meaningful



Table of Contents

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following "Financial Results and Highlights" section provides information related to significant events, as well as highlights of our consolidated financial results for the quarter ended September 30, 2018 presented in Table 1: Overview of Financial Results. More detailed information about our consolidated financial results, including comparisons of our financial results for the three and nine months ended September 30, 2018 to the same periods in 2017, is provided under "Consolidated Results of Operations," "Line of Business Information" and "Capital" which follows these sections, as well as in our consolidated financial statements included in this Form 10-Q. In this Management's Discussion and Analysis, where we describe the effects of changes in foreign exchange rates, those effects are determined by applying applicable weighted average foreign exchange rates from the relevant 2017 period to the relevant 2018 period results.

Financial Results and Highlights

EPS of \$1.87 in the third quarter of 2018 increased 13% compared to \$1.66 in the third quarter of 2017.

Third quarter of 2018 ROE of 14.0% and pre-tax margin of 29.4% increased from 13.0% and 28.9%, respectively, in the third quarter of 2017.

Operating leverage was 0.8% for the third quarter of 2018. Operating leverage represents the difference in the percentage change in total revenue less the percentage change in total expenses, in each case relative to the prior year period.

Fee operating leverage was (1.2)% for the third quarter of 2018. Fee operating leverage represents the difference in the percentage change in total fee revenue less the percentage change in total expenses, in each case relative to the prior year period. The negative fee operating leverage is due to lower servicing fee revenue.

On October 1, 2018, we completed our previously announced acquisition of Charles River Development, a provider of investment management front office tools and solutions, for an all cash purchase price of approximately \$2.6 billion. We funded the acquisition with a July 2018 issuance of common stock of approximately \$1.15 billion, a September 2018 issuance of preferred stock of approximately \$500 million and the suspension of approximately \$950 million of share repurchases, which includes approximately \$350 million and approximately \$300 million in the second and third quarters of 2018, respectively, and a planned suspension of

approximately \$300 million in the fourth quarter of 2018.

We intend to resume our common stock purchases in the first quarter of 2019 and may repurchase up to \$600 million through June 30, 2019.

During the third quarter of 2018, we recorded minimal acquisition costs related to Charles River Development and expect to incur approximately \$200 million of such costs through 2021.

Revenue

Total revenue and fee revenue increased 4% and 2%, respectively, in the third quarter of 2018 compared to the third quarter of 2017, reflecting higher management fees and trading services revenue, partially offset by lower securities finance and servicing fee revenue.

The new revenue recognition standard contributed approximately \$70 million to total revenue in the third quarter of 2018, compared to the third quarter of 2017.

Servicing fee revenue decreased 1% in the third quarter of 2018 compared to the third quarter of 2017, primarily due to a previously announced client transition and challenging industry conditions, including fee pressure, outflows across the industry, primarily in the U.S. and Europe, and lower emerging markets asset levels.

Management fee revenue increased 13% in the third quarter of 2018 compared to the third quarter of 2017, reflecting higher global equity markets. The new revenue recognition standard contributed \$50 million to management fee revenue in the third quarter of 2018 compared to the third quarter of 2017.

Securities finance revenue decreased 13% in the third quarter of 2018 compared to the third quarter of 2017, primarily due to certain balance sheet repositioning efforts completed in the third quarter of 2018.

NII increased 11% in the third quarter of 2018 compared to the third quarter of 2017, primarily due to higher U.S. interest rates and disciplined liability pricing, partially offset by a mix shift to HQLA. During the nine months ended

September 30, 2018, we sold approximately \$16 billion of non-HQLA, of which a significant portion has been reinvested in HQLA.

State Street Corporation | 10

---

Table of Contents

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS

Expenses

Total expenses increased 3% in the third quarter of 2018 compared to the third quarter of 2017, reflecting investments to support new business on-boarded, partially offset by net Beacon savings, benefits of the management delayering announced in the second quarter of 2018 and lower discretionary spending.

In the three and nine months ended September 30, 2018, we have achieved approximately \$66 million and \$183 million, respectively, of Beacon pre-tax year-over-year savings, net of Beacon investments, and expect total pre-tax year-over-year savings of approximately \$200 million in 2018.

The new revenue recognition standard contributed approximately \$70 million to total expenses in the third quarter of 2018, compared to the third quarter of 2017.

AUCA/AUM

AUCA increased 6% in the third quarter of 2018 compared to the third quarter of 2017, primarily due to higher equity markets. Newly announced asset servicing mandates totaled approximately \$1.8 trillion year-to-date, of which approximately \$300 billion was newly announced in the third quarter of 2018. Servicing assets remaining to be installed in future periods totaled approximately \$465 billion as of September 30, 2018.

AUM increased 5% in the third quarter of 2018 compared to the third quarter of 2017, primarily driven by strength in equity markets and ETF inflows. We experienced net inflows of approximately \$8 billion during the three months ended September 30, 2018, driven by net institutional and ETF flows.

Capital

We declared aggregate common stock dividends of \$0.47 per share, totaling \$179 million in the third quarter of 2018, compared to \$0.42 per share, totaling \$156 million in the third quarter of 2017, representing an increase of approximately 12% on a per share basis.

In connection with our acquisition of Charles River Development, we did not purchase any common stock during the quarter ended September 30, 2018 under the common stock purchase plan approved by our Board in June 2018 (the 2018 Program), nor did we purchase any common stock under our prior program (the 2017 Program) in the quarter ended June 30,

2018, and we do not intend to purchase any common stock during the fourth quarter of 2018. We intend to resume our common stock purchases in the first quarter of 2019 and may repurchase up to \$600 million through June 30, 2019.

In July 2018, we completed a public offering of approximately 13.24 million shares of our common stock. The offering price was \$86.93 per share and net proceeds totaled approximately \$1.15 billion.

In September 2018, we issued 500,000 depositary shares each representing a 1/100th ownership interest in a share of our Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series H, without par value per share, with a liquidation preference of \$100,000 per share (equivalent to \$1,000 per depositary share) and an initial dividend rate of 5.625% per annum. The net proceeds were approximately \$500 million.

Our CET1 capital ratio increased to 13.0% as of September 30, 2018 compared to 11.9% as of December 31, 2017, and Tier 1 leverage ratio increased to 8.1% as of September 30, 2018 compared to 7.3% as of December 31, 2017.

The increases reflect our above-described issuances of common and preferred stock and the suspension of common stock repurchases for the purpose of funding our acquisition of Charles River Development. We completed our acquisition on October 1, 2018, and we expect our December 31, 2018 capital ratios to approximate our recent historical levels.



Gains (losses) related to investment securities, net	6	(39	) nm
Total revenue <sup>(1)</sup>	\$8,996	\$8,324	8

<sup>(1)</sup> The new revenue recognition standard contributed approximately \$70 million and \$205 million in total revenue in the three and nine months ended September 30, 2018, respectively, compared to the same periods in 2017, respectively. These contributions comprise the following: in the three months ended September 30, 2018, approximately \$50 million in management fees, \$12 million in trading services and \$8 million across other revenue lines; and in the nine months ended September 30, 2018, approximately \$140 million in management fees, \$47 million in trading services and \$18 million across other revenue lines.

<sup>nm</sup> Not meaningful

## Fee Revenue

Table 2: Total Revenue, provides the breakout of fee revenue for the three and nine months ended September 30, 2018 compared to the same periods in 2017.

Servicing and management fees collectively made up approximately 79% of the total fee revenue in both the three and nine months ended September 30, 2018, compared to approximately 79% and 78% in the same periods of 2017, respectively. The level of these fees is influenced by several factors, including the mix and volume of our AUCA and our AUM, the value and type of securities positions held (with respect to assets under custody), the volume of portfolio transactions and the types of products and services used by our clients, and is generally affected by changes in worldwide equity and fixed-income security valuations and trends in market asset class preferences.

Generally, servicing fees are affected by changes in daily average valuations of AUCA, the relative mix and geography of assets serviced, client asset flows and the level of transaction volumes. Additional factors, such as changes in service level, the nature of services provided, balance credits, client minimum balances, pricing concessions and other factors, may have a significant effect on our servicing fee revenue.

Management fees generally are affected by changes in month-end valuations of AUM. Management fees for certain components of managed assets, such as ETFs, are affected by daily average valuations of AUM. Management fee revenue is more sensitive to market valuations than servicing fee revenue, as a higher proportion of the underlying services provided, and the associated management fees earned, are dependent on equity and fixed-income security valuations. Additional factors, such as the relative mix of assets managed, may have a significant effect on our management fee revenue. While certain management fees are directly determined by the values of AUM and the investment strategies employed, management fees may reflect other factors, including performance fee arrangements, as well as our relationship pricing for clients.

Asset-based management fees for actively managed products are generally charged at a higher percentage of AUM than for passive products. Actively managed products may also include performance fee arrangements which are recorded when the fee is earned, based on predetermined benchmarks associated with the applicable fund's performance.

Table of Contents

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

In light of the above, we estimate, using relevant information as of September 30, 2018 and assuming that all other factors remain constant, that:

A 10% increase or decrease in worldwide equity valuations, on a weighted average basis, over the relevant periods for which our servicing and management fees are calculated, would result in a corresponding change in our total servicing and management fee revenues, on average and over time, of approximately 3%; and

A 10% increase or decrease in worldwide fixed income valuations, on a weighted average basis, over the relevant periods for which our servicing and management fees are calculated, would result in a corresponding change in our total servicing and management fee revenues, on average and over time, of approximately 1%.

See Table 3: Daily, Month-End and Quarter-End Equity Indices and Table 4: Quarter-End Debt Indices, for selected indices. While the specific indices presented are indicative of general market trends, the asset types and classes relevant to individual client portfolios can and do differ, and the performance of associated relevant indices can therefore differ from the performance of the indices presented.

Daily averages, month-end averages and quarter-end indices demonstrate worldwide changes in equity and debt markets that affect our servicing and management fee revenue. Quarter-end indices affect the values of AUCA and AUM as of those dates.

Further discussion of fee revenue is provided under Line of Business Information in this Management's Discussion and Analysis.

TABLE 3: DAILY, MONTH-END AND QUARTER-END EQUITY INDICES<sup>(1)</sup>

	Daily Averages of Indices			Averages of Month-End Indices			Quarter-End Indices		
	Quarters Ended September 30,			Quarters Ended September 30,			As of September 30,		
	2018	2017	% Change	2018	2017	% Change	2018	2017	% Change
S&P 500®	2,850	2,467	16 %	2,877	2,487	16 %	2,914	2,519	16 %
MSCI EAFE®	1,964	1,934	2	1,981	1,947	2	1,974	1,974	—
MSCI® Emerging Markets	1,054	1,068	(1 )	1,064	1,079	(1 )	1,048	1,082	(3 )
HFRI Asset Weighted Composite®	NA	NA	NA	1,414	1,358	4	1,415	1,361	4
	Daily Averages of Indices			Averages of Month-End Indices			Quarter-End Indices		
	Nine Months Ended September 30,			Nine Months Ended September 30,			As of September 30,		
	2018	2017	% Change	2018	2017	% Change	2018	2017	% Change
S&P 500®	2,762	2,397	15 %	2,765	2,410	15 %	2,765	2,410	15 %
MSCI EAFE®	2,018	1,846	9	2,016	1,859	8	2,016	1,859	8
MSCI® Emerging Markets	1,132	996	14	1,130	1,004	13	1,130	1,004	13
HFRI Asset Weighted Composite®	NA	NA	NA	1,410	1,340	5	1,410	1,340	5

<sup>(1)</sup> The index names listed in the table are service marks of their respective owners.

NA Not applicable

TABLE 4: QUARTER-END DEBT INDICES<sup>(1)</sup>

	As of September 30,		
	2018	2017	% Change
Barclays Capital U.S. Aggregate Bond Index®	2,014	2,038	(1 )%

Barclays Capital Global Aggregate Bond Index<sup>®</sup> 473 480 (1 )

(1) The index names listed in the table are service marks of their respective owners.

State Street Corporation | 13

---

Table of Contents

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS

Net Interest Income

See Table 2: Total Revenue, for the breakout of interest income and interest expense for the three and nine months ended September 30, 2018 compared to the same periods in 2017.

NII is defined as interest income earned on interest-earning assets less interest expense incurred on interest-bearing liabilities. Interest-earning assets, which principally consist of investment securities, interest-bearing deposits with banks, resale agreements, loans and leases and other liquid assets, are financed primarily by client deposits, short-term borrowings and long-term debt.

NIM represents the relationship between annualized fully taxable-equivalent NII and average total interest-earning assets for the period. It is calculated by dividing fully taxable-equivalent NII by average interest-earning assets. Revenue that is exempt from income taxes, mainly that earned from certain investment securities (state and political subdivisions), is adjusted to a fully taxable-equivalent basis using the U.S. federal and state statutory income tax rates.

State Street Corporation | 14

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Securities sold under repurchase agreements	2,361	11	.61	3,965	2	.05
Federal funds purchased	—	—	—	1	—	—
Other short-term borrowings	1,274	12	1.24	1,313	7	.75
Long-term debt	10,808	293	3.62	11,569	227	2.61
Other interest-bearing liabilities	5,187	154	3.97	4,881	91	2.50
Average total interest-bearing liabilities	\$ 145,990	\$ 706	.65	\$ 144,410	\$ 423	.39
Interest-rate spread			1.30 %			1.17 %
Net interest income—fully taxable-equivalent basis		\$ 2,024			\$ 1,815	
Net interest margin—fully taxable-equivalent basis			1.45 %			1.26 %
Tax-equivalent adjustment		(50 )			(127 )	
Net interest income—GAAP basis		\$ 1,974			\$ 1,688	

(1) Rates earned/paid on interest-earning assets and interest-bearing liabilities include the impact of hedge activities associated with our asset and liability management activities where applicable.

(2) Reflects the impact of balance sheet netting under enforceable netting agreements of approximately \$35 billion and \$33 billion for the three and nine months ended September 30, 2018, respectively, and \$30 billion and \$31 billion for the same periods in 2017, respectively. Excluding the impact of netting, the average interest rates would be approximately 0.91% and 0.92% for the three and nine months ended September 30, 2018, respectively, and approximately 0.92% and 0.76% for the same periods in 2017, respectively.

(3) Average rate includes the impact of FX swap costs of approximately \$6 million and \$82 million for the three and nine months ended September 30, 2018, respectively, and \$39 million and \$84 million for the same periods in 2017, respectively. Average rates for total interest-bearing deposits excluding the impact of FX swap costs were 0.25% and 0.16% for the three and nine months ended September 30, 2018, respectively, and 0.00% and 0.01% for the same periods in 2017, respectively.

State Street Corporation | 15

Table of Contents

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS

See Table 5: Average Balances and Interest Rates - Fully Taxable-Equivalent Basis, for the breakout of NII on a FTE basis for the three and nine months ended September 30, 2018 and 2017. NII on a FTE basis increased in the three and nine months ended September 30, 2018 compared to the same periods in 2017, primarily due to higher U.S. interest rates and disciplined liability pricing, partially offset by a mix shift to HQLA.

We recorded aggregate discount accretion in interest income of approximately \$4 million and \$13 million for the three and nine months ended September 30, 2018, respectively, compared to approximately \$4 million and \$15 million for the same periods in 2017, respectively, related to the assets we consolidated onto our balance sheet in 2009 from our asset-backed commercial paper conduits. Assuming that we hold the former conduit securities remaining in our investment portfolio until they mature or are sold, we expect to generate aggregate discount accretion in future periods of approximately \$98 million over their remaining terms.

The timing and ultimate recognition of any applicable discount accretion depends, in part, on factors that are outside of our control, including anticipated prepayment speeds and credit quality. The impact of these factors is uncertain and can be significantly influenced by general economic and financial market conditions. The timing and recognition of any applicable discount accretion can also be influenced by our ongoing management of the risks and other characteristics associated with our investment securities portfolio, including sales of securities which would otherwise generate interest revenue through accretion.

Changes in the components of interest-earning assets and interest-bearing liabilities are discussed in more detail below. Additional information about the components of interest income and interest expense is provided in Note 14 to the consolidated financial statements included in this Form 10-Q.

Average total interest-earning assets were \$183.30 billion and \$187.31 billion for the three and nine months ended September 30, 2018, respectively, compared to \$189.92 billion and \$192.34 billion for the same periods in 2017, respectively. The decrease for both comparative periods is largely driven by lower client deposits, which includes both interest-bearing and non-interest-bearing deposits.

Interest-bearing deposits with banks averaged \$56.51 billion and \$54.41 billion for the three and nine months ended September 30, 2018, respectively, compared to \$45.51 billion and \$49.17 billion for the same periods in 2017, respectively. These deposits primarily reflect our maintenance of cash balances at the Federal Reserve, the ECB and other non-U.S. central banks.

Securities purchased under resale agreements averaged \$2.93 billion and \$2.76 billion for the three and nine months ended September 30, 2018, respectively, compared to \$2.17 billion and \$2.19 billion for the same periods in 2017, respectively. This reflects the impact of balance sheet netting under enforceable netting agreements of approximately \$35 billion and \$33 billion for the three and nine months ended September 30, 2018, respectively, and approximately \$30 billion and \$31 billion for the same periods in 2017, respectively. We maintain an agreement with a clearing organization that enables us to net all securities sold under repurchase agreements against those purchased under resale agreements with counterparties that are also members of the clearing organization.

Investment securities averaged \$85.62 billion and \$89.08 billion in the three and nine months ended September 30, 2018, respectively, compared to \$95.31 billion and \$95.72 billion for the same periods in 2017, respectively. The decrease in average investment securities for both periods was primarily driven by our investment repositioning strategy to prioritize capital efficient client lending while managing OCI sensitivity. We sold approximately \$16 billion of non-HQLA securities during the nine months ended September 30, 2018. A significant portion of the sales have been reinvested in HQLA and such investments will continue to occur over time with a portion likely to either be held in cash or cash equivalents or used to fund client lending activities.

Loans and leases averaged \$22.51 billion and \$23.36 billion in the three and nine months ended September 30, 2018, respectively, compared to \$22.84 billion and \$21.36 billion for the same periods in 2017, respectively. The increase in average loans and leases for the nine months ended September 30, 2018 was primarily driven by higher levels of mutual fund lending, senior secured bank loans and commercial real estate. Loans and leases also includes U.S. and non-U.S. overdrafts, which provide liquidity to clients in support of investment activities.

Average other interest-earning assets, largely associated with our enhanced custody business, decreased to \$14.70 billion and \$16.60 billion for the three and nine months ended September 30, 2018, respectively, from \$23.09 billion and \$22.95 billion for the same periods in 2017, respectively, largely driven by a reduction in the level of cash collateral posted by our enhanced custody business. The enhanced custody business is our securities financing business where we act as principal with respect to our custody clients and generate securities finance revenue. The NII earned on these transactions is generally lower than the interest earned on other alternative investments.

State Street Corporation | 16

---

Table of ContentsMANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS

Aggregate average U.S. and non-U.S. interest-bearing deposits increased to \$125.30 billion and \$126.36 billion for the three and nine months ended September 30, 2018, respectively, from \$121.96 billion and \$122.68 billion for the same periods in 2017, respectively. The increase is primarily driven by a gradual shift from non-interest-bearing deposits to interest-bearing deposits. Future deposit levels will be influenced by the underlying asset servicing business, client deposit behavior and market conditions, including the general levels of U.S. and non-U.S. interest rates.

Average other short-term borrowings, largely associated with our tax-exempt investment program, decreased to \$1.25 billion and \$1.27 billion for the three and nine months ended September 30, 2018, respectively, compared to \$1.28 billion and \$1.31 billion for the same periods in 2017, respectively.

Average other interest-bearing liabilities were \$5.31 billion and \$5.19 billion for the three and nine months ended September 30, 2018, respectively, compared to \$4.06 billion and \$4.88 billion for the same periods in 2017, respectively. Other interest-bearing liabilities primarily reflect our level of cash collateral received from clients in connection with our enhanced custody business, which is presented on a net basis where we have enforceable netting agreements.

Several factors could affect future levels of NII and NIM, including the volume and mix of client deposits and funding sources; actions of various central banks; balance sheet management activities; changes in the level and slope of U.S. and non-U.S. interest rates; revised or proposed regulatory capital or liquidity standards, or interpretations of those standards; the yields earned on securities purchased compared to the yields earned on securities sold or matured and changes in the type and amount of credit or other loans we extend.

Based on market conditions and other factors, including regulatory standards, we continue to reinvest the majority of the proceeds from pay-downs and maturities of investment securities in highly-rated U.S. and non-U.S. securities, such as U.S. Treasury and agency securities, sovereign debt securities and federal agency MBS. The pace at which we reinvest and the types of investment securities purchased will depend on the impact of market conditions, the implementation of regulatory standards, including interpretation of those standards and other factors over time. We expect these factors and the levels of global interest rates to impact our reinvestment program and future levels of NII and NIM.

## Expenses

Table 6: Expenses, provides the breakout of expenses for the three and nine months ended September 30, 2018 and 2017.

TABLE 6: EXPENSES

(Dollars in millions)	Three Months		% Change
	Ended September 30, 2018	2017	
Compensation and employee benefits	\$1,103	\$1,090	1 %
Information systems and communications	332	296	12
Transaction processing services <sup>(1)</sup>	236	215	10
Occupancy	110	118	(7 )
Acquisition costs	1	—	nm
Restructuring charges, net	(1 )	33	nm
Other:			
Professional services	79	71	11
Amortization of other intangible assets	47	54	(13 )
Regulatory fees and assessments	15	24	(38 )
Other <sup>(1)</sup>	157	120	31
Total other <sup>(1)</sup>	298	269	11
Total expenses <sup>(1)</sup>	\$2,079	\$2,021	3

Number of employees at quarter-end	39,020	36,303	7
	Nine Months		
	Ended		%
	September 30,		Change
(Dollars in millions)	2018	2017	
Compensation and employee benefits	\$3,477	\$3,327	5 %
Information systems and communications	968	866	12
Transaction processing services <sup>(1)</sup>	724	619	17
Occupancy	354	344	3
Acquisition costs	1	21	nm
Restructuring charges, net	(1 )	112	nm
Other:			
Professional services	247	262	(6 )
Amortization of other intangible assets	145	160	(9 )
Regulatory fees and assessments	71	77	(8 )
Other <sup>(1)</sup>	508	350	45
Total other <sup>(1)</sup>	971	849	14
Total expenses <sup>(1)</sup>	\$6,494	\$6,138	6

<sup>(1)</sup> The new revenue recognition standard contributed approximately \$70 million and \$205 million in total expenses in the three and nine months ended September 30, 2018, respectively, compared to the same periods in 2017, respectively. These contributions comprise the following: in the three months ended September 30, 2018, approximately \$38 million in other expenses, \$18 million in transaction processing and \$14 million across other expense lines; and in the nine months ended September 30, 2018, approximately \$128 million in other expenses, \$48 million in transaction processing and \$29 million across other expense lines.

<sup>nm</sup> Not meaningful

Compensation and employee benefits expenses increased 1% in the three months ended September 30, 2018, compared to the same period in 2017, primarily due to new business on-boarded and annual merit increases, partially offset by net Beacon savings.

Compensation and employee benefits expenses increased 5% in the nine months ended September 30, 2018, compared to the same period in 2017, primarily due to new business on-boarded, investments in technology resources, annual merit increases, and a repositioning charge of \$61 million taken in the second quarter of 2018, partially offset by net Beacon savings.

Headcount increased 7% as of September 30, 2018 compared to September 30, 2017. The growth in headcount was all within low cost locations. Headcount

Table of Contents

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS

in high cost locations fell as of September 30, 2018 compared to September 30, 2017, primarily driven by reductions from Beacon.

Information systems and communications expenses increased 12% in both the three and nine months ended September 30, 2018 compared to the same periods in 2017. The increases were primarily a result of Beacon-related investments and technology infrastructure enhancements.

Transaction processing services increased 10% in the three months ended September 30, 2018 compared to the same period in 2017, reflecting the adoption of the new revenue recognition standard and higher client volumes, partially offset by lower sub-custody costs.

Transaction processing services increased 17% in the nine months ended September 30, 2018 compared to the same period in 2017, reflecting the adoption of the new revenue recognition standard, higher client volumes and assets under custody with sub-custodians.

Other expenses increased 11% and 14% in the three and nine months ended September 30, 2018, respectively, compared to the same periods in 2017, respectively, reflecting the adoption of the new revenue recognition standard, partially offset by lower discretionary spending.

As a systemically important financial institution, we are subject to enhanced supervision and prudential standards. Our status as a G-SIB has also resulted in heightened prudential and conduct expectations of our U.S. and international regulators with respect to our capital and liquidity management and our compliance and risk oversight programs. These heightened expectations have increased our regulatory compliance costs, including personnel and systems, as well as significant additional implementation and related costs to enhance our regulatory compliance programs. Regulatory compliance requirements are anticipated to remain at the elevated levels we have experienced over the past several years.

Acquisition Costs

We recorded minimal acquisition costs in both the three and nine months ended September 30, 2018 related to our acquisition of Charles River Development. We recorded approximately \$21 million of acquisition

costs in the nine months ended September 30, 2017, all of which related to our acquisition of the GEAM business on July 1, 2016. As we integrate Charles River Development into our business, we expect to incur approximately \$200 million of acquisition costs, including merger and integration costs, through 2021. For further information on the Charles River Development acquisition, refer to Note 1 to the consolidated financial statements included under Item 8, Financial Statements and Supplementary Data, of this Form 10-Q.

Restructuring Charges

In connection with Beacon, we announced in 2016 that we expected:

(i) to incur aggregate pre-tax restructuring charges of approximately \$300 million to \$400 million beginning in 2016 through December 31, 2020, including approximately \$250 million to \$300 million in severance and benefits costs associated with targeted staff reductions (a substantial portion of which would result in future cash expenditures) and approximately \$50 million to \$100 million in information technology application rationalization and real estate actions; and

(ii) to achieve estimated annual pre-tax net year-over-year expense savings of \$550 million by the end of 2020, relative to 2015, all else equal, for full effect in 2021. Actual expenses may increase or decrease in the future due to other factors.

In both the three and nine months ended September 30, 2018, we recorded minimal changes related to Beacon, compared to \$33 million and \$112 million of restructuring charges in the same periods of 2017, respectively. In aggregate, we have recorded restructuring charges of approximately \$386 million related to Beacon, including \$299 million in severance costs and \$87 million in information technology application rationalization and real estate actions.

In the three and nine months ended September 30, 2018, we have achieved approximately \$66 million and \$183 million, respectively, of Beacon pre-tax year-over-year savings, net of Beacon investments, and expect total pre-tax

year-over-year savings of approximately \$200 million in 2018. Our target Beacon expenses savings goal is \$550 million to be realized by early 2019, of which \$509 million has been realized as of September 30, 2018.

State Street Corporation | 18

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Table of ContentsMANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS

The following table presents aggregate restructuring activity for the periods indicated.

TABLE 7: RESTRUCTURING CHARGES

(In millions)	Employee Related Costs	Real Estate Actions	Asset and Other Write-offs	Total
Accrual Balance at December 31, 2016	\$ 37	\$ 17	\$ 2	\$56
Accruals for Beacon	14	—	2	16
Payments and Other Adjustments	(13 )	(3 )	(2 )	(18 )
Accrual Balance at March 31, 2017	38	14	2	54
Accruals for Beacon	60	—	2	62
Payments and Other Adjustments	(11 )	(3 )	(2 )	(16 )
Accrual Balance at June 30, 2017	87	11	2	100
Accruals for Beacon	23	9	1	33
Payments and Other Adjustments	(10 )	(5 )	(1 )	(16 )
Accrual Balance at September 30, 2017	\$ 100	\$ 15	\$ 2	\$117
Accrual Balance at December 31, 2017	\$ 166	\$ 32	\$ 3	\$201
Accruals for Beacon	—	—	—	—
Payments and Other Adjustments	(22 )	(4 )	—	(26 )
Accrual Balance at March 31, 2018	144	28	3	175
Accruals for Beacon	—	—	—	—
Payments and Other Adjustments	(31 )	(3 )	—	(34 )
Accrual Balance at June 30, 2018	113	25	3	141
Accruals for Beacon	(1 )	—	—	(1 )
Payments and Other Adjustments	(18 )	(4 )	(1 )	(23 )
Accrual Balance at September 30, 2018	\$ 94	\$ 21	\$ 2	\$117

## Income Tax Expense

Income tax expense was \$102 million and \$335 million for the three and nine months ended September 30, 2018, respectively, compared to \$137 million and \$375 million for the same periods in 2017, respectively. Our effective tax rate for the three and nine months ended September 30, 2018 was 11.8% and 13.4%, respectively, compared to 16.7% and 17.2% for the same periods in 2017, respectively. In the third quarter of 2018, we reduced our provisional estimate of the benefit of the Tax Cuts and Jobs Act by approximately \$32 million. This reduction, as well as the lower statutory tax rate, is reflected in the 2018 effective tax rate.

We continue to evaluate interpretations and other guidance regarding the Tax Cuts and Jobs Act.

## LINE OF BUSINESS INFORMATION

Our operations are organized into two lines of business: Investment Servicing and Investment Management, which are defined based on products and services provided. The results of operations for these lines of business are not necessarily comparable with those of other companies, including companies in the financial services industry.

Investment Servicing provides services for institutional clients, including mutual funds, collective investment funds and other investment pools, corporate and public retirement plans, insurance companies, investment managers, foundations and endowments worldwide. Products include custody; product- and participant-level accounting; daily pricing and administration; master trust and master custody;

record-keeping; cash management; foreign exchange, brokerage and other trading services; securities finance; our enhanced custody product, which integrates principal securities lending and custody; deposit and short-term investment facilities; loans and lease financing; investment manager and alternative investment manager operations outsourcing; and performance, risk and compliance analytics to support institutional investors.

Investment Management, through SSGA, provides a broad array of investment management, investment research and investment advisory services to corporations, public funds and other sophisticated investors. SSGA offers passive and active asset management strategies across equity, fixed-income, alternative, multi-asset solutions (including OCIO) and cash asset classes. Products are distributed directly and through intermediaries using a variety of investment vehicles, including ETFs, such as the SPDR ETF<sup>®</sup> brand.

For information about our two lines of business, as well as the revenues, expenses and capital allocation methodologies associated with them, refer to pages 179 to 181 in Note 24 to the consolidated financial statements included under Item 8, Financial Statements and Supplementary Data, in our 2017 Form 10-K and Note 17 to the consolidated financial statements included in this Form 10-Q.

State Street Corporation | 19

---

Table of ContentsMANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS

## Investment Servicing

TABLE 8: INVESTMENT SERVICING LINE OF BUSINESS RESULTS

(Dollars in millions, except where otherwise noted)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2018	2017	% Change	2018	2017	% Change
Servicing fees	\$1,333	\$1,351	(1 )%	\$4,135	\$3,986	4 %
Trading services	255	239	7	810	768	5
Securities finance	128	147	(13 )	423	459	(8 )
Processing fees and other	49	65	(25 )	131	203	(35 )
Total fee revenue	1,765	1,802	(2 )	5,499	5,416	2
Net interest income	680	606	12	1,991	1,691	18
Gains (losses) related to investment securities, net	(1 )	1	nm	6	(39 )	nm
Total revenue	2,444	2,409	1	7,496	7,068	6
Provision for loan losses	5	3	67	7	4	75
Total expenses	1,693	1,673	1	5,244	5,050	4
Income before income tax expense	\$746	\$733	2	\$2,245	\$2,014	11
Pre-tax margin	31	% 30	%	30	% 28	%

<sup>nm</sup> Not meaningful

## Servicing Fees

Servicing fees decreased 1% in the three months ended September 30, 2018, compared to the same period in 2017, primarily due to a previously announced client transition and challenging industry conditions, including fee pressure, outflows across the industry, primarily in the U.S. and Europe, and lower emerging markets asset levels.

Servicing fees increased 4% in the nine months ended September 30, 2018, compared to the same period in 2017, primarily due to higher global equity markets and new business on-boarded, partially offset by a previously announced client transition. Fees for investment servicing continue to experience pressure, though they are generally associated with client commitments to longer-term relationships.

Servicing fees generated outside the U.S. were approximately 48% and 47% of total servicing fees in the three and nine months ended September 30, 2018, respectively, compared to approximately 47% and 45% for the same periods in 2017, respectively.

TABLE 9: ASSETS UNDER CUSTODY AND/OR  
ADMINISTRATION BY PRODUCT

(In billions)	September 30, 2018	December 31, 2017	September 30, 2017
Mutual funds	\$ 8,717	\$ 7,603	\$ 7,394
Collective funds	9,646	9,707	9,190
Pension products	6,807	6,704	6,571
Insurance and other products	8,826	9,105	8,955
Total	\$ 33,996	\$ 33,119	\$ 32,110

TABLE 10: ASSETS UNDER CUSTODY AND/OR  
ADMINISTRATION BY ASSET CLASS

(In billions)	September 30, 2018	December 31, 2017	September 30, 2017
Equities	\$ 20,070	\$ 19,214	\$ 18,423

Fixed-income	10,018	10,070	9,883
Short-term and other investments	3,908	3,835	3,804
Total	\$ 33,996	\$ 33,119	\$ 32,110

TABLE 11: ASSETS UNDER CUSTODY AND/OR ADMINISTRATION BY GEOGRAPHY<sup>(1)</sup>

(In billions)	September 30, 2018	December 31, 2017	September 30, 2017
North America	\$ 25,157	\$ 24,418	\$ 23,675
Europe/Middle East/Africa	7,094	7,028	6,806
Asia/Pacific	1,745	1,673	1,629
Total	\$ 33,996	\$ 33,119	\$ 32,110

<sup>(1)</sup> Geographic mix is generally based on the domicile of the entity servicing the funds and is not necessarily representative of the underlying asset mix.

Asset servicing mandates newly announced in the third quarter of 2018 totaled approximately \$300 billion. Servicing assets remaining to be installed in future periods totaled approximately \$465 billion as of September 30, 2018, which will be reflected in AUCA in future periods after installation and will generate servicing fee revenue in subsequent periods. The full revenue impact of such mandates will be realized over several quarters as the assets are installed and additional services are added over that period.

New asset servicing mandates and servicing assets remaining to be installed in future periods exclude certain new business which has been contracted, but for which the client has not yet provided permission to publicly disclose and the expected installation date extends beyond one quarter. These excluded assets, which from time to time may be significant, will be included in new asset servicing mandates and reflected in servicing assets remaining

Table of Contents

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS

to be installed in the period in which the client provides its permission. Servicing mandates and servicing assets remaining to be installed in future periods are presented on a gross basis and therefore also do not include the impact of clients who have notified us during the period of their intent to terminate or reduce their relationship with us, which may from time to time be significant.

With respect to these new servicing mandates, once installed we may provide various services, including, accounting, bank loan servicing, compliance reporting and monitoring, custody, depository banking services, foreign exchange, fund administration, hedge fund servicing, middle-office outsourcing, performance and analytics, private equity administration, real estate administration, securities finance, transfer agency and wealth management services.

Revenues associated with new servicing mandates may vary based on the breadth of services provided and the timing of installation, and the types of assets.

For additional information about the impact of worldwide equity and fixed income valuations on our fee revenue, including servicing fee revenue, refer to "Fee Revenue" in "Consolidated Results of Operations" included in this Management's Discussion and Analysis in this Form 10-Q.

As a result of a decision to diversify providers, one of our large clients has begun to move a portion of its assets, largely common trust funds, to another service provider. We remain a significant service provider to this client. The transition, which began in 2018 and is largely complete, represents approximately \$1 trillion in assets with respect to which we will no longer derive revenue post-transition.

Trading Services

Trading services revenue, as presented in Table 8: Investment Servicing Line of Business Results, increased 7% and 5% in the three and nine months ended September 30, 2018, respectively, compared to the same periods in 2017, respectively, primarily due to higher client FX and electronic trading volumes. Trading services revenue is composed of revenue generated by FX trading, as well as revenue generated by brokerage and other trading services as noted in Table 2: Total Revenue.

Foreign Exchange Trading Revenue

We primarily earn FX trading revenue by acting as a principal market-maker through both "direct sales and trading" and "indirect foreign exchange trading."

Direct sales and trading: Represent FX transactions at negotiated rates with clients and investment managers that contact our trading desk directly. These principal market-making activities include transactions for funds serviced by third party custodians or prime

brokers, as well as those funds under custody with us.

- Indirect FX trading: Represent FX transactions with clients or their investment managers routed to our FX desk through our asset-servicing operation; in which all cases, we are the funds' custodian. We execute indirect FX trades as a principal at rates disclosed to our clients.

Our FX trading revenue is influenced by multiple factors, including: the volume and type of client FX transactions and related spreads; currency volatility, reflecting market conditions; and our management of exchange rate, interest rate and other market risks associated with our foreign exchange activities. The relative impact of these factors on our total FX trading revenues often differs from period to period. For example, assuming all other factors remain constant, increases or decreases in volumes or bid-offer spreads across product mix tend to result in increases or decreases, as the case may be, in client-related FX revenue.

Our clients that utilize indirect FX trading can, in addition to executing their FX transactions through dealers not affiliated with us, transition from indirect FX trading to either direct sales and trading execution, including our "Street FX" service, or to one of our electronic trading platforms. Street FX, in which we continue to act as a principal market-maker, enables our clients to define their FX execution strategy and automate the FX trade execution process, both for funds under custody with us as well as those under custody at another bank.

Brokerage and Other Trading Services

Total brokerage and other trading services revenue primarily consists of "electronic FX services" and "other trading, transition management and brokerage revenue."

Electronic FX services: Our clients may choose to execute FX transactions through one of our electronic trading platforms. These transactions generate revenue through a "click" fee.

Other trading, transition management and brokerage revenue: As our clients look to us to enhance and preserve portfolio values, they may choose to utilize our Transition or Currency Management capabilities or transact with our Equity Trade execution group. These transactions generate revenue via commissions charged for trades transacted during the management of these portfolios.

In recent years, our transition management revenue was adversely affected by compliance issues in our U.K. business during 2010 and 2011, including

State Street Corporation | 21

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Table of Contents

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS

settlements with the FCA in 2014 and the DOJ and SEC in 2017, including a deferred prosecution agreement. The reputational and regulatory impact of those compliance issues continues and may adversely affect our results in future periods.

Securities Finance

Our securities finance business consists of three components:

- (1) an agency lending program for SSGA-managed investment funds with a broad range of investment objectives, which we refer to as the SSGA lending funds;
- (2) an agency lending program for third-party investment managers and asset owners, which we refer to as the agency lending funds; and
- (3) security lending transactions which we enter into as principal, which we refer to as our enhanced custody business. Securities finance revenue earned from our agency lending activities, which is composed of our split of both the spreads related to cash collateral and the fees related to non-cash collateral, is principally a function of the volume of securities on loan, the interest-rate spreads and fees earned on the underlying collateral and our share of the fee split. As principal, our enhanced custody business borrows securities from the lending client or other market participants and then lends such securities to the subsequent borrower, either our client or a broker/dealer. We act as principal when the lending client is unable to, or elects not to, transact directly with the market and execute the transaction and furnish the securities. In our role as principal, we provide support to the transaction through our credit rating. While we source a significant proportion of the securities furnished by us in our role as principal from third parties, we have the ability to source securities through assets under custody from clients who have designated State Street as an eligible borrower.

Securities finance revenue, as presented in Table 8: Investment Servicing Line of Business Results, decreased 13% and 8% in the three and nine months ended September 30, 2018, respectively, compared to the same periods in 2017, respectively, primarily due to certain balance sheet repositioning efforts completed in the third quarter of 2018, within our enhanced custody business.

Market influences may continue to affect client demand for securities finance, and as a result our revenue from, and the profitability of, our securities lending activities in future periods. In addition, the constantly evolving regulatory environment, including revised or proposed capital and liquidity standards, interpretations of those standards, and our own balance sheet management activities, may influence modifications to the way in which we deliver our agency lending or enhanced custody businesses, the volume of our securities lending activity and related revenue and profitability in future periods.

Processing Fees and Other

Processing fees and other revenue includes diverse types of fees and revenue, including fees from our structured products business, fees from software licensing and maintenance, equity income from our joint venture investments, gains and losses on sales of other assets and amortization of our tax-advantaged investments.

Processing fees and other revenue, presented in Table 8: Investment Servicing Line of Business Results decreased 25% in the three months ended September 30, 2018 compared to the same period in 2017, primarily due to a pre-tax gain of approximately \$26 million in the third quarter of 2017 related to the sale of an equity trading platform.

Processing fees and other revenue decreased 35% in the nine months ended September 30, 2018 compared to the same period in 2017, primarily due to a pre-tax gain of \$30 million on the dispositions of our joint venture interests in IFDS U.K. and BFDS in the first quarter of 2017 and the aforementioned sale of an equity trading platform in the third quarter of 2017.

Expenses

Total expenses for Investment Servicing increased 1% and 4% in the three and nine months ended September 30, 2018, respectively, compared to the same periods in 2017, respectively. The increases are primarily due to higher technology costs, costs to support new business on-boarded and higher salaries and benefits, partially offset by net Beacon savings.

Additional information about expenses is provided under Expenses in Consolidated Results of Operations included in this Management's Discussion and Analysis of this Form 10-Q.

State Street Corporation | 22

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Table of ContentsMANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS

## Investment Management

TABLE 12: INVESTMENT MANAGEMENT LINE OF BUSINESS  
RESULTS

(Dollars in millions, except where otherwise noted)	Three Months Ended September 30,			Nine Months Ended September 30,		% Change
	2018	2017	% Change	2018	2017	
Management fees	\$474	\$419	13 %	\$1,411	\$1,198	18 %
Trading services <sup>(1)</sup>	33	20	65	97	55	76
Processing fees and other	8	1	nm	9	6	50
Total fee revenue	515	440	17	1,517	1,259	20
Net interest income	(8 )	(3 )	nm	(17 )	(3 )	nm
Total revenue	507	437	16	1,500	1,256	19
Total expenses	386	314	23	1,173	954	23
Income before income tax expense	\$121	\$123	(2 )	\$327	\$302	8
Pre-tax margin	24 %	28 %		22 %	24 %	

<sup>(1)</sup> Includes revenues associated with the SPDR<sup>®</sup> Gold Shares ETF and SPDR<sup>®</sup> Long Dollar Gold Trust ETF, for which we act as the marketing agent.

<sup>nm</sup> Not meaningful

## Management Fees

Through SSGA, we provide a broad range of investment management strategies, specialized investment management advisory services, OCIO and other financial services for corporations, public funds and other sophisticated investors. SSGA offers an array of investment management strategies, including passive and active, such as enhanced indexing, using quantitative and fundamental methods for both U.S. and global equity and fixed income securities. SSGA also offers ETFs, such as the SPDR<sup>®</sup> ETF brand. Management fees are directly determined by the values of AUM and the investment strategies employed. Management fees may reflect other factors, including performance fee arrangements, as well as our relationship pricing for clients.

Management fees increased 13% and 18% in the three and nine months ended September 30, 2018, respectively, compared to the same periods in 2017, reflecting higher global equity markets. The new revenue recognition standard contributed approximately \$50 million and \$140 million to management fees in the three and nine months ended September 30, 2018, respectively, compared to the same periods in 2017, respectively.

Table of ContentsMANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS

Management fees generated outside the U.S. were approximately 26% and 27% of total management fees in the three and nine months ended September 30, 2018, respectively, compared to approximately 28% in both the three and nine months ended September 30, 2017.

TABLE 13: ASSETS UNDER MANAGEMENT BY ASSET CLASS AND INVESTMENT APPROACH

(In billions)	September 30, 2018	December 31, 2017	September 30, 2017
Equity:			
Active	\$ 96	\$ 95	\$ 95
Passive	1,693	1,650	1,545
Total Equity	1,789	1,745	1,640
Fixed-Income:			
Active	80	77	73
Passive	343	337	326
Total Fixed-Income	423	414	399
Cash <sup>(1)</sup>	317	330	347
Multi-Asset-Class Solutions:			
Active	20	18	18
Passive	125	129	116
Total Multi-Asset-Class Solutions	145	147	134
Alternative Investments <sup>(2)</sup> :			
Active	22	23	24
Passive	114	123	129
Total Alternative Investments	136	146	153
Total	\$ 2,810	\$ 2,782	\$ 2,673

<sup>(1)</sup> Includes both floating- and constant-net-asset-value portfolios held in commingled structures or separate accounts.

<sup>(2)</sup> Includes real estate investment trusts, currency and commodities, including SPDR<sup>®</sup> Gold Shares ETF and SPDR<sup>®</sup> Long Dollar Gold Trust ETF. We are not the investment manager for the SPDR<sup>®</sup> Gold Shares ETF and SPDR<sup>®</sup> Long Dollar Gold Trust ETF, but acts as the marketing agent.

TABLE 14: EXCHANGE - TRADED FUNDS BY ASSET CLASS<sup>(1)</sup>

(In billions)	September 30, 2018	December 31, 2017	September 30, 2017
Alternative Investments <sup>(2)</sup>	\$ 40	\$ 48	\$ 48
Cash	4	2	2
Equity	566	531	478
Fixed-income	69	63	61
Total Exchange-Traded Funds	\$ 679	\$ 644	\$ 589

<sup>(1)</sup> ETFs are a component of AUM presented in the preceding table.

<sup>(2)</sup> Includes real estate investment trusts, currency and commodities, including SPDR<sup>®</sup> Gold Shares ETF and SPDR<sup>®</sup> Long Dollar Gold Trust ETF. We are not the investment manager for the SPDR<sup>®</sup> Gold Shares ETF and SPDR<sup>®</sup> Long Dollar Gold Trust ETF, but acts as the marketing agent.

TABLE 15: GEOGRAPHIC MIX OF ASSETS UNDER MANAGEMENT<sup>(1)</sup>

(In billions)

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	September	December	September
	30, 2018	31, 2017	30, 2017
North America	\$ 1,956	\$ 1,931	\$ 1,845
Europe/Middle East/Africa	476	521	510
Asia/Pacific	378	330	318
Total	\$ 2,810	\$ 2,782	\$ 2,673

<sup>(1)</sup> Geographic mix is based on client location or fund management location.

State Street Corporation | 24

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Table of ContentsMANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS

TABLE 16: ACTIVITY IN ASSETS UNDER MANAGEMENT BY PRODUCT CATEGORY

(In billions)	Equity	Fixed-Income	Cash <sup>(1)</sup>	Multi-Asset-Class Solutions	Alternative Investments <sup>(2)</sup>	Total
Balance as of December 31, 2016	\$1,474	\$ 378	\$ 333	\$ 126	\$ 157	\$2,468
Long-term institutional inflows <sup>(3)</sup>	270	94	—	56	20	440
Long-term institutional outflows <sup>(3)</sup>	(344 )	(92 )	—	(52 )	(41 )	(529 )
Long-term institutional flows, net	(74 )	2	—	4	(21 )	(89 )
ETF flows, net	26	10	—	—	1	37
Cash fund flows, net	—	—	(8 )	—	—	(8 )
Total flows, net	(48 )	12	(8 )	4	(20 )	(60 )
Market appreciation	293	15	2	12	3	325
Foreign exchange impact	26	9	3	5	6	49
Total market/foreign exchange impact	319	24	5	17	9	374
Balance as of December 31, 2017	\$1,745	\$ 414	\$ 330	\$ 147	\$ 146	\$2,782
Long-term institutional inflows <sup>(3)</sup>	260	111	—	50	11	432
Long-term institutional outflows <sup>(3)</sup>	(299 )	(95 )	—	(51 )	(12 )	(457 )
Long-term institutional flows, net	(39 )	16	—	(1 )	(1 )	(25 )
ETF flows, net	2	8	1	—	(4 )	7
Cash fund flows, net	—	—	(15 )	—	—	(15 )
Total flows, net	(37 )	24	(14 )	(1 )	(5 )	(33 )
Market appreciation	92	(11 )	2	—	(1 )	82
Foreign exchange impact	(11 )	(4 )	(1 )	(1 )	(4 )	(21 )
Total market/foreign exchange impact	81	(15 )	1	(1 )	(5 )	61
Balance as of September 30, 2018	\$1,789	\$ 423	\$ 317	\$ 145	\$ 136	\$2,810

<sup>(1)</sup> Includes both floating- and constant-net-asset-value portfolios held in commingled structures or separate accounts.

<sup>(2)</sup> Includes real estate investment trusts, currency and commodities, including SPDR® Gold Shares ETF and SPDR® Long Dollar Gold Trust ETF. We are not the investment manager for the SPDR® Gold Shares ETF and SPDR® Long Dollar Gold Trust ETF, but acts as the marketing agent.

<sup>(3)</sup> Amounts represent long-term portfolios, excluding ETFs.

The preceding table does not include approximately \$22 billion of new asset management business which was awarded but not installed as of September 30, 2018. New business will be reflected in AUM in future periods after installation, and will generate management fee revenue in subsequent periods. Total AUM as of September 30, 2018 included managed assets lost but not liquidated. Lost business occurs from time to time and it is difficult to predict the timing of client behavior in transitioning these assets as the timing can vary significantly.

## Expenses

Total expenses for Investment Management increased 23% in both the three and nine months ended September 30, 2018 compared to the same periods in 2017, reflecting the impact from the adoption of the new revenue recognition standard in 2018.

Additional information about expenses is provided under Expenses in Consolidated Results of Operations included in this Management's Discussion and Analysis of this Form 10-Q.

Table of ContentsMANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS

## FINANCIAL CONDITION

The structure of our consolidated statement of condition is primarily driven by the liabilities generated by our Investment Servicing and Investment Management lines of business. Our clients' needs and our operating objectives determine balance sheet volume, mix and currency denomination. As our clients execute their worldwide cash management and investment activities, they utilize deposits and short-term investments that constitute the majority of our liabilities. These liabilities are generally in the form of interest-bearing transaction account deposits, which are denominated in a variety of currencies; non-interest-bearing demand deposits; and repurchase agreements, which generally serve as short-term investment alternatives for our clients.

Deposits and other liabilities resulting from client initiated transactions are invested in assets that generally have contractual maturities significantly longer than our liabilities; however, we evaluate the operational nature of our deposits and seek to maintain appropriate short-term liquidity of those liabilities that are not operational in nature and maintain longer-termed assets for our operational deposits. Our assets consist primarily of securities held in our AFS or HTM portfolios and short-duration financial instruments, such as interest-bearing deposits with banks and securities purchased under resale agreements. The actual mix of assets is determined by the characteristics of the client liabilities and our desire to maintain a well-diversified portfolio of high-quality assets.

TABLE 17: AVERAGE STATEMENT OF CONDITION<sup>(1)</sup>

(In millions)	Nine Months Ended	
	2018	2017
	Average Balance	Average Balance
Assets:		
Interest-bearing deposits with banks	\$54,414	\$49,171
Securities purchased under resale agreements	2,759	2,192
Trading account assets	1,098	949
Investment securities	89,080	95,716
Loans and leases	23,359	21,360
Other interest-earning assets	16,599	22,952
Average total interest-earning assets	187,309	192,340
Cash and due from banks	3,375	3,181
Other non-interest-earning assets	33,386	24,973
Average total assets	\$224,070	\$220,494
Liabilities and shareholders' equity:		
Interest-bearing deposits:		
U.S.	\$52,190	\$25,821
Non-U.S.	74,170	96,860
Total interest-bearing deposits	126,360	122,681
Securities sold under repurchase agreements	2,361	3,965
Federal funds purchased	—	1
Other short-term borrowings	1,274	1,313
Long-term debt	10,808	11,569
Other interest-bearing liabilities	5,187	4,881
Average total interest-bearing liabilities	145,990	144,410
Non-interest-bearing deposits	36,081	42,043
Other non-interest-bearing liabilities	19,330	12,130

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Preferred shareholders' equity	3,204	3,197
Common shareholders' equity	19,465	18,714
Average total liabilities and shareholders' equity	\$224,070	\$220,494

(1) Additional information about our average statement of condition, primarily our interest-earning assets and interest-bearing liabilities, is provided in "Net Interest Income" in this Management's Discussion and Analysis.

State Street Corporation | 26

---

Table of ContentsMANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS

## Investment Securities

TABLE 18: CARRYING VALUES OF INVESTMENT  
SECURITIES

(In millions)	September 30, 2018	December 31, 2017
Available-for-sale:		
U.S. Treasury and federal agencies:		
Direct obligations	\$ 11	\$ 223
Mortgage-backed securities	15,473	10,872
Total U.S. Treasury and federal agencies	15,484	11,095
Asset-backed securities:		
Student loans <sup>(1)</sup>	1,441	3,358
Credit cards	616	1,542
Other	611	1,447
Total asset-backed securities	2,668	6,347
Non-U.S. debt securities:		
Mortgage-backed securities	2,348	6,695
Asset-backed securities	1,521	2,947
Government securities	12,973	10,721
Other	4,744	6,108
Total non-U.S. debt securities	21,586	26,471
State and political subdivisions	4,035	9,151
Collateralized mortgage obligations	303	1,054
Other U.S. debt securities	2,026	2,560
U.S. equity securities <sup>(2)</sup>	—	46
U.S. money-market mutual funds <sup>(2)</sup>	—	397
Total	\$ 46,102	\$ 57,121
Held-to-maturity <sup>(3)</sup> :		
U.S. Treasury and federal agencies:		
Direct obligations	\$ 15,168	\$ 17,028
Mortgage-backed securities	19,697	16,651
Total U.S. Treasury and federal agencies	34,865	33,679
Asset-backed securities:		
Student loans <sup>(1)</sup>	3,031	3,047
Credit cards	325	798
Other	1	1
Total asset-backed securities	3,357	3,846
Non-U.S. debt securities:		
Mortgage-backed securities	672	939
Asset-backed securities	228	263
Government securities	357	474
Other	46	48
Total non-U.S. debt securities	1,303	1,724
Collateralized mortgage obligations	1,042	1,209
Total	\$ 40,567	\$ 40,458

- (1) Primarily composed of securities guaranteed by the federal government with respect to at least 97% of defaulted principal and accrued interest on the underlying loans.
- (2) As described in Note 1, upon adoption of ASU 2016-01, we reclassified money-market funds and equity securities classified as AFS to held at fair value through profit and loss in other assets.
- (3) Includes securities at amortized cost or fair value on the date of transfer from AFS.

Additional information about our investment securities portfolio is provided in Note 3 to the consolidated financial statements included in this Form 10-Q.

We manage our investment securities portfolio to align with the interest-rate and duration characteristics of our client liabilities and in the context of the overall structure of our consolidated statement of condition, in consideration of the global interest-rate environment. We consider a well-diversified, high-credit quality investment securities portfolio to be an important element in the management of our consolidated statement of condition.

Average duration of our investment securities portfolio increased to 3.3 years as of September 30, 2018, compared to 2.7 years as of December 31, 2017. The increase in securities duration reflects a shift towards a strategy where the investment portfolio will target less credit exposure and more HQLA interest-rate exposure.

We sold approximately \$16 billion of non-HQLA securities during the nine months ended September 30, 2018, primarily asset-backed securities and municipal bonds. A significant portion of the sales have been reinvested in HQLA and such investments will continue to occur over time with a portion likely to either be held in cash or cash equivalents or used to fund client lending activities.

Approximately 90% of the carrying value of the portfolio was rated “AAA” or “AA” as of September 30, 2018 and December 31, 2017.

TABLE 19: INVESTMENT  
PORTFOLIO BY EXTERNAL  
CREDIT RATING

	September 30, 2018		December 31, 2017	
AAA <sup>(1)</sup>	76	%	74	%
AA	14		16	
A	6		6	
BBB	4		4	
Below BBB	—		—	
	100	%	100	%

(1) Includes U.S. Treasury and federal agency securities that are split-rated, “AAA” by Moody’s Investors Service and “AA+” by Standard & Poor’s.

As of September 30, 2018, the investment portfolio was diversified with respect to asset class composition. The following table presents the composition of these asset classes.

TABLE 20: INVESTMENT  
PORTFOLIO BY ASSET CLASS

	September 30, 2018		December 31, 2017	
US Treasuries	17	%	17	%
US Agency MBS	38		26	
Foreign Sovereign	16		12	
ABS	13		22	
Other Credit	16		23	
	100	%	100	%



Table of ContentsMANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS

## Non-U.S. Debt Securities

Approximately 26% of the aggregate carrying value of our investment securities portfolio was non-U.S. debt securities as of September 30, 2018, compared to approximately 29% as of December 31, 2017.

TABLE 21: NON-U.S. DEBT SECURITIES

(In millions)	September 30, December 31,	
	2018	2017
Available-for-sale:		
United Kingdom	\$ 3,510	\$ 5,721
Australia	2,924	4,717
Canada	2,473	3,066
France	2,243	2,500
Belgium	1,416	1,193
Japan	1,305	1,319
Italy	1,194	1,645
Spain	1,179	1,413
Austria	1,124	234
Ireland	989	787
Netherlands	957	1,175
Finland	621	299
Germany	487	529
Sweden	354	538
Hong Kong	307	666
Norway	172	514
Other <sup>(1)</sup>	331	155
Total	\$ 21,586	\$ 26,471
Held-to-maturity:		
United Kingdom	\$ 371	\$ 410
Singapore	240	353
Netherlands	199	372
Australia	170	235
Germany	117	127
Spain	95	104
Other <sup>(2)</sup>	111	123
Total	\$ 1,303	\$ 1,724

<sup>(1)</sup> Included approximately \$235 million as of September 30, 2018, related to supranational bonds. Included approximately \$37 million as of December 31, 2017, related to Portugal, which was related to MBS and auto loans.

<sup>(2)</sup> Included approximately \$64 million and \$75 million as of September 30, 2018 and December 31, 2017, respectively, related to Italy and Portugal, all of which were related to MBS.

Approximately 75% and 80% of the aggregate carrying value of these non-U.S. debt securities was rated "AAA" or "AA" as of September 30, 2018 and December 31, 2017, respectively. The majority of these securities comprised senior positions within the security structures; these positions have a level of protection provided through subordination and other forms of credit protection. As of September 30, 2018 and December 31, 2017, approximately 38% and 61%, respectively, of the aggregate carrying value of these non-U.S. debt securities was floating-rate.

As of September 30, 2018, our non-U.S. debt securities had an average market-to-book ratio of 99.8%, and an aggregate pre-tax net unrealized loss of approximately \$36 million, composed of gross unrealized gains of \$109

million and gross unrealized losses of \$145 million. These unrealized amounts included:

a pre-tax net unrealized loss of \$112 million, composed of gross unrealized gains of \$27 million and gross unrealized losses of \$139 million, associated with non-U.S. debt securities available-for-sale and;

a pre-tax net unrealized gain of \$76 million, composed of gross unrealized gains of \$82 million and gross unrealized losses of \$6 million, associated with non-U.S. debt securities held-to-maturity.

As of September 30, 2018, the underlying collateral for non-U.S. MBS and ABS primarily included U.K., Australian, Italian, and Dutch mortgages and U.K. and Eurozone consumer ABS. The securities listed under “Canada” were composed of Canadian government securities and corporate debt and covered bonds. The securities listed under “France” were composed of sovereign bonds and corporate debt and covered bonds. The securities listed under “Japan” were substantially composed of Japanese government securities.

State Street Corporation | 28

---

Table of ContentsMANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS

## Municipal Obligations

We carried approximately \$4.04 billion of municipal securities classified as state and political subdivisions in our investment securities portfolio as of September 30, 2018 as shown in Table 18: Carrying Values of Investment Securities, all of which were classified as AFS. As of the same date, we also provided approximately \$8.69 billion of credit and liquidity facilities to municipal issuers.

TABLE 22: STATE AND MUNICIPAL OBLIGORS<sup>(1)</sup>

(Dollars in millions)	Total Municipal Securities	Credit and Liquidity Facilities <sup>(2)</sup>	Total	% of Total Municipal Exposure	
September 30, 2018					
State of Issuer:					
Texas	\$ 458	\$ 1,587	\$2,045	16	%
New York	490	1,536	2,026	16	
California	224	1,746	1,970	15	
Massachusetts	685	980	1,665	13	
Total	\$ 1,857	\$ 5,849	\$7,706		

December 31, 2017

State of Issuer:

Texas	\$ 1,713	\$ 1,622	\$3,335	18	%
California	415	2,237	2,652	14	
New York	742	1,288	2,030	11	
Massachusetts	859	991	1,850	10	
Washington	623	366	989	5	
Total	\$ 4,352	\$ 6,504	\$10,856		

<sup>(1)</sup> Represented 5% or more of our aggregate municipal credit exposure of approximately \$12.73 billion and \$18.47 billion across our businesses as of September 30, 2018 and December 31, 2017, respectively.

<sup>(2)</sup> Includes municipal loans which are also presented within Table 23: U.S. and Non-U.S. Loans and Leases.

Our aggregate municipal securities exposure presented in Table 22: State and Municipal Obligors, was concentrated primarily with highly-rated counterparties, with approximately 86% of the obligors rated "AAA" or "AA" as of September 30, 2018. As of that date, approximately 34% and 66% of our aggregate municipal securities exposure was associated with general obligation and revenue bonds, respectively. The portfolios are also diversified geographically, with the states that represent our largest exposures widely dispersed across the U.S.

## Impairment

Impairment exists when the fair value of an individual security is below its amortized cost basis. Impairment of a security is further assessed to determine whether such impairment is other-than-temporary. For AFS and HTM debt securities, we record impairment in our consolidated statement of income when management intends to sell (or may be required to sell) the securities before they recover in value, or when management expects the present value of cash flows expected to be collected from the securities to be less than the amortized cost of the impaired security (a credit loss).

We conduct periodic reviews of individual securities to assess whether OTTI exists. Our assessment of OTTI involves an evaluation of economic and security-specific factors. Such factors are based on estimates, derived by management, which contemplate current market conditions and security-specific performance. To the extent that market conditions are worse than management's expectations or due to idiosyncratic bond performance, OTTI could increase, in particular the credit-related component that would be recorded in our consolidated statement of income. Additional

information with respect to OTTI, net impairment losses and gross unrealized losses is provided in Note 3 to the consolidated financial statements included in this Form 10-Q.

Our evaluation of potential OTTI of structured credit securities with collateral in the U.K. and continental Europe takes into account the outcome from the Brexit referendum and other geopolitical events, and assumes no disruption of payments on these securities.

#### Loans and Leases

TABLE 23: U.S. AND NON- U.S. LOANS AND LEASES

(In millions)	September 30, 2018	December 31, 2017
Domestic:		
Commercial and financial	\$ 16,961	\$ 18,696
Commercial real estate	602	98
Lease financing	39	267
Total domestic	17,602	19,061
Non-U.S.:		
Commercial and financial	5,559	3,837
Lease financing	211	396
Total non-U.S.	5,770	4,233
Total loans and leases	\$ 23,372	\$ 23,294

Total loans and leases as of September 30, 2018 were relatively flat compared to December 31, 2017 as the decrease in domestic loans and leases was offset by an increase in non-U.S. commercial and financial loans. The increase in domestic commercial real estate loans is a result of our efforts to expand our loan portfolio.

As of September 30, 2018 and December 31, 2017, our investment in senior secured loans totaled approximately \$3.9 billion and \$3.5 billion, respectively. In addition, we had binding unfunded commitments as of September 30, 2018 and December 31, 2017 of \$242 million and \$279 million, respectively, to participate in such syndications.

These senior secured loans, which are primarily rated “speculative” under our internal risk-rating framework (refer to Note 4 to the consolidated financial statements included in this Form 10-Q), are externally rated “BBB,” “BB” or “B,” with approximately 90% and 89% of the loans rated “BB” or “B” as of September 30, 2018 and December 31, 2017, respectively. Our investment strategy involves generally limiting our

Table of ContentsMANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS

investment to larger, more liquid credits underwritten by major global financial institutions, applying our internal credit analysis process to each potential investment and diversifying our exposure by counterparty and industry segment. However, these loans have significant exposure to credit losses relative to higher-rated loans in our portfolio. Loans to municipalities included in the commercial and financial segment were \$908 million and \$2.1 billion as of September 30, 2018 and December 31, 2017, respectively.

Additional information about all of our loan-and-leases segments, as well as underlying classes, is provided in Note 4 to the consolidated financial statements included in this Form 10-Q.

No loans were modified in troubled debt restructurings during the nine months ended September 30, 2018 and the year ended December 31, 2017.

TABLE 24: ALLOWANCE FOR LOAN AND  
LEASE LOSSES

(In millions)	Nine Months Ended September 30, 2018 2017	
Allowance for loan and lease losses:		
Beginning balance	\$ 54	\$ 53
Provision for loan and lease losses <sup>(1)</sup>	7	4
Charge-offs <sup>(2)</sup>	(1 )	—
Ending balance	\$ 60	\$ 57

<sup>(1)</sup> The provision for loan and lease losses is related to commercial and financial loans.

<sup>(2)</sup> The charge-offs are related to commercial and financial loans.

As of September 30, 2018 and September 30, 2017, approximately \$51 million and \$49 million, respectively, of our allowance for loan and lease losses were related to senior secured loans included in the commercial and financial segment. As this portfolio grows and matures, our allowance for loan and lease losses related to these loans may increase through additional provisions for credit losses. The remaining \$9 million as of both September 30, 2018 and September 30, 2017, was related to other components of commercial and financial loans.

## Cross-Border Outstandings

Cross-border outstandings are amounts payable to us by non-U.S. counterparties which are denominated in U.S. dollars or other non-local currency, as well as non-U.S. local currency claims not funded by local currency liabilities. Our cross-border outstandings consist primarily of deposits with banks; loans and lease financing, including short-duration advances; investment securities; amounts related to foreign exchange and interest-rate contracts; and securities finance. In addition to credit risk, cross-border outstandings have the risk that, as a result of political or economic conditions in a country, borrowers may be

unable to meet their contractual repayment obligations of principal and/or interest when due because of the unavailability of, or restrictions on, foreign exchange needed by borrowers to repay their obligations.

As market and economic conditions change, the major independent credit rating agencies may downgrade U.S. and non-U.S. financial institutions and sovereign issuers which have been, and may in the future be, significant counterparties to us, or whose financial instruments serve as collateral on which we rely for credit risk mitigation purposes, and may do so again in the future. As a result, we may be exposed to increased counterparty risk, leading to negative ratings volatility.

The cross-border outstandings presented in Table 25: Cross-Border Outstandings, represented approximately 29% and 26% of our consolidated total assets as of September 30, 2018 and December 31, 2017, respectively.

TABLE 25: CROSS-BORDER OUTSTANDINGS<sup>(1)</sup>

(In millions)	Investment Securities and Other Assets	Derivatives and Securities on Loan	Total Cross-Border Outstandings
September 30, 2018			
Germany	\$ 18,330	\$ 766	\$ 19,096
Japan	16,031	1,817	17,848
United Kingdom	13,833	1,327	15,160
Australia	4,146	974	5,120
Canada	2,958	555	3,513
France	3,035	273	3,308
Ireland	1,940	788	2,728
December 31, 2017			
Germany	\$ 18,201	\$ 295	\$ 18,496
Japan	15,250	549	15,799
United Kingdom	12,051	1,253	13,304
Australia	5,278	390	5,668
Canada	4,215	707	4,922
France	2,684	344	3,028

<sup>(1)</sup> Cross-border outstandings included countries in which we do business, and which amounted to at least 1% of our consolidated total assets as of the dates indicated.

As of September 30, 2018, aggregate cross-border outstandings in Luxembourg amounted to between 0.75% and 1% of our consolidated assets, at approximately \$2.28 billion. As of December 31, 2017, there were no countries whose aggregate cross-border outstandings amounted to between 0.75% and 1% of our consolidated assets.

Table of Contents

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS

Risk Management

In the normal course of our global business activities, we are exposed to a variety of risks, some inherent in the financial services industry, others more specific to our business activities. Our risk management framework focuses on material risks, which include the following:

- credit and counterparty risk;
- liquidity risk, funding and management;
- operational risk;
- information technology risk;
- market risk associated with our trading activities;
- market risk associated with our non-trading activities, which we refer to as asset-and-liability management, and which consists primarily of interest-rate risk;
- model risk;
- strategic risk; and
- reputational, fiduciary and business conduct risk.

Many of these risks, as well as certain of the factors underlying each of these risks that could affect our businesses and our consolidated financial statements, are discussed in detail included under Item 1A, Risk Factors, in our 2017 Form 10-K.

For additional information about our risk management, including our risk appetite framework and risk governance committee structure, refer to pages 75 to 80 included under Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, in our 2017 Form 10-K.

Credit Risk Management

We define credit risk as the risk of financial loss if a counterparty, borrower or obligor, collectively referred to as a counterparty, is either unable or unwilling to repay borrowings or settle a transaction in accordance with underlying contractual terms. We assume credit risk in our traditional non-trading lending activities, such as loans and contingent commitments, in our investment securities portfolio, where recourse to a counterparty exists, and in our direct and indirect trading activities, such as principal securities lending and foreign exchange and indemnified agency securities lending. We also assume credit risk in our day-to-day treasury and securities and other settlement operations, in the form of deposit placements and other cash balances, with central banks or private sector institutions.

For additional information about our credit risk management, including our core policies and principles, structure and organization, credit ratings, risk parameter estimates, credit risk mitigation, credit limits, reporting, monitoring, controls and reserve for credit

losses, refer to pages 80 to 85 included under Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, in our 2017 Form 10-K.

Liquidity Risk Management

Our liquidity framework contemplates areas of potential risk based on our activities, size and other appropriate risk-related factors. In managing liquidity risk we employ limits, maintain established metrics and early warning indicators and perform routine stress testing to identify potential liquidity needs. This process involves the evaluation of a combination of internal and external scenarios which assist us in measuring our liquidity position and in identifying potential increases in cash needs or decreases in available sources of cash, as well as the potential impairment of our ability to access the global capital markets.

We manage our liquidity on a global, consolidated basis. We also manage liquidity on a stand-alone basis at the Parent Company, as well as at certain branches and subsidiaries of State Street Bank. State Street Bank generally has access to markets and funding sources limited to banks, such as the federal funds market and the Federal Reserve's discount window. The Parent Company is managed to a more conservative liquidity profile, reflecting narrower market access. Additionally, the Parent Company typically holds, or has direct access to, primarily through SSIF (a recently formed direct subsidiary of the Parent Company) and the support agreement, as discussed in the "Uses of Liquidity" section of

this Management's Discussion and Analysis, enough cash to meet its current debt maturities and cash needs, as well as those projected over the next one-year period. Reference our SPOE Strategy as discussed in the "Uses of Liquidity" section of this Management's Discussion and Analysis. Absent certain triggers reflecting financial distress at the Parent Company, the liquid assets transferred to SSIF continue to be available to the Parent Company. As of September 30, 2018, the Parent Company and State Street Bank had approximately \$400 million of senior notes and subordinated debentures outstanding that will mature in the next twelve months.

As a systemically important financial institution, our liquidity risk management activities are subject to heightened and evolving regulatory requirements, including interpretations of those requirements, under specific U.S. and international regulations and also resulting from published and unpublished guidance, supervisory activities, such as stress tests, resolution planning, examinations and other regulatory interactions. Satisfaction of these requirements could, in some cases, result in changes in the composition of our investment portfolio, reduced NII or NIM, a reduction in the level of certain business activities or modifications to the way in which we deliver our products and services.

State Street Corporation | 31

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Table of ContentsMANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS

If we fail to meet regulatory requirements to the satisfaction of our regulators, we could receive negative regulatory stress test results, incur a resolution plan deficiency or determination of a non-credible resolution plan or otherwise receive an adverse regulatory finding. Our efforts to satisfy, or our failure to satisfy, these regulatory requirements could materially adversely affect our business, financial condition or results of operations.

For additional information on our liquidity risk management, as well as liquidity risk metrics, refer to pages 85 to 90 included under Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operation, in our 2017 Form 10-K. For additional information on our liquidity ratios, including LCR and NSFR, refer to pages 7 to 8 included under Item 1, Business, in our 2017 Form 10-K.

Asset Liquidity

Central to the management of our liquidity is asset liquidity, which consists primarily of unencumbered highly liquid securities, cash and cash equivalents reported on our consolidated statement of condition. We restrict the eligibility of securities to be characterized as asset liquidity to U.S. Government and federal agency securities (including MBS), securities of selected non-U.S. Governments and supranational organizations as well as certain other high-quality securities which generally are more liquid than other types of assets even in times of stress. As a banking organization, we are subject to a minimum LCR under the LCR rule approved by U.S. banking regulators. The LCR is intended to promote the short-term resilience of internationally active banking organizations, like State Street, to improve the banking industry's ability to absorb shocks arising from market stress over a 30 calendar day period and improve the measurement and management of liquidity risk. The LCR measures an institution's HQLA against its net cash outflows. HQLA primarily consists of unencumbered cash and certain high quality liquid securities that qualify for inclusion under the LCR rule. The LCR was fully implemented beginning on January 1, 2017. We report LCR to the Federal Reserve daily. For the quarters ended September 30, 2018 and December 31, 2017, daily average LCR for the Parent Company was 107% and 112%, respectively. The average HQLA for the Parent Company under the LCR final rule was \$94.37 billion and \$65.35 billion, post-prescribed haircuts, for the quarters ended September 30, 2018 and December 31, 2017, respectively.

TABLE 26: COMPONENTS OF AVERAGE  
HQLA BY TYPE OF ASSET

(In millions)	Quarters Ended	
	September 30, 2018	December 31, 2017
Excess central bank balances	\$46,192	\$ 33,584
Foreign government	12,019	8,064
U.S. Treasuries	10,756	10,278
Other investment securities	25,398	13,422
Total	\$94,365	\$ 65,348

With respect to highly liquid short-term investments presented in the preceding table, we maintained average cash balances in excess of regulatory requirements governing deposits with the Federal Reserve of approximately \$46.19 billion at the Federal Reserve, the ECB and other non-U.S. central banks for the quarter ended September 30, 2018, compared to \$33.58 billion for the quarter ended December 31, 2017. The higher levels of average cash balances with central banks was due to normal deposit volatility. The increase in average HQLA for the quarter ended September 30, 2018 compared to the quarter ended December 31, 2017 presented in the table above was primarily a result of the sale of \$16 billion in non-HQLA securities during the nine months ended September 30, 2018.

Liquid securities carried in our asset liquidity include securities pledged without corresponding advances from the FRBB, the FHLB and other non-U.S. central banks. State Street Bank is a member of the FHLB. This membership allows for advances of liquidity in varying terms against high-quality collateral, which helps facilitate asset-and-liability management.

Access to primary, intra-day and contingent liquidity provided by these utilities is an important source of contingent liquidity with utilization subject to underlying conditions. As of September 30, 2018 and December 31, 2017, we had no outstanding primary credit borrowings from the FRBB discount window or any other central bank facility, and as of the same dates, no FHLB advances were outstanding.

In addition to the securities included in our asset liquidity, we have significant amounts of other unencumbered investment securities. These securities are available sources of liquidity, although not as rapidly deployed as those included in our asset liquidity.

The average fair value of total unencumbered securities was \$67.05 billion for the quarter ended September 30, 2018, compared to \$66.10 billion for the quarter December 31, 2017.

State Street Corporation | 32

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Table of Contents

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS

Uses of Liquidity

Significant uses of our liquidity could result from the following: withdrawals of client deposits; draw-downs by our custody clients of lines of credit; advances to clients to settle securities transactions; or other permitted purposes. Such circumstances would generally arise under stress conditions including deterioration in credit ratings. A recurring significant use of our liquidity involves our deployment of HQLA from our investment portfolio to post collateral to financial institutions serving as sources of securities under our enhanced custody program.

We had unfunded commitments to extend credit with gross contractual amounts totaling \$27.78 billion and \$26.49 billion as of September 30, 2018 and December 31, 2017, respectively. These amounts do not reflect the value of any collateral. As of September 30, 2018, approximately 76% of our unfunded commitments to extend credit expire within one year. Since many of our commitments are expected to expire or renew without being drawn upon, the gross contractual amounts do not necessarily represent our future cash requirements.

Resolution Planning

State Street, like other bank holding companies with total consolidated assets of \$50 billion or more, periodically submits a plan for rapid and orderly resolution in the event of material financial distress or failure, commonly referred to as a resolution plan or a living will, to the Federal Reserve and the FDIC under Section 165(d) of the Dodd-Frank Act. Through resolution planning, we seek, in the event of our insolvency, to maintain State Street Bank's role as a key infrastructure provider within the financial system, while minimizing risk to the financial system and maximizing value for the benefit of our stakeholders. We have and will continue to focus management attention and resources to meet regulatory expectations with respect to resolution planning.

We submitted our 2017 resolution plan describing our preferred resolution strategy to the Federal Reserve and FDIC on June 30, 2017. Subsequently, the Federal Reserve and FDIC extended the next resolution plan filing deadline for eight large domestic banks, including us, to July 1, 2019. The agencies completed their review of our 2017 165(d) resolution plan in December 2017 and found no deficiencies or shortcomings in the plan.

In the event of material financial distress or failure, our preferred resolution strategy is the SPOE Strategy. For additional information about the SPOE Strategy, refer to pages 10 and 11 included under Item 1, Business, in our 2017 Form 10-K. The SPOE Strategy provides that prior to the bankruptcy of the Parent Company and pursuant to a support agreement among the Parent Company, SSIF, our Beneficiary Entities (as defined below) and certain other of our entities, SSIF is

obligated, up to its available resources, to recapitalize and/or provide liquidity to State Street Bank and our other entities benefiting from such capital and/or liquidity (collectively with State Street Bank, "Beneficiary Entities"), in amounts designed to prevent the Beneficiary Entities from themselves entering into resolution proceedings. Following the recapitalization of, or provision of liquidity to the Beneficiary Entities, the Parent Company would enter into a bankruptcy proceeding under the U.S. Bankruptcy Code. The Beneficiary Entities and our subsidiaries would be transferred to a newly organized holding company held by a reorganization trust for the benefit of the Parent Company's claimants.

Under the support agreement, the Parent Company has pre-funded SSIF by contributing certain of its assets (primarily its liquid assets, cash deposits, debt investments, investments in marketable securities and other cash and non-cash equivalent investments) to SSIF contemporaneous with entering into the support agreement and will continue to contribute such assets, to the extent available, on an on-going basis. In consideration for these contributions, SSIF has agreed in the support agreement to provide capital and liquidity support to the Parent Company and all of the Beneficiary Entities in accordance with the Parent Company's capital and liquidity policies. Under the support agreement, the Parent Company is only permitted to retain certain amounts of cash needed to meet its upcoming obligations and to fund expenses during a potential bankruptcy proceeding. SSIF has provided the Parent Company with a committed credit line and issued (and may issue) one or more promissory notes to the Parent Company (the "Parent Company Funding Notes") that together are intended to allow us to continue to meet its obligations throughout the period prior to the occurrence of a "Recapitalization Event" (as defined below). The support agreement

does not contemplate that SSIF is obligated to maintain any specific level of resources and SSIF may not have sufficient resources to implement the SPOE Strategy.

In the event a Recapitalization Event occurs, the obligations outstanding under the Parent Company Funding Notes would automatically convert into or be exchanged for capital contributed to SSIF. The obligations of the Parent Company and SSIF under the support agreement are secured through a security agreement that grants a lien on the assets that the Parent Company and SSIF would use to fulfill their obligations under the support agreement to the Beneficiary Entities. SSIF is a distinct legal entity separate from the Parent Company and the Parent Company's other affiliates.

In accordance with its policies, we are required to monitor, on an ongoing basis, the capital and liquidity needs of State Street Bank and the other Beneficiary Entities. To support this process, we have established

State Street Corporation | 33

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Table of Contents

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS

a trigger framework that identifies key actions that would need to be taken or decisions that would need to be made if certain events tied to our financial condition occur. In the event that we experience material financial distress, the support agreement requires us to model and calculate certain capital and liquidity triggers on a regular basis to determine whether or not the Parent Company should commence preparations for a bankruptcy filing and whether or not a Recapitalization Event has occurred.

Upon the occurrence of a Recapitalization Event: (1) SSIF would not be authorized to provide any further liquidity to the Parent Company; (2) the Parent Company would be required to contribute to SSIF any remaining assets it is required to contribute to SSIF under the support agreement; (3) SSIF would be required to provide capital and liquidity support to the Beneficiary Entities to support such entities' continued operation; and (4) the Parent Company would be expected to commence Chapter 11 proceedings under the U.S. Bankruptcy Code. No person or entity, other than a party to the support agreement, should rely, including in evaluating any of our entities from a creditor's perspective or determining whether to enter into a contractual relationship with any of our entities, on any of our affiliates being or remaining a Beneficiary Entity or receiving capital or liquidity support pursuant to the support agreement.

A "Recapitalization Event" is defined under the support agreement as the earlier occurrence of one or more capital and liquidity thresholds being breached or the authorization by the Parent Company's Board of Directors for the Parent Company to commence bankruptcy proceedings. These thresholds are set at levels intended to provide for the availability of sufficient capital and liquidity to enable an orderly resolution without extraordinary government support. The SPOE Strategy and the obligations under the support agreement may result in the recapitalization of State Street Bank and the commencement of bankruptcy proceedings by the Parent Company at an earlier stage of financial stress than might otherwise occur without such mechanisms in place. An expected effect of the SPOE Strategy and applicable TLAC regulatory requirements is that losses will be imposed on the Parent Company shareholders and the holders of long-term debt and other forms of TLAC securities currently outstanding or issued in the future by the Parent Company, as well as on any other Parent Company creditors, before any of its losses are imposed on the holders of the debt securities of the Parent Company's operating subsidiaries or any of their depositors or creditors, or before U.S. taxpayers are put at risk.

There can be no assurance that credit rating agencies, in response to our 2017 resolution plan or the support agreement, will not downgrade, place on negative watch or change their outlook on our debt

credit ratings, generally or on specific debt securities. Any such downgrade, placement on negative watch or change in outlook could adversely affect our cost of borrowing, limit our access to the capital markets or result in restrictive covenants in future debt agreements and could also adversely impact the trading prices, or the liquidity, of our outstanding debt securities.

State Street Bank is also required to submit annually to the FDIC a plan for resolution in the event of its failure, referred to as an IDI plan. We filed our most recent IDI plan on June 28, 2018.

Funding

Deposits

We provide products and services including custody, accounting, administration, daily pricing, foreign exchange services, cash management, financial asset management, securities finance and investment advisory services. As a provider of these products and services, we generate client deposits, which have generally provided a stable, low-cost source of funds. As a global custodian, clients place deposits with State Street entities in various currencies. As of September 30, 2018 and December 31, 2017, approximately 60% of our average total deposit balances were denominated in U.S. dollars, approximately 20% in EUR, 10% in GBP and 10% in all other currencies.

Short-Term Funding

Our on-balance sheet liquid assets are also an integral component of our liquidity management strategy. These assets provide liquidity through maturities of the assets, but more importantly, they provide us with the ability to raise funds by pledging the securities as collateral for borrowings or through outright sales. In addition, our access to the global

capital markets gives us the ability to source incremental funding at reasonable rates of interest from wholesale investors. As discussed earlier under “Asset Liquidity,” State Street Bank's membership in the FHLB allows for advances of liquidity with varying terms against high-quality collateral.

Short-term secured funding also comes in the form of securities lent or sold under agreements to repurchase. These transactions are short-term in nature, generally overnight and are collateralized by high-quality investment securities. These balances were \$1.69 billion and \$2.84 billion as of September 30, 2018 and December 31, 2017, respectively. State Street Bank currently maintains a line of credit with a financial institution of CAD 1.40 billion, or approximately \$1.08 billion as of September 30, 2018, to support its Canadian securities processing operations. The line of credit has no stated termination date and is cancelable by either party with prior notice.

State Street Corporation | 34

---

Table of Contents

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS

As of September 30, 2018, there was no balance outstanding on this line of credit.

Long-Term Funding

We have the ability to issue debt and equity securities under our current universal shelf registration statement to meet current commitments and business needs, including accommodating the transaction and cash management needs of our clients. In addition, State Street Bank also has authorization to issue up to \$5 billion in unsecured senior debt and an additional \$500 million of subordinated debt.

Agency Credit Ratings

Our ability to maintain consistent access to liquidity is fostered by the maintenance of high investment-grade ratings as measured by the major independent credit rating agencies. Factors essential to maintaining high credit ratings include:

- diverse and stable core earnings;
  - relative market position;
  - strong risk management;
  - strong capital ratios;
  - diverse liquidity sources, including the global capital markets and client deposits;
  - strong liquidity monitoring procedures; and
  - preparedness for current or future regulatory developments.
- High ratings limit borrowing costs and enhance our liquidity by:
- providing assurance for unsecured funding and depositors;
  - increasing the potential market for our debt and improving our ability to offer products;
  - serving markets; and
  - engaging in transactions in which clients value high credit ratings.

A downgrade or reduction of our credit ratings could have a material adverse effect on our liquidity by restricting our ability to access the capital markets, which could increase the related cost of funds. In turn, this could cause the sudden and large-scale withdrawal of unsecured deposits by our clients, which could lead to draw-downs of unfunded commitments to extend credit or trigger requirements under securities purchase commitments; or require additional collateral or force terminations of certain trading derivative contracts.

A majority of our derivative contracts have been entered into under bilateral agreements with counterparties who may require us to post collateral or terminate the transactions based on changes in our credit ratings. We assess the impact of these arrangements by determining the collateral that would be required assuming a downgrade by all rating agencies. The additional collateral or termination

payments related to our net derivative liabilities under these arrangements that could have been called by counterparties in the event of a downgrade in our credit ratings below levels specified in the agreements is disclosed in Note 7 to the consolidated financial statements included in this Form 10-Q. Other funding sources, such as secured financing transactions and other margin requirements, for which there are no explicit triggers, could also be adversely affected.

Operational Risk Management

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk encompasses fiduciary risk and legal risk. Fiduciary risk is defined as the risk that we fail to properly exercise our fiduciary duties in our provision of products or services to clients. Legal risk is the risk of loss resulting from failure to comply with laws and contractual obligations as well as prudent ethical standards in business practices in addition to exposure to litigation from all aspects of our activities.

For additional information about our operational risk framework, refer to pages 90 to 93 included under Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, in our 2017 Form 10-K.

Information Technology Risk Management

Technology risk is defined as the risk associated with the use, ownership, operation, involvement, influence and adoption of information technology. Technology risk includes risks potentially triggered by technology non-compliance with regulatory obligations, information security and privacy incidents, business disruption, technology internal control and process gaps, technology operational events and adoption of new business technologies.

For additional information about our informational technology risk management framework, refer to pages 93 to 94 included under Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, in our 2017 Form 10-K.

#### Market Risk Management

Market risk is defined by U.S. banking regulators as the risk of loss that could result from broad market movements, such as changes in the general level of interest rates, credit spreads, foreign exchange rates or commodity prices. We are exposed to market risk in both our trading and certain of our non-trading, or asset-and-liability management, activities.

Information about the market risk associated with our trading activities is provided below under "Trading Activities." Information about the market risk associated with our non-trading activities, which consists primarily of interest-rate risk, is provided below under "Asset-and-Liability Management Activities."



Table of Contents

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS

Trading Activities

In the conduct of our trading activities, we assume market risk, the level of which is a function of our overall risk appetite, business objectives and liquidity needs, our clients' requirements and market volatility, and our execution against those factors.

For additional information about the market risk associated with our trading activities, refer to pages 94 to 95 included under Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, in our 2017 Form 10-K.

As part of our trading activities, we assume positions in the foreign exchange and interest-rate markets by buying and selling cash instruments and entering into derivative instruments, including foreign exchange forward contracts, foreign exchange and interest-rate options and interest-rate swaps, interest-rate forward contracts, and interest-rate futures. As of September 30, 2018, the notional amount of these derivative contracts was \$2.42 trillion, of which \$2.39 trillion was composed of foreign exchange forward, swap and spot contracts. We seek to match positions closely with the objective of minimizing related currency and interest-rate risk. All foreign exchange contracts are valued daily at current market rates.

Value-at-Risk and Stressed VaR

We use a variety of risk measurement tools and methodologies, including VaR, which is an estimate of potential loss for a given period within a stated statistical confidence interval. We use a risk measurement methodology to measure trading-related VaR daily. We have adopted standards for measuring trading related VaR, and we maintain regulatory capital for market risk associated with currently applicable bank regulatory market risk requirements. Our regulatory VaR-based measure is calculated based on historical volatilities of market risk factors during a two-year observation period calibrated to a one-tail, 99% confidence interval and a ten-business-day holding period.

We calculate a stressed VaR-based measure using the same model we use to calculate VaR, but with model inputs calibrated to historical data from a range of continuous twelve-month periods that reflect significant financial stress. The stressed VaR model identifies the second-worst outcome occurring in the worst continuous one-year rolling period since July 2007. This stressed VaR meets the regulatory requirement as the rolling ten-day period with an outcome that is worse than 99% of other outcomes during that twelve-month period of financial stress. For each portfolio, the stress period is determined algorithmically by seeking the one-year time horizon that produces the largest ten-business-day VaR from within the available historical data. This historical data set includes the financial crisis of 2008, the highly volatile period surrounding the Eurozone sovereign

debt crisis and the Standard & Poor's downgrade of U.S. Treasury debt in August 2011. As the historical data set used to determine the stress period expands over time, future market stress events will be automatically incorporated.

For additional information about our VaR measurement tools and methodologies, refer to pages 96 to 100 included under Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, in our 2017 Form 10-K.

Stress Testing

We have a corporate-wide stress testing program in place that incorporates an array of techniques to measure the potential loss we could suffer in a hypothetical scenario of adverse economic and financial conditions. We also monitor concentrations of risk such as concentration by branch, risk component, and currency pairs. We conduct stress testing on a daily basis based on selected historical stress events that are relevant to our positions in order to estimate the potential impact to our current portfolio should similar market conditions recur, and we also perform stress testing as part of the Federal Reserve's CCAR process. Stress testing is conducted, analyzed and reported at the corporate, trading desk, division and risk-factor level (for example, exchange risk, interest-rate risk and volatility risk).

Stress testing results and limits are actively monitored on a daily basis by ERM and reported to the TMRC. Limit breaches are addressed by ERM risk managers in conjunction with the business units, escalated as appropriate, and reviewed by the TMRC if material. In addition, we have established several action triggers that prompt immediate review by management and the implementation of a remediation plan.

#### Validation and Back-Testing

We perform frequent back-testing to assess the accuracy of our VaR-based model in estimating loss at the stated confidence level. This back-testing involves the comparison of estimated VaR model outputs to daily, actual profit-and-loss outcomes, or P&L, observed from daily market movements. We back-test our VaR model using “clean” P&L, which excludes non-trading revenue such as fees, commissions and NII, as well as estimated revenue from intra-day trading.

Our VaR definition of trading losses excludes items that are not specific to the price movement of the trading assets and liabilities themselves, such as fees, commissions, changes to reserves and gains or losses from intra-day activity. We had no back-testing exceptions in the quarters ended September 30, 2018, June 30, 2018 and September 30, 2017.

State Street Corporation | 36

---

Table of ContentsMANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS

The following tables present VaR and stressed VaR associated with our trading activities for covered positions held during the quarters ended September 30, 2018, June 30, 2018 and September 30, 2017, and as of September 30, 2018, June 30, 2018 and September 30, 2017, as measured by our VaR methodology: A covered position is generally defined by U.S. banking regulators as an on-or off-balance sheet position associated with the organization's trading activities that is free of any restrictions on its tradability, but does not

include intangible assets, certain credit derivatives recognized as guarantees and certain equity positions not publicly traded.

Diversification effect in the table below represents the difference between total VaR and the sum of the VaRs for each trading activity. This effect arises because the trading activities are not perfectly correlated.

TABLE 27: TEN-DAY VaR ASSOCIATED WITH TRADING ACTIVITIES FOR COVERED POSITIONS

	Quarters Ended									As of	As of	As of
	September 30, 2018			June 30, 2018			September 30, 2017			September 30, 2018	June 30, 2018	September 30, 2017
(In thousands)	Avg.	Max.	Min.	Avg.	Max.	Min.	Avg.	Max.	Min.	VaR	VaR	VaR
Global Markets	\$6,008	\$11,947	\$3,308	\$6,396	\$12,946	\$3,607	\$7,592	\$13,703	\$3,295	\$5,428	\$3,851	\$9,524
Global Treasury	317	896	91	656	1,813	179	342	790	145	896	257	723
Diversification	(314 )	(881 )	(136 )	(504 )	(1,710 )	(203 )	(388 )	(841 )	(103 )	(886 )	(414 )	(784 )
Total VaR	\$6,011	\$11,962	\$3,263	\$6,548	\$13,049	\$3,583	\$7,546	\$13,652	\$3,337	\$5,438	\$3,694	\$9,463

TABLE 28: TEN-DAY STRESSED VaR ASSOCIATED WITH TRADING ACTIVITIES FOR COVERED POSITIONS

	Quarters Ended									As of	As of
	September 30, 2018			June 30, 2018			September 30, 2017			September 30, 2018	June 30, 2018
(In thousands)	Avg.	Max.	Min.	Avg.	Max.	Min.	Avg.	Max.	Min.	Stressed VaR	Stressed VaR
Global Markets	\$27,641	\$47,571	\$14,811	\$38,594	\$54,517	\$21,608	\$23,981	\$45,399	\$13,363	\$25,185	\$26,770
Global Treasury	2,130	4,467	840	3,927	10,137	1,534	5,309	10,549	2,584	1,958	3,268
Diversification	(2,619 )	(6,345 )	(823 )	(4,820 )	(10,682 )	(2,239 )	(4,908 )	(11,584 )	(2,060 )	(2,988 )	(4,046 )
Total VaR	\$27,152	\$45,693	\$14,828	\$37,701	\$53,972	\$20,903	\$24,382	\$44,364	\$13,887	\$24,155	\$25,990

The three month average of our stressed VaR-based measure was approximately \$27 million for the quarter ended September 30, 2018, compared to an average of approximately \$38 million for the quarter ended June 30, 2018 and \$24 million for the quarter ended September 30, 2017. The decrease in the stressed VaR is primarily attributed to lower interest-rate basis risk in emerging markets.

The VaR-based measures presented in the preceding tables are primarily a reflection of the overall level of market volatility and our appetite for taking market risk in our trading activities. Overall levels of volatility have been low both on an absolute basis and relative to the historical information observed at the beginning of the period used for the calculations.

We may in the future modify and adjust our models and methodologies used to calculate VaR and stressed VaR, subject to regulatory review and approval, and these modifications and adjustments may result in changes in our VaR-based and stressed VaR-based measures.

The following tables present the VaR and stressed-VaR associated with our trading activities attributable to foreign exchange risk, interest-rate risk and volatility risk as of September 30, 2018, June 30, 2018 and September 30, 2017. Diversification effect in the table below represents the difference between total VaR and the sum of the VaRs for each risk category. This effect arises because the risk categories are not perfectly correlated.

State Street Corporation | 37

---

Table of ContentsMANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONSTABLE 29: TEN-DAY VaR ASSOCIATED WITH TRADING ACTIVITIES BY RISK FACTOR  
FOR COVERED POSITIONS<sup>(1)</sup>

(In thousands)	As of September 30, 2018			As of June 30, 2018			As of September 30, 2017		
	Foreign Exchange Risk	Interest Rate Risk	Volatility Risk	Foreign Exchange Risk	Interest Rate Risk	Volatility Risk	Foreign Exchange Risk	Interest Rate Risk	Volatility Risk
By component:									
Global Markets	\$3,103	\$4,939	\$ 233	\$2,386	\$3,114	\$ 467	\$7,876	\$2,930	\$ 201
Global Treasury	36	896	—	36	228	—	62	736	—
Diversification	(33 )	(943 )	—	(17 )	(156 )	—	(55 )	(1,102 )	—
Total VaR	\$3,106	\$4,892	\$ 233	\$2,405	\$3,186	\$ 467	\$7,883	\$2,564	\$ 201

TABLE 30: TEN-DAY STRESSED VaR ASSOCIATED WITH TRADING ACTIVITIES BY RISK  
FACTOR FOR COVERED POSITIONS<sup>(1)</sup>

(In thousands)	As of September 30, 2018			As of June 30, 2018			As of September 30, 2017		
	Foreign Exchange Risk	Interest Rate Risk	Volatility Risk	Foreign Exchange Risk	Interest Rate Risk	Volatility Risk	Foreign Exchange Risk	Interest Rate Risk	Volatility Risk
By component:									
Global Markets	\$14,544	\$29,451	\$ 257	\$9,457	\$36,770	\$ 520	\$16,864	\$20,608	\$ 214
Global Treasury	109	2,071	—	130	3,391	—	98	5,273	—
Diversification	(117 )	(3,446 )	—	2	(4,203 )	—	(100 )	(3,941 )	—
Total VaR	\$14,536	\$28,076	\$ 257	\$9,589	\$35,958	\$ 520	\$16,862	\$21,940	\$ 214

<sup>(1)</sup> For purposes of risk attribution by component, foreign exchange refers only to the risk from market movements in period-end rates. Forwards, futures, options and swaps with maturities greater than period-end have embedded interest-rate risk that is captured by the measures used for interest-rate risk. Accordingly, the interest-rate risk embedded in these foreign exchange instruments is included in the interest-rate risk component.

**Asset and Liability Management Activities**

The primary objective of asset and liability management is to provide sustainable NII under varying economic conditions, while protecting the economic value of the assets and liabilities carried in our consolidated statement of condition from the adverse effects of changes in interest rates. While many market factors affect the level of NII and the economic value of our assets and liabilities, one of the most significant factors is our exposure to movements in interest rates. Most of our NII is earned from the investment of client deposits generated by our businesses. We invest these client deposits in assets that conform generally to the characteristics of our balance sheet liabilities, including the currency composition of our significant non-U.S. dollar denominated client liabilities.

We quantify NII sensitivity using an earnings simulation model that includes our expectations for new business growth, changes in balance sheet mix and investment portfolio positioning. This measure compares our baseline view of NII over a twelve-month horizon, based on our internal forecast of interest rates, to a wide range of instantaneous and gradual rate shocks. Economic value of equity (EVE) sensitivity is a discounted cash flow model designed to estimate the fair value of assets and liabilities under a series of interest rate shocks over a long-term horizon. Each approach is routinely monitored as market conditions change and within internally-approved risk limits and guidelines.

For additional information about our Asset-and-Liability Management Activities, refer to pages 100 to 101 included under Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, in our 2017 Form 10-K.

In the table below, we report the expected change in NII over the next twelve months from +/-100 bps instantaneous and gradual parallel rate shocks. Each scenario assumes no management action is taken to mitigate the adverse effects of interest rate changes on our financial performance. While investment securities balances can fluctuate with the level of rates as prepayment assumptions change, our deposit balances remain consistent with the baseline.

TABLE 31: NII SENSITIVITY

(In millions)	September 30, 2018		December 31, 2017	
Rate change:	Benefit		(Exposure)	
+100 bps shock	\$ 346	\$ 435		
-100 bps shock	(171 )	(294 )		
+100 bps ramp	141	177		
-100 bps ramp	(74 )	(122 )		

As of September 30, 2018, NII sensitivity remains positioned to benefit from rising interest-rates. Compared to December 31, 2017, our asset sensitive positioning to an instantaneous rise in rates is less sensitive, primarily driven by an increase in U.S. client deposit betas as a result of higher market rates.

Table of Contents

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

We also routinely measure NII sensitivity to non-parallel rate shocks to isolate the impact of short-term or long-term market rates. In the up 100 bps instantaneous shock, approximately 80% of the expected benefit stems from the short-end of the yield curve. Additionally, we quantify how much of the change is a result of shifts in U.S. and non-U.S. rates. In the up 100 bps instantaneous shock, approximately 30% of the expected benefit is driven by U.S. rates.

The following table highlights our EVE sensitivity to a +/-200 bps instantaneous rate shock, relative to spot interest rates. Management compares the change in EVE sensitivity against State Street's aggregate tier 1 and tier 2 risk-based capital, calculated in conformity with current applicable regulatory requirements. EVE sensitivity is dependent on the timing of interest and principal cash flows. Also, the measure only evaluates the spot balance sheet and does not include the impact of new business assumptions.

TABLE 32: EVE SENSITIVITY

(In millions)	September 30, 2018	December 31, 2017
Rate change:	Benefit (Exposure)	
+200 bps shock	\$(1,827)	\$ (1,507)
-200 bps shock	1,338	11

As of September 30, 2018, EVE sensitivity remains exposed to upward shifts in interest rates. Compared to December 31, 2017, the change in the up 200 bps instantaneous shocks was driven by higher U.S. interest rates. The change in the down 200 bps instantaneous shock was primarily due to a modeling enhancement for negative rate currencies. The modeling enhancement allows for interest rate shocks to go below zero for certain currencies, such as Euro, where central banks have allowed negative rates. The December 31, 2017 benefit, which does not reflect the modeling enhancement, in the down 200 bps shock would have increased by approximately \$1 billion under the new modeling approach.

This update aligns our modeling approaches for negative rates in both EVE and NII sensitivity simulations.

**Model Risk Management**

The use of models is widespread throughout the financial services industry, with large and complex organizations relying on sophisticated models to support numerous aspects of their financial decision making. The models contemporaneously represent both a significant advancement in financial management and a new source of risk. In large banking organizations like State Street, model results influence business decisions, and model failure could have a harmful effect on our financial performance. As a result, the Model Risk Management Framework seeks to mitigate model risk at State Street.

For additional information about our model risk management, including our governance and model validation, refer to pages 101 to 102 included under Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, in our 2017 Form 10-K.

**Strategic Risk Management**

We define strategic risk as the current or prospective impact on earnings or capital arising from adverse business decisions, improper implementation of strategic initiatives, or lack of responsiveness to industry-wide changes. Strategic risks are influenced by changes in the competitive environment; decline in market performance or changes in our business activities; and the potential secondary impacts of reputational risks, not already captured as market, interest rate, credit, operational, model or liquidity risks. We incorporate strategic risk into our assessment of our business plans and risk and capital management processes. Active management of strategic risk is an integral component of all aspects of our business.

For additional information about our strategic risk management, refer to page 102 included under Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, in our 2017 Form 10-K.

Capital

Managing our capital involves evaluating whether our actual and projected levels of capital are commensurate with our risk profile, are in compliance with all applicable regulatory requirements and are sufficient to provide us with the financial flexibility to undertake future strategic business initiatives. We assess capital adequacy based on relevant regulatory capital requirements, as well as our own internal capital goals, targets and other relevant metrics.

We have a hierarchical structure supporting appropriate committee review of relevant risk and capital information.

The ongoing responsibility for capital management rests with our Treasurer. The Capital Management group within Global Treasury is responsible for the Capital Policy and Guidelines, development of the Capital Plan, the management of global capital, capital optimization and business unit capital management. The Capital Management group is also responsible for enterprise stress testing, including stress revenue and expense modeling and information technology related matters associated with stress testing models.

MRAC provides oversight of our capital management, our capital adequacy, our internal targets and the expectations of the major independent credit rating agencies. In addition, MRAC approves our balance sheet strategy and related activities. The Board's RC assists the Board in fulfilling its oversight

State Street Corporation | 39

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Table of Contents

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

responsibilities related to the assessment and management of risk and capital. Our Capital Policy is reviewed and approved annually by the Board's RC.

For additional information about our capital, refer to pages 102 to 112 included under Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, in our 2017 Form 10-K.

Global Systemically Important Bank

We are one among a group of 30 institutions worldwide that have been identified by the FSB and the BCBS as G-SIBs. Our designation as a G-SIB is based on a number of factors, as evaluated by banking regulators, and requires us to maintain an additional capital buffer above the minimum capital ratios set forth in the Basel III final rule. In addition to the Basel III final rule, we are subject to the Federal Reserve's final rule imposing a capital surcharge on U.S. G-SIBs. The surcharge requirements within the final rule began to phase-in in January 2016 and will be fully effective on January 1, 2019. The eight U.S. banks deemed to be G-SIBs, including State Street, are required to calculate the G-SIB surcharge according to two methods, and be bound by the higher of the two:

• Method 1: Assesses systemic importance based upon five equally-weighted components: size, interconnectedness, complexity, cross-jurisdictional activity and substitutability

• Method 2: Alters the calculation from Method 1 by factoring in a wholesale funding score in place of substitutability and applying a 2x multiplier to the sum of the five components

Method 2 is the binding methodology for us and our applicable surcharge is presently calculated to be 1.5%.

Assuming completion of the phase-in period for the capital conservation buffer, and a countercyclical buffer of 0%, the minimum capital ratios as of January 1, 2019, including a capital conservation buffer of 2.5% and a G-SIB surcharge of 1.5% in 2019, would be 8.5% for CET1 capital, 10.0% for tier 1 risk-based capital and 12.0% for total risk-based capital, in order for us to make capital distributions and discretionary bonus payments without limitation. Further, like all other U.S. G-SIBs, we are also subject to a 2% leverage buffer under the SLR final rule. If we fail to exceed the 2% leverage buffer, we will be subject to increased restrictions (depending upon the extent of the shortfall) regarding capital distributions and discretionary executive bonus payments.

Not all of our banking competitors have similarly been designated as systemically important nor are all of them subject to the same degree of regulation as a bank or financial holding company, and therefore some of our competitors may not be subject to the same

additional capital and leverage requirements. In addition, not all our competitors are banking institutions and therefore are not subject to the same degree of regulation as is applicable to banking institutions, such as State Street, including the capital leverage requirements described above.

Total Loss-Absorbing Capacity (TLAC)

In December 2016, the Federal Reserve released its final rule on TLAC, LTD and clean holding company requirements for U.S. domiciled G-SIBs, such as State Street, that are intended to improve the resiliency and resolvability of certain U.S. banking organizations through enhanced prudential standards. The TLAC final rule imposes: (1) external TLAC requirements (i.e., combined eligible tier 1 regulatory capital and LTD); (2) separate external LTD requirements; and (3) clean holding company requirements that impose restrictions on certain types of liabilities and limit non-TLAC related third party liabilities to 5% of external TLAC, and in each case applicable to State Street Corporation itself (and not its subsidiaries).

Among other things, the TLAC final rule requires us to comply with minimum requirements for external TLAC and external LTD effective January 1, 2019. Specifically, we must hold (1) combined eligible tier 1 regulatory capital and LTD in the amount equal to the greater of 21.5% of total RWAs (18.0% minimum plus a 2.5% capital conservation buffer plus a G-SIB surcharge calculated for these purposes under method 1 of 1.0%) and 9.5% of total leverage exposure (7.5% minimum plus the eSLR buffer of 2.0%), as defined by the SLR final rule, and (2) qualifying external LTD equal to the greater of 7.5% of RWAs (6.0% minimum plus a G-SIB surcharge calculated for these purposes under method 2 of 1.5%) and 4.5% of total leverage exposure, as defined by the SLR final rule.

Based upon current estimates, assumptions and guidance, we project that compliance with TLAC and LTD will result in increasing our outstanding LTD by approximately \$2.0 billion at December 31, 2018 compared to debt outstanding at December 31, 2017.

For additional information on our TLAC requirements, refer to "Regulatory Developments" below in this Management's Discussion and Analysis and page 7 under "Regulatory Capital Adequacy and Liquidity Standards" in "Total Loss-Absorbing Capacity (TLAC)" included under Item 1, Business, in our 2017 Form 10-K.

State Street Corporation | 40

---

Table of Contents

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS

Regulatory Capital

We and State Street Bank, as advanced approaches banking organizations, are subject to the U.S. Basel III framework. Provisions of the Basel III final rule became effective under a transition timetable starting in January 2014, with full implementation required by January 1, 2019. We are also subject to the final market risk capital rule issued by U.S. banking regulators effective as of January 2013.

The Basel III final rule provides for two frameworks for monitoring capital adequacy: the "standardized" approach and the "advanced" approaches, applicable to advanced approaches banking organizations, like us. The standardized approach prescribes standardized calculations for credit RWA, including specified risk weights for certain on- and off-balance sheet exposures.

The advanced approaches consist of the AIRB approach used for the calculation of RWA related to credit risk, and the AMA approach used for the calculation of RWA related to operational risk.

The final market risk capital rule requires us to use internal models to calculate daily measures of VaR, that reflect general market risk for certain of our trading positions defined by the rule as "covered positions," as well as stressed-VaR measures to supplement the VaR measures. The rule also requires a public disclosure composed of qualitative and quantitative information about the market risk associated with our trading activities and our related VaR and stressed-VaR measures. The qualitative and quantitative information required by the rule is provided under "Market Risk" in this Form 10-Q.

As required by the Dodd-Frank Act, we and State Street Bank, as advanced approaches banking organizations, are subject to a permanent "capital floor," also referred to as the Collins Amendment, in the assessment of our regulatory capital adequacy, including the capital conservation buffer and countercyclical capital buffer. Our risk-based capital ratios for regulatory assessment purposes are the lower of each ratio calculated under the standardized approach and the advanced approaches.

The requirement for the capital conservation buffer is being phased in beginning on January 1, 2016, with full implementation by January 1, 2019. Specifically, the final rule limits a banking organization's ability to make capital distributions and discretionary bonus payments to executive officers if it fails to maintain a CET1 capital conservation buffer of more than 2.5% of total risk-weighted assets and, if deployed during periods of excessive credit growth, a CET1 countercyclical capital buffer of up to 2.5% of total RWA, above each of the minimum CET1, tier 1, and total risk-based capital ratios. The countercyclical capital buffer is currently set at zero by U.S. banking regulators.

To maintain the status of the Parent Company as a financial holding company, we and our insured depository institution subsidiaries are required to be "well-capitalized" by maintaining capital ratios above the minimum requirements. Effective on January 1, 2015, the "well-capitalized" standard for our banking subsidiaries was revised to reflect the higher capital requirements in the Basel III final rule.

Table of ContentsMANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS

The following table sets forth the transition to full implementation and the minimum risk-based capital ratio requirements under the Basel III final rule.

TABLE 33: BASEL III FINAL RULES TRANSITION ARRANGEMENTS AND  
MINIMUM RISK-BASED CAPITAL RATIOS<sup>(1)</sup>

	2015	2016	2017	2018	2019
Capital conservation buffer (CET1)	—	% 0.625	% 1.250	% 1.875	% 2.500
G-SIB surcharge (CET1) <sup>(2)</sup>	—	0.375	0.750	1.125	1.500
Minimum CET1 <sup>(3)</sup>	4.500	5.500	6.500	7.500	8.500
Minimum tier 1 capital <sup>(3)</sup>	6.000	7.000	8.000	9.000	10.000
Minimum total capital <sup>(3)</sup>	8.000	9.000	10.000	11.000	12.000

<sup>(1)</sup> Minimum ratios shown above do not reflect the countercyclical buffer, currently set at zero by U.S. banking regulators.

<sup>(2)</sup> As part of the G-SIB Surcharge final rule, the Federal Reserve published estimated G-SIB surcharges for the eight U.S. G-SIBs. The estimated resulting G-SIB surcharge for State Street is 1.5%.

<sup>(3)</sup> Minimum CET1 capital, minimum tier 1 capital and minimum total capital presented include the transitional capital conservation buffer as well as the estimated transitional G-SIB surcharge being phased-in beginning January 1, 2016 through January 1, 2019 based on an estimated 1.5% surcharge in all periods.

The specific calculation of State Street's and State Street Bank's risk-based capital ratios has changed as the provisions of the Basel III final rule related to the numerator (capital) and denominator (RWAs) were phased in, and as our RWAs calculated using the advanced approaches changed due to changes in methodology. These methodological changes result in differences in our reported capital ratios from one reporting period to the next that are independent of applicable changes to our capital base, our asset composition, our off-balance sheet exposures or our risk profile.

The following table presents the regulatory capital structure and related regulatory capital ratios for State Street and State Street Bank as of the dates indicated. We are subject to the more stringent of the risk-based capital ratios calculated under the standardized approach and those calculated under the advanced approaches in the assessment of our capital adequacy under applicable bank regulatory standards.

As a result of changes in the methodologies used to calculate our regulatory capital ratios from period to period, as the provisions of the Basel III final rule are phased in, the ratios presented in the table for each period are not directly comparable. Refer to the footnotes following the table.

Table of ContentsMANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS

TABLE 34: REGULATORY CAPITAL STRUCTURE AND RELATED REGULATORY CAPITAL RATIOS

(In millions)	State Street				State Street Bank			
	Basel III Advanced Approaches September 30, 2018 <sup>(1)</sup>	Basel III Standardized Approach September 30, 2018 <sup>(2)</sup>	Basel III Advanced Approaches December 31, 2017 <sup>(1)</sup>	Basel III Standardized Approach December 31, 2017 <sup>(2)</sup>	Basel III Advanced Approaches September 30, 2018 <sup>(1)</sup>	Basel III Standardized Approach September 30, 2018 <sup>(2)</sup>	Basel III Advanced Approaches December 31, 2017 <sup>(1)</sup>	Basel III Standardized Approach December 31, 2017 <sup>(2)</sup>
Common shareholders' equity:								
Common stock and related surplus	\$10,922	\$10,922	\$10,302	\$10,302	\$13,262	\$13,262	\$11,612	\$11,612
Retained earnings	20,387	20,387	18,856	18,856	13,969	13,969	12,312	12,312
Accumulated other comprehensive income (loss)	(1,661 )	(1,661 )	(972 )	(972 )	(1,450 )	(1,450 )	(809 )	(809 )
Treasury stock, at cost	(8,735 )	(8,735 )	(9,029 )	(9,029 )	—	—	—	—
Total	20,913	20,913	19,157	19,157	25,781	25,781	23,115	23,115
Regulatory capital adjustments:								
Goodwill and other intangible assets, net of associated deferred tax liabilities <sup>(3)</sup>	(7,016 )	(7,016 )	(6,877 )	(6,877 )	(6,721 )	(6,721 )	(6,579 )	(6,579 )
Other adjustments <sup>(4)</sup>	(194 )	(194 )	(76 )	(76 )	(48 )	(48 )	(5 )	(5 )
CET1 capital	13,703	13,703	12,204	12,204	19,012	19,012	16,531	16,531
Preferred stock	3,690	3,690	3,196	3,196	—	—	—	—
Trust preferred capital securities subject to phase-out from tier 1 capital	—	—	—	—	—	—	—	—
Other adjustments	—	—	(18 )	(18 )	—	—	—	—
Tier 1 capital	17,393	17,393	15,382	15,382	19,012	19,012	16,531	16,531
Qualifying subordinated long-term debt	761	761	980	980	759	759	983	983
Trust preferred capital securities phased out of tier 1 capital	—	—	—	—	—	—	—	—
ALLL and other	5	74	4	72	—	75	—	72
Other adjustments	—	—	1	1	—	—	—	—
Total capital	\$18,159	\$18,228	\$16,367	\$16,435	\$19,771	\$19,846	\$17,514	\$17,586
RWAs:								
Credit risk <sup>(5)</sup>	\$50,272	\$104,515	\$52,000	\$101,349	\$47,732	\$101,444	\$49,489	\$98,433
Operational risk <sup>(6)</sup>	45,840	NA	45,822	NA	45,315	NA	45,295	NA
Market risk	1,255	1,255	1,334	1,334	1,255	1,255	1,334	1,334
Total RWAs	\$97,367	\$105,770	\$99,156	\$102,683	\$94,302	\$102,699	\$96,118	\$99,767
	\$214,103	\$214,103	\$209,328	\$209,328	\$211,477	\$211,477	\$206,070	\$206,070

Adjusted quarterly  
average assets

Capital Ratios:	2018		2017		2018		2017		2018		2017		%
	Minimum Requirements Including Capital Conservation Buffer and G-SIB Surcharge <sup>(7)</sup>	Minimum Requirements Including Capital Conservation Buffer and G-SIB Surcharge <sup>(8)</sup>	Minimum Requirements Including Capital Conservation Buffer and G-SIB Surcharge <sup>(7)</sup>	Minimum Requirements Including Capital Conservation Buffer and G-SIB Surcharge <sup>(8)</sup>	Minimum Requirements Including Capital Conservation Buffer and G-SIB Surcharge <sup>(7)</sup>	Minimum Requirements Including Capital Conservation Buffer and G-SIB Surcharge <sup>(8)</sup>	Minimum Requirements Including Capital Conservation Buffer and G-SIB Surcharge <sup>(7)</sup>	Minimum Requirements Including Capital Conservation Buffer and G-SIB Surcharge <sup>(8)</sup>	Minimum Requirements Including Capital Conservation Buffer and G-SIB Surcharge <sup>(7)</sup>	Minimum Requirements Including Capital Conservation Buffer and G-SIB Surcharge <sup>(8)</sup>	Minimum Requirements Including Capital Conservation Buffer and G-SIB Surcharge <sup>(7)</sup>	Minimum Requirements Including Capital Conservation Buffer and G-SIB Surcharge <sup>(8)</sup>	
CET1 capital	7.5	6.5	14.1	13.0	12.3	11.9	20.2	18.5	17.2	16.6			%
Tier 1 capital	9.0	8.0	17.9	16.4	15.5	15.0	20.2	18.5	17.2	16.6			%
Total capital	11.0	10.0	18.7	17.2	16.5	16.0	21.0	19.3	18.2	17.6			%
Tier 1 leverage	4.0	4.0	8.1	8.1	7.3	7.3	9.0	9.0	8.0	8.0			%

(1) CET1 capital, tier 1 capital and total capital ratios as of September 30, 2018 and December 31, 2017 were calculated in conformity with the advanced approaches provisions of the Basel III final rule. Tier 1 leverage ratio as of September 30, 2018 and December 31, 2017 were calculated in conformity with the Basel III final rule.

(2) CET1 capital, tier 1 capital and total capital ratios as of September 30, 2018 and December 31, 2017 were calculated in conformity with the standardized approach provisions of the Basel III final rule. Tier 1 leverage ratio as of September 30, 2018 and December 31, 2017 were calculated in conformity with the Basel III final rule.

(3) Amounts for State Street and State Street Bank as of September 30, 2018 consisted of goodwill, net of associated deferred tax liabilities, and 100% of other intangible assets, net of associated deferred tax liabilities. Amounts for State Street and State Street Bank as of December 31, 2017 consisted of goodwill, net of associated deferred tax liabilities and 80% of other intangible assets, net of associated deferred tax liabilities. Intangible assets, net of associated deferred tax liabilities is phased in as a deduction from capital, in conformity with the Basel III final rule.

(4) Other adjustments within CET1 capital primarily include the overfunded portion of our defined benefit pension plan obligation net of associated deferred tax liabilities, disallowed deferred tax assets, and other required credit risk based deductions.

(5) Includes a CVA which reflects the risk of potential fair value adjustments for credit risk reflected in our valuation of over-the-counter derivative contracts. We used a simple CVA approach in conformity with the Basel III advanced approaches.

(6) Under the current advanced approaches rules and regulatory guidance concerning operational risk models, RWA attributable to operational risk can vary substantially from period-to-period, without direct correlation to the effects of a particular loss event on our results of operations and financial condition and impacting dates and periods that may differ from the dates and periods as of and during which the loss event is reflected in our financial statements, with the timing and categorization dependent on the processes for model updates and, if applicable, model revalidation and regulatory review and related supervisory processes. An individual loss event can have a significant effect on the output of our operational RWA under the advanced approaches depending on the severity of the loss event and its categorization among the seven Basel-defined UOMs.

(7) Minimum requirements will be phased in up to full implementation beginning on January 1, 2019; minimum requirements listed are as of September 30, 2018. See Table 33: Basel III Final Rules Transition Arrangements and Minimum Risk-Based Capital Ratios.

<sup>(8)</sup> Minimum requirements will be phased in up to full implementation beginning on January 1, 2019; minimum requirements listed are as of December 31, 2017. See Table 33: Basel III Final Rules Transition Arrangements and Minimum Risk-Based Capital Ratios.

<sup>NA</sup> Not applicable

State Street Corporation | 43

---

Table of ContentsMANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS

Our CET1 capital increased \$1.50 billion as of September 30, 2018 compared to December 31, 2017 primarily driven by net income of \$2.16 billion for the nine months ended September 30, 2018, and the third quarter of 2018 issuance of common stock of \$1.15 billion, offset by capital distributions of \$982 million from common and preferred stock dividends and common stock purchases, accumulated other comprehensive loss of \$689 million and a \$297 million impact from the 2018 phase-in of the deduction of intangibles (100% in 2018 compared to 80% in 2017).

In the same comparative period, our tier 1 capital increased \$2.01 billion and total capital increased \$1.79 billion under advanced approaches and increased \$1.79 billion under standardized approach due to the changes in our CET1 capital and the issuance of preferred stock of approximately \$500 million in the third quarter of 2018.

The table below presents a roll-forward of CET1 capital, tier 1 capital and total capital for the nine months ended September 30, 2018 and for the year ended December 31, 2017.

TABLE 35: CAPITAL ROLL-FORWARD

(In millions)	Basel III	Basel III	Basel III	Basel III
	Advanced Approaches September 30, 2018	Standardized Approach September 30, 2018	Advanced Approaches December 31, 2017	Standardized Approach December 31, 2017
CET1 capital:				
CET1 capital balance, beginning of period	\$ 12,204	\$ 12,204	\$ 11,624	\$ 11,624
Net income	2,160	2,160	2,177	2,177
Changes in treasury stock, at cost	294	294	(1,347)	(1,347)
Dividends declared	(632)	(632)	(778)	(778)
Goodwill and other intangible assets, net of associated deferred tax liabilities	(139)	(139)	(529)	(529)
Effect of certain items in accumulated other comprehensive income (loss)	(689)	(689)	964	964
Other adjustments	505	505	93	93
Changes in CET1 capital	1,499	1,499	580	580
CET1 capital balance, end of period	13,703	13,703	12,204	12,204
Additional tier 1 capital:				
Tier 1 capital balance, beginning of period	15,382	15,382	14,717	14,717
Change in CET1 capital	1,499	1,499	580	580
Net issuance of preferred stock	494	494	—	—
Trust preferred capital securities phased out of tier 1 capital	—	—	—	—
Other adjustments	18	18	85	85
Changes in tier 1 capital	2,011	2,011	665	665
Tier 1 capital balance, end of period	17,393	17,393	15,382	15,382
Tier 2 capital:				
Tier 2 capital balance, beginning of period	985	1,053	1,192	1,250
Net issuance and changes in long-term debt qualifying as tier 2	(219)	(219)	(192)	(192)
Changes in ALLL and other	1	2	(15)	(5)
Change in other adjustments	(1)	(1)	—	—
Changes in tier 2 capital	(219)	(218)	(207)	(197)
Tier 2 capital balance, end of period	766	835	985	1,053
Total capital:				
Total capital balance, beginning of period	16,367	16,435	15,909	15,967
Changes in tier 1 capital	2,011	2,011	665	665
Changes in tier 2 capital	(219)	(218)	(207)	(197)



Total capital balance, end of period	\$ 18,159	\$ 18,228	\$ 16,367	\$ 16,435
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State Street Corporation | 44

---

Table of ContentsMANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS

The following table presents a roll-forward of the Basel III advanced approaches RWAs for the nine months ended September 30, 2018 and for the year ended December 31, 2017.

TABLE 36: ADVANCED APPROACHES RWA ROLL-FORWARD

(In millions)	September 30, 2018	December 31, 2017
Total RWAs, beginning of period	\$ 99,156	\$ 99,301
Changes in RWAs:		
Net increase (decrease) in investment securities-wholesale	(516 )	2,914
Net increase (decrease) in loans and leases	(676 )	30
Net increase (decrease) in securitization exposures	(3,165 )	(683 )
Net increase (decrease) in repo-style transaction exposures	191	440
Net increase (decrease) in OTC derivatives exposures	837	(1,129 )
Net increase (decrease) in all other <sup>(1)</sup>	1,601	(2,543 )
Net increase (decrease) in credit RWAs	(1,728 )	(971 )
Net increase (decrease) in market RWAs	(79 )	(417 )
Net increase (decrease) in operational RWAs	18	1,243
Total RWAs, end of period	\$ 97,367	\$ 99,156

<sup>(1)</sup> Includes assets not in a definable category, cleared transactions, non-material portfolio, other wholesale, cash and due from, and interest-bearing deposits with banks, equity exposures, and 6% credit risk supervisory charge. As of September 30, 2018, total advanced approaches RWAs decreased \$1.79 billion compared to December 31, 2017, primarily due to lower credit RWA. The decrease in credit RWA was primarily due to the sale of \$16 billion of non-HQLA within the investment portfolio in the nine months ended September 30, 2018, partially offset by increases in all other exposures and the FX derivative portfolio due to higher volumes and positive mark to market with corporates.

The following table presents a roll-forward of the Basel III standardized approach RWAs for the nine months ended September 30, 2018 and year ended December 31, 2017.

TABLE 37: STANDARDIZED APPROACH RWA ROLL-FORWARD

(In millions)	September 30, 2018	December 31, 2017
Total estimated RWAs, beginning of period <sup>(1)</sup>	\$ 102,683	\$ 99,876
Changes in credit RWAs:		
Net increase (decrease) in investment securities-wholesale	(1,806 )	1,729
Net increase (decrease) in loans and leases	1,479	2,589
Net increase (decrease) in securitization exposures	(3,164 )	(690 )
Net increase (decrease) in repo-style transaction exposures	918	2,058
Net increase (decrease) in OTC derivatives exposures	2,891	(1,709 )
Net increase (decrease) in all other <sup>(2)</sup>	2,848	(753 )
Net increase (decrease) in credit RWAs	3,166	3,224
Net increase (decrease) in market RWAs	(79 )	(417 )
Total RWAs, end of period	\$ 105,770	\$ 102,683

<sup>(1)</sup> Standardized approach RWAs as of the periods noted above were calculated using State Street's estimates, based on our then current interpretation of the Basel III final rule.

<sup>(2)</sup> Includes assets not in a definable category, cleared transactions, other wholesale, cash and due from, and interest-bearing deposits with banks and equity exposures.

As of September 30, 2018, total standardized approach RWAs increased \$3.09 billion compared to December 31, 2017, primarily due to higher credit RWA. The main drivers of the credit RWA change were increases in the FX derivative portfolio due to higher volumes and positive mark to mark with corporates and higher overdrafts with corporates (both which have a higher prescribed risk weight under the standardized approach), and increases in all other exposures. These increases were partially offset by the sale of \$16 billion of non-HQLA within the investment portfolio in the nine months ended September 30, 2018.

The regulatory capital ratios as of September 30, 2018, presented in Table 34: Regulatory Capital Structure and Related Regulatory Capital Ratios, are calculated under the standardized approach and advanced approaches in conformity with the Basel III final rule. The advanced approaches-based ratios reflect calculations and determinations with respect to our capital and related matters as of September 30, 2018, based on our and external data, quantitative formulae, statistical models, historical correlations and assumptions, collectively referred to as “advanced systems,” in effect and used by us for those purposes as of the time we first reported such ratios in a quarterly report on Form 10-Q or an annual report on Form 10-K. Significant components of these advanced systems involve the exercise of judgment by us and our

State Street Corporation | 45

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Table of Contents

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS

regulators, and our advanced systems may not, individually or collectively, precisely represent or calculate the scenarios, circumstances, outputs or other results for which they are designed or intended.

Our advanced systems are subject to update and periodic revalidation in response to changes in our business activities and our historical experiences, forces and events experienced by the market broadly or by individual financial institutions, changes in regulations and regulatory interpretations and other factors, and are also subject to continuing regulatory review and approval. For example, a significant operational loss experienced by another financial institution, even if we do not experience a related loss, could result in a material change in the output of our advanced systems and a corresponding material change in our risk exposures, our total RWAs and our capital ratios compared to prior periods. An operational loss that we experience could also result in a material change in our capital requirements for operational risk under the advanced approaches, depending on the severity of the loss event, its characterization among the seven Basel-defined UOMs, and the stability of the distributional approach for a particular UOM, and without direct correlation to the effects of the loss event, or the timing of such effects, on our results of operations. Due to the influence of changes in these advanced systems, whether resulting from changes in data inputs, regulation or regulatory supervision or interpretation, State Street-specific or market activities or experiences or other updates or factors, we expect that our advanced systems and our capital ratios calculated in conformity with the Basel III final rule will change and may be volatile over time, and that those latter changes or volatility could be material as calculated and measured from period to period. The full effects of the Basel III final rule on us and State Street Bank are therefore subject to further evaluation and also to further regulatory guidance, action or rule-making.

Regulatory Developments

In April 2018, the FRB issued a proposed rule which would replace the current 2% supplementary leverage ratio buffer for G-SIBs, with a buffer equal to 50% of their G-SIB buffer. This proposal would also make conforming modifications to our TLAC and eligible LTD requirements applicable to G-SIBs.

In addition, the FRB has issued a separate proposed rule replacing the current 2.5% capital conservation buffer with a firm specific buffer (referred to as the Stress Capital Buffer or SCB), updated annually and tailored to reflect the results of the most recent Federal Reserve's CCAR supervisory severely adverse scenario stress test. The proposal also introduces a Stress Leverage Buffer (SLB) applicable to the tier 1 leverage ratio. Under the proposal, both the SCB and SLB would become effective October 1, 2019.

Changes to the final rules, if and when proposed, may be material and the application of the proposed rule involves estimates which cannot reasonably be made at present. Consequently, we have not estimated the impact of the proposed rule.

The Economic Growth, Regulatory Relief and Consumer Protection Act, which was signed into law by President Trump in May 2018, includes modifications to the SLR requirements as applied to custody banks. Specifically, the modifications would allow certain central bank deposits to be excluded from the SLR denominator, or total leverage exposure. In addition, the Act may impact our TLAC and LTD requirements as the definition of the supplementary leverage ratio has been modified for custodial banks. Our estimates as to our LTD needs at December 31, 2018, to satisfy TLAC and LTD requirements, are subject to updates based on the changing regulatory landscape and additional regulatory guidance and interpretation.

Supplementary Leverage Ratio

In 2014, U.S. banking regulators issued final rules implementing an SLR, for certain bank holding companies, like us, and their insured depository institution subsidiaries, like State Street Bank, which we refer to as the SLR final rule. The SLR final rule requires that, as of January 1, 2018, (i) State Street Bank maintain an SLR of at least 6% to be well capitalized under the U.S. banking regulators' PCA framework and (ii) we maintain an SLR of at least 5% to avoid limitations on capital distributions and discretionary bonus payments. In addition to the SLR, we are subject to a minimum tier 1 leverage ratio of 4%, which differs from the SLR primarily in that the denominator of the tier 1 leverage ratio is only a quarterly average of on-balance sheet assets and does not include any off-balance sheet exposures.

TABLE 38: SUPPLEMENTARY LEVERAGE RATIO

(In millions)	September 30, 2018	
State Street:		
Tier 1 capital	\$ 17,393	
On-and off-balance sheet leverage exposure	253,821	
Less: regulatory deductions	(7,210 )	
Total assets for SLR	\$ 246,611	
Supplementary leverage ratio	7.1 %	
State Street Bank:		
Tier 1 capital	\$ 19,012	
On-and off-balance sheet leverage exposure	250,764	
Less: regulatory deductions	(6,769 )	
Total assets for SLR	\$ 243,995	
Supplementary leverage ratio	7.8 %	

State Street Corporation | 46

Table of ContentsMANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS

## Capital Actions

## Preferred Stock

In September 2018, we issued 500,000 depositary shares, each representing 1/100th ownership interest in shares of our fixed-to-floating rate non-cumulative perpetual preferred stock, Series H, without par value per share, with a liquidation preference of \$100,000 per share (equivalent to \$1,000 per depositary share), in a public offering. The aggregate proceeds, net of underwriting discounts, commissions and other issuance costs, were approximately \$500 million, and were used to fund a portion of our acquisition of Charles River Development on October 1, 2018.

Dividends on the Series H Preferred stock will be paid semi-annually and will commence on December 15, 2018, with the first dividend paid on a pro-rata basis.

The following table summarizes selected terms of each of the series of the preferred stock issued and outstanding as of September 30, 2018:

TABLE 39: PREFERRED STOCK ISSUED AND OUTSTANDING

	Issuance Date	Depositary Shares Issued	Ownership Interest Per Depositary Share	Liquidation Preference Per Share	Liquidation Preference Per Depositary Share	Net Proceeds of Offering (In millions)	Redemption Date <sup>(1)</sup>
Preferred Stock <sup>(2)</sup> :							
Series C	August 2012	20,000,000	1/4,000th	\$ 100,000	\$ 25	\$ 488	September 15, 2017
Series D	February 2014	30,000,000	1/4,000th	100,000	25	742	March 15, 2024
Series E	November 2014	30,000,000	1/4,000th	100,000	25	728	December 15, 2019
Series F	May 2015	750,000	1/100th	100,000	1,000	742	September 15, 2020
Series G	April 2016	20,000,000	1/4,000th	100,000	25	493	March 15, 2026
Series H	September 2018	500,000	1/100th	100,000	1,000	494	December 15, 2023

<sup>(1)</sup> On the redemption date, or any dividend declaration date thereafter, the preferred stock and corresponding depositary shares may be redeemed by us, in whole or in part, at the liquidation price per share and liquidation price per depositary share plus any declared and unpaid dividends, without accumulation of any undeclared dividends.

<sup>(2)</sup> The preferred stock and corresponding depositary shares may be redeemed at our option in whole, but not in part, prior to the redemption date upon the occurrence of a regulatory capital treatment event, as defined in the certificate of designation, at a redemption price equal to the liquidation price per share and liquidation price per depositary share plus any declared and unpaid dividends, without accumulation of any undeclared dividends.

Table of ContentsMANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS

The following tables present the dividends declared for each of the series of preferred stock issued and outstanding for the periods indicated:

TABLE 40: PREFERRED STOCK DIVIDENDS

	Three Months Ended September 30, 2018			2017		
	Dividends Declared per Share	Dividends Declared per Depository Share	Total (In millions) <sup>(1)</sup>	Dividends Declared per Share	Dividends Declared per Depository Share	Total (In millions)
Preferred Stock:						
Series C	\$1,313	\$ 0.33	\$ 6	\$1,313	\$ 0.33	\$ 6
Series D	1,475	0.37	11	1,475	0.37	11
Series E	1,500	0.38	11	1,500	0.38	11
Series F	2,625	26.25	20	2,625	26.25	20
Series G	1,338	0.33	7	1,338	0.33	7
Total			\$ 55			\$ 55

	Nine Months Ended September 30, 2018			2017		
	Dividends Declared per Share	Dividends Declared per Depository Share	Total (In millions)	Dividends Declared per Share	Dividends Declared per Depository Share	Total (In millions)
Preferred Stock:						
Series C	\$3,939	\$ 0.99	\$ 19	\$3,939	\$ 0.99	\$ 19
Series D	4,425	1.11	33	4,425	1.11	33
Series E	4,500	1.14	33	4,500	1.14	33
Series F	5,250	52.50	40	5,250	52.50	40
Series G	4,014	0.99	21	4,014	0.99	21
Total			\$ 146			\$ 146

<sup>(1)</sup> Dividends were paid in September 2018.

In October 2018, we declared dividends on our Series C, D, E, G and H preferred stock of approximately \$1,313, \$1,475, \$1,500, \$1,338 and \$1,219, respectively, per share, or approximately \$0.33, \$0.37, \$0.38, \$0.33 and \$12.19, respectively, per depository share. These dividends total approximately \$7 million, \$11 million, \$11 million, \$7 million and \$6 million on our Series C, D, E, G and H preferred stock, respectively, which will be paid in December 2018.

**Common Stock**

In July 2018, we completed a public offering of approximately 13.24 million shares of our common stock. The offering price was \$86.93 per share and net proceeds totaled approximately \$1.15 billion, and were used to fund a portion of our acquisition of Charles River Development on October 1, 2018.

In June 2017, our Board approved a common stock purchase program authorizing the purchase of up to \$1.4 billion of our common stock through June 30, 2018 (the 2017 Program). In June 2018, the Federal Reserve issued a conditional non-objection to our capital plan submitted as part of the 2018 CCAR submission; and in connection with such capital plan our Board approved a common stock purchase program authorizing the purchase of up to \$1.2 billion of our

common stock through June 30, 2019 (the 2018 Program). In connection with our acquisition of Charles River Development, we did not purchase any common stock during either the quarter ended June 30, 2018 under the 2017 Program or the quarter ended September 30, 2018 under the 2018 Program and we do not intend to purchase any common stock during the fourth quarter of 2018. We intend to resume our common stock purchases in the first quarter of 2019 and may repurchase up to \$600 million through June 30, 2019.

The table below presents the activity under our common stock purchase program during the period indicated:

TABLE 41: SHARES

REPURCHASED

	Nine Months Ended September 30, 2018 <sup>(1)</sup>	
	Shares Acquired (In millions)	Average Cost per Share (\$)
	Total Acquired (In millions)	
2017 Program	3.3	\$ 105.31
	\$ 350	

<sup>(1)</sup> There were no shares repurchased in the three months ended September 30, 2018 under the 2018 Program.



Table of ContentsMANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS

The table below presents the dividends declared on common stock for the periods indicated:

TABLE 42: COMMON STOCK DIVIDENDS

Three Months Ended September 30,			
	Dividends Total Declared (In per Share 2018		Dividends Total Declared (In per Share 2017
	millions)		millions)
Common Stock	\$0.47 \$ 179		\$0.42 \$ 156

Nine Months Ended September 30,			
	Dividends Total Declared (In per Share 2018		Dividends Total Declared (In per Share 2017
	millions)		millions)
Common Stock	\$1.31 \$ 486		\$1.18 \$ 442

Federal and state banking regulations place certain restrictions on dividends paid by subsidiary banks to the parent holding company. In addition, banking regulators have the authority to prohibit bank holding companies from paying dividends. For information concerning limitations on dividends from our subsidiary banks, refer to pages 48 and 49 included under Item 5, Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities, and to Note 15 on pages 169 to 171 to the consolidated financial statements included under Item 8, Financial Statements and Supplementary Data, in our 2017 Form 10-K. Our common stock and preferred stock dividends, including the declaration, timing and amount thereof, are subject to consideration and approval by the Board at the relevant times.

Stock purchases may be made using various types of mechanisms, including open market purchases, accelerated share repurchases or transactions off market and may be made under Rule 10b5-1 trading programs. The timing of stock purchases, types of transactions and number of shares purchased will depend on several factors, including, market conditions and our capital positions, financial performance and investment opportunities. The common stock purchase program does not have specific price targets and may be suspended at any time.

Table of Contents

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS

OFF-BALANCE SHEET ARRANGEMENTS

On behalf of clients enrolled in our securities lending program, we lend securities to banks, broker/dealers and other institutions. In most circumstances, we indemnify our clients for the fair market value of those securities against a failure of the borrower to return such securities. Though these transactions are collateralized, the substantial volume of these activities necessitates detailed credit-based underwriting and monitoring processes. The aggregate amount of indemnified securities on loan totaled \$380.39 billion as of September 30, 2018, compared to \$381.82 billion as of December 31, 2017. We require the borrower to provide collateral in an amount in excess of 100% of the fair market value of the securities borrowed. We hold the collateral received in connection with these securities lending services as agent, and the collateral is not recorded in our consolidated statement of condition. We revalue the securities on loan and the collateral daily to determine if additional collateral is necessary or if excess collateral is required to be returned to the borrower. We held, as agent, cash and securities totaling \$399.25 billion and \$400.83 billion as collateral for indemnified securities on loan as of September 30, 2018 and December 31, 2017, respectively. The cash collateral held by us as agent is invested on behalf of our clients. In certain cases, the cash collateral is invested in third-party repurchase agreements, for which we indemnify the client against loss of the principal invested. We require the counterparty to the indemnified repurchase agreement to provide collateral in an amount in excess of 100% of the amount of the repurchase agreement. In our role as agent, the indemnified repurchase agreements and the related collateral held by us are not recorded in our consolidated statement of condition. Of the collateral of \$399.25 billion and \$400.83 billion, referenced above, \$55.53 billion and \$61.27 billion was invested in indemnified repurchase agreements as of September 30, 2018 and December 31, 2017, respectively. We or our agents held \$58.98 billion and \$65.27 billion as collateral for indemnified investments in repurchase agreements as of September 30, 2018 and December 31, 2017, respectively.

Additional information about our securities finance activities and other off-balance sheet arrangements is provided in Notes 7 and 9 to the consolidated financial statements included in this Form 10-Q.

RECENT ACCOUNTING DEVELOPMENTS

Information with respect to recent accounting developments is provided in Note 1 to the consolidated financial statements included in this Form 10-Q.

Table of Contents

**QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The information provided under Financial Condition - Market Risk Management in Management's Discussion and Analysis, included in this Form 10-Q, is incorporated by reference herein. For more information on our market risk refer to pages 94 to 101 included under Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, in our 2017 Form 10-K.

**CONTROLS AND PROCEDURES**

We have established and maintain disclosure controls and procedures that are designed to ensure that information related to us and our subsidiaries on a consolidated basis required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. For the quarter ended September 30, 2018, our management carried out an evaluation, with the participation of the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on the evaluation of these disclosure controls and procedures, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of September 30, 2018.

We have established and maintain internal control over financial reporting as a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in conformity with GAAP. In the ordinary course of business, we routinely enhance our internal controls and procedures for financial reporting by either upgrading our current systems or implementing new systems. Changes have been made and may be made to our internal controls and procedures for financial reporting as a result of these efforts. During the quarter ended September 30, 2018, no change occurred in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

STATE STREET CORPORATION  
CONSOLIDATED STATEMENT OF INCOME  
(UNAUDITED)

(Dollars in millions, except per share amounts)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Fee revenue:				
Servicing fees	\$1,333	\$1,351	\$4,135	\$3,986
Management fees	474	419	1,411	1,198
Trading services	288	259	907	823
Securities finance	128	147	423	459
Processing fees and other	57	66	140	209
Total fee revenue	2,280	2,242	7,016	6,675
Net interest income:				
Interest income	916	761	2,680	2,111
Interest expense	244	158	706	423
Net interest income	672	603	1,974	1,688
Gains (losses) related to investment securities, net:				
Gains (losses) from sales of available-for-sale securities, net	—	1	8	(39)
Losses from other-than-temporary impairment	(1)	—	(2)	—
Gains (losses) related to investment securities, net	(1)	1	6	(39)
Total revenue	2,951	2,846	8,996	8,324
Provision for loan losses	5	3	7	4
Expenses:				
Compensation and employee benefits	1,103	1,090	3,477	3,327
Information systems and communications	332	296	968	866
Transaction processing services	236	215	724	619
Occupancy	110	118	354	344
Acquisition and restructuring costs	—	33	—	133
Professional services	79	71	247	262
Amortization of other intangible assets	47	54	145	160
Other	172	144	579	427
Total expenses	2,079	2,021	6,494	6,138
Income before income tax expense	867	822	2,495	2,182
Income tax expense	102	137	335	375
Net income	\$765	\$685	\$2,160	\$1,807
Net income available to common shareholders	\$709	\$629	\$2,012	\$1,659
Earnings per common share:				
Basic	\$1.89	\$1.69	\$5.45	\$4.41
Diluted	1.87	1.66	5.38	4.35
Average common shares outstanding (in thousands):				
Basic	374,963	372,765	369,368	376,430
Diluted	379,383	378,518	374,064	381,779
Cash dividends declared per common share	\$.47	\$.42	\$1.31	\$1.18

The accompanying condensed notes are an integral part of these consolidated financial statements.

State Street Corporation | 52

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STATE STREET CORPORATION  
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
(UNAUDITED)

(In millions)	Three Months Ended September 30,	
	2018	2017
Net income	\$765	\$685
Other comprehensive income (loss), net of related taxes:		
Foreign currency translation, net of related taxes of \$3 and (\$7), respectively	(57 )	259
Net unrealized gains (losses) on available-for-sale securities, net of reclassification adjustment and net of related taxes of (\$66) and \$28, respectively	(218 )	47
Net unrealized gains (losses) on available-for-sale securities designated in fair value hedges, net of related taxes of (\$12) and \$4, respectively	20	4
Other-than-temporary impairment on held-to-maturity securities related to factors other than credit, net of related taxes of \$1 and \$1, respectively	2	1
Net unrealized gains (losses) on cash flow hedges, net of related taxes of (\$5) and (\$15), respectively	30	(27 )
Net unrealized gains (losses) on retirement plans, net of related taxes of \$2 and zero, respectively	—	2
Other comprehensive income (loss)	(223 )	286
Total comprehensive income	\$542	\$971
(In millions)	Nine Months Ended September 30,	
	2018	2017
Net income	\$2,160	\$1,807
Other comprehensive income (loss), net of related taxes:		
Foreign currency translation, net of related taxes of (\$59) and \$6, respectively	(244 )	785
Net unrealized gains (losses) on available-for-sale securities, net of reclassification adjustment and net of related taxes of (\$202) and \$336, respectively	(475 )	519
Net unrealized gains (losses) on available-for-sale securities designated in fair value hedges, net of related taxes of \$10 and \$9, respectively	29	13
Other-than-temporary impairment on held-to-maturity securities related to factors other than credit, net of related taxes of \$4 and \$2, respectively	1	3
Net unrealized gains (losses) on cash flow hedges, net of related taxes of (\$15) and (\$179), respectively	(27 )	(274 )
Net unrealized gains (losses) on retirement plans, net of related taxes of \$5 and \$2, respectively	14	10
Other comprehensive income (loss)	(702 )	1,056
Total comprehensive income	\$1,458	\$2,863

The accompanying condensed notes are an integral part of these consolidated financial statements.

State Street Corporation | 53

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STATE STREET CORPORATION  
CONSOLIDATED STATEMENT OF CONDITION  
(UNAUDITED)

(Dollars in millions, except per share amounts)	September 30, 2018	December 31, 2017
Assets:	(Unaudited)	
Cash and due from banks	\$ 4,145	\$ 2,107
Interest-bearing deposits with banks	63,618	67,227
Securities purchased under resale agreements	4,195	3,241
Trading account assets	1,001	1,093
Investment securities available-for-sale	46,102	57,121
Investment securities held-to-maturity (fair value of \$39,591 and \$40,255)	40,567	40,458
Loans and leases (less allowance for losses of \$60 and \$54)	23,312	23,240
Premises and equipment (net of accumulated depreciation of \$4,110 and \$3,881)	2,193	2,186
Accrued interest and fees receivable	3,196	3,099
Goodwill	6,016	6,022
Other intangible assets	1,461	1,613
Other assets	38,201	31,018
Total assets	\$ 234,007	\$ 238,425
Liabilities:		
Deposits:		
Non-interest-bearing	\$ 41,893	\$ 47,175
Interest-bearing - U.S.	63,661	50,139
Interest-bearing - non-U.S.	62,644	87,582
Total deposits	168,198	184,896
Securities sold under repurchase agreements	1,690	2,842
Other short-term borrowings	1,009	1,144
Accrued expenses and other liabilities	28,222	15,606
Long-term debt	10,335	11,620
Total liabilities	209,454	216,108
Commitments, guarantees and contingencies (Notes 9 and 10)		
Shareholders' equity:		
Preferred stock, no par, 3,500,000 shares authorized:		
Series C, 5,000 shares issued and outstanding	491	491
Series D, 7,500 shares issued and outstanding	742	742
Series E, 7,500 shares issued and outstanding	728	728
Series F, 7,500 shares issued and outstanding	742	742
Series G, 5,000 shares issued and outstanding	493	493
Series H, 5,000 shares issued and outstanding	494	—
Common stock, \$1 par, 750,000,000 shares authorized: 503,879,642 and 503,879,642 shares issued	504	504
Surplus	10,418	9,799
Retained earnings	20,387	18,856
Accumulated other comprehensive income (loss)	(1,711	) (1,009 )
Treasury stock, at cost (124,390,135 and 136,229,784 shares)	(8,735	) (9,029 )
Total shareholders' equity	24,553	22,317
Total liabilities and shareholders' equity	\$ 234,007	\$ 238,425



The accompanying condensed notes are an integral part of these consolidated financial statements.

State Street Corporation | 54

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STATE STREET CORPORATION  
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY  
(UNAUDITED)

(Dollars in millions, except per share amounts, shares in thousands)	Common Stock				Retained Earnings	Accumulated Treasury Stock		Total	
	Preferred Stock	Shares	Amount	Surplus		Other Comprehensive Income (Loss)	Shares		Amount
Balance as of December 31, 2016	\$ 3,196	503,880	\$ 504	\$ 9,782	\$ 17,459	\$ (2,040 )	121,941	\$(7,682)	\$ 21,219
Net income					1,807				1,807
Other comprehensive income (loss)						1,056			1,056
Cash dividends declared:									
Common stock - \$1.18 per share					(442 )				(442 )
Preferred stock					(146 )				(146 )
Common stock acquired							13,131	(1,100 )	(1,100 )
Common stock awards vested				21			(2,033 )	85	106
Other					(3 )				(3 )
Balance as of September 30, 2017	\$ 3,196	503,880	\$ 504	\$ 9,803	\$ 18,675	\$ (984 )	133,039	\$(8,697)	\$ 22,497
Balance as of December 31, 2017	\$ 3,196	503,880	\$ 504	\$ 9,799	\$ 18,856	\$ (1,009 )	136,230	\$(9,029)	\$ 22,317
Net income					2,160				2,160
Other comprehensive income (loss)						(702 )			(702 )
Preferred stock issued	494								494
Common stock issued				586			(13,244 )	564	1,150
Cash dividends declared:									
Common stock - \$1.31 per share					(486 )				(486 )
Preferred stock					(146 )				(146 )
Common stock acquired							3,324	(350 )	(350 )
Common stock awards vested				33			(1,931 )	81	114
Other					3		11	(1 )	2
Balance as of September 30, 2018	\$ 3,690	503,880	\$ 504	\$ 10,418	\$ 20,387	\$ (1,711 )	124,390	\$(8,735)	\$ 24,553

The accompanying condensed notes are an integral part of these consolidated financial statements.

State Street Corporation | 55

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STATE STREET CORPORATION  
CONSOLIDATED STATEMENT OF CASH FLOWS  
(UNAUDITED)

	Nine Months Ended September 30,	
	2018	2017
(In millions)		
Operating Activities:		
Net income	\$2,160	\$1,807
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Deferred income tax (benefit)	(98 )	(217 )
Amortization of other intangible assets	145	160
Other non-cash adjustments for depreciation, amortization and accretion, net	729	636
(Gains) losses related to investment securities, net	(6 )	39
Change in trading account assets, net	92	(111 )
Change in accrued interest and fees receivable, net	(97 )	(399 )
Change in collateral deposits, net	7,236	(1,232 )
Change in unrealized losses on foreign exchange derivatives, net	(2,118 )	1,136
Change in other assets, net	(64 )	(2,063 )
Change in accrued expenses and other liabilities, net	750	1,733
Other, net	95	368
Net cash provided by operating activities	8,824	1,857
Investing Activities:		
Net decrease in interest-bearing deposits with banks	3,609	9,979
Net (increase) in securities purchased under resale agreements	(954 )	(1,509 )
Proceeds from sales of available-for-sale securities	15,712	7,122
Proceeds from maturities of available-for-sale securities	11,156	21,619
Purchases of available-for-sale securities	(17,949)	(20,891)
Proceeds from maturities of held-to-maturity securities	5,003	2,647
Purchases of held-to-maturity securities	(4,390 )	(3,961 )
Net (increase) in loans and leases	(53 )	(3,859 )
Business acquisitions, net of cash acquired	(63 )	—
Purchases of equity investments and other long-term assets	(243 )	(32 )
Purchases of premises and equipment, net	(436 )	(485 )
Proceeds from sale of joint venture investment	—	172
Other, net	39	77
Net cash provided by investing activities	11,431	10,879
Financing Activities:		
Net increase (decrease) in time deposits	1,606	(16,790)
Net (decrease) increase in all other deposits	(18,304)	8,890
Net increase (decrease) in other short-term borrowings	(1,287 )	(865 )
Proceeds from issuance of long-term debt, net of issuance costs	—	747
Payments for long-term debt and obligations under capital leases	(1,032 )	(482 )
Proceeds from issuance of preferred stock	495	—
Proceeds from issuance of common stock	1,150	—
Purchases of common stock	(350 )	(942 )
Repurchases of common stock for employee tax withholding	113	(101 )
Payments for cash dividends	(608 )	(577 )
Other, net	—	9
Net cash (used in) financing activities	(18,217)	(10,111)

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Net increase	2,038	2,625
Cash and due from banks at beginning of period	2,107	1,314
Cash and due from banks at end of period	\$4,145	\$3,939

The accompanying condensed notes are an integral part of these consolidated financial statements.

State Street Corporation | 56

---

Table of Contents

STATE STREET CORPORATION  
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

TABLE OF CONTENTS

<u>Note 1. Summary of Significant Accounting Policies</u>	<u>58</u>
<u>Note 2. Fair Value</u>	<u>61</u>
<u>Note 3. Investment Securities</u>	<u>68</u>
<u>Note 4. Loans and Leases</u>	<u>73</u>
<u>Note 5. Goodwill and Other Intangible Assets</u>	<u>75</u>
<u>Note 6. Other Assets</u>	<u>76</u>
<u>Note 7. Derivative Financial Instruments</u>	<u>76</u>
<u>Note 8. Offsetting Arrangements</u>	<u>81</u>
<u>Note 9. Commitments and Guarantees</u>	<u>84</u>
<u>Note 10. Contingencies</u>	<u>85</u>
<u>Note 11. Variable Interest Entities</u>	<u>87</u>
<u>Note 12. Shareholders' Equity</u>	<u>88</u>
<u>Note 13. Regulatory Capital</u>	<u>92</u>
Note 14. Net Interest Income	<u>94</u>
Note 15. Expenses	<u>94</u>
Note 16. Earnings Per Common Share	<u>95</u>
Note 17. Line of Business Information	<u>96</u>
<u>Note 18. Revenues from Contracts with Customers</u>	<u>97</u>
<u>Note 19. Non-U.S. Activities</u>	<u>99</u>
<u>Note 20. Subsequent Events</u>	<u>99</u>

We use acronyms and other defined terms for certain business terms and abbreviations, as defined in the acronyms list and glossary accompanying these consolidated financial statements.

State Street Corporation | 57

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Table of Contents

STATE STREET CORPORATION

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note 1. Summary of Significant Accounting Policies

Basis of Presentation

The accounting and financial reporting policies of State Street Corporation conform to U.S. GAAP. State Street Corporation, the Parent Company, is a financial holding company headquartered in Boston, Massachusetts. Unless otherwise indicated or unless the context requires otherwise, all references in these notes to consolidated financial statements to “State Street,” “we,” “us,” “our” or similar references mean State Street Corporation and its subsidiaries on a consolidated basis. Our principal banking subsidiary is State Street Bank.

The accompanying Consolidated Financial Statements should be read in conjunction with the financial and risk factor information included in our 2017 Form 10-K, which we previously filed with the SEC.

The consolidated financial statements accompanying these condensed notes are unaudited. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, which are necessary for a fair statement of the consolidated results of operations in these financial statements, have been made. Certain previously reported amounts presented in this Form 10-Q have been reclassified to conform to current-period presentation.

Events occurring subsequent to the date of our consolidated

statement of condition were evaluated for potential recognition or disclosure in our consolidated financial statements through the date we filed this Form 10-Q with the SEC.

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions in the application of certain of our significant accounting policies that may materially affect the reported amounts of assets, liabilities, equity, revenue and expenses. As a result of unanticipated events or circumstances, actual results could differ from those estimates. These accounting estimates reflect the best judgment of management, but actual results could differ.

Our consolidated statement of condition as of December 31, 2017 included in the accompanying consolidated financial statements was derived from the audited financial statements as of that date, but does not include all notes required by U.S. GAAP for a complete set of consolidated financial statements.

In October 2018, we completed our previously announced acquisition of Charles River Development, a provider of investment management front office tools and solutions, for an all cash purchase price of approximately \$2.6 billion.



Table of ContentsSTATE STREET CORPORATION  
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

## Recent Accounting Developments

Relevant standards that were issued but not yet adopted:

Standard	Description	Date of Adoption	Effects on the financial statements or other significant matters
ASU 2016-02, Leases (Topic 842) and relevant amendments	The standard represents a wholesale change to lease accounting and requires all leases, other than short-term leases, to be reported on balance sheet through recognition of a right-of-use asset and a corresponding liability for future lease obligations. The standard also requires extensive disclosures for assets, expenses, and cash flows associated with leases, as well as a maturity analysis of lease liabilities.	January 1, 2019	We continue to assess the impact of the standard on our consolidated financial statements, but expect an increase in assets and liabilities due to the recognition of the required right-of-use assets and lease liabilities. This increase will depend on the lease portfolio at the time of adoption, but will largely relate to approximately \$1 billion of future minimum lease payments due under existing operating leases of office space. No material changes are expected to the recognition of operating lease expense in the Consolidated Statement of Income. We will adopt the standard by applying the alternative transition method whereby comparative periods will not be restated, and any cumulative effect adjustment to the opening balance of retained earnings would be recognized as of January 1, 2019. The impact on retained earnings is expected to be immaterial. We expect to elect the standard's package of three practical expedients, which includes (1) to not reassess whether any expired or existing contracts are or contain leases, (2) to not reassess the lease classification for any expired or existing leases, and (3) to not reassess initial direct costs for any existing leases. Also, we will make an accounting policy election not to apply the recognition requirements to short-term leases.
ASU 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments	The standard replaces the existing incurred loss impairment guidance and requires immediate recognition of expected credit losses for financial assets carried at amortized cost, including trade and other receivables, loans and commitments, held-to-maturity debt securities and other financial assets, held at the reporting date to be	January 1, 2020, early adoption permitted	We are continuing to assess the impact of the standard on our consolidated financial statements. We have established a steering committee to provide cross-functional governance over the project plan and key decisions, and are currently developing key accounting policies, assessing existing credit loss models against the new guidance and processes and identifying a complete set of data requirements and sources to ensure that

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<p>ASU 2017-04, Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment</p>	<p>measured based on historical experience, current conditions and reasonable supportable forecasts. The standard also amends existing impairment guidance for available-for-sale securities, and credit losses will be recorded as an allowance versus a write-down of the amortized cost basis of the security and will allow for a reversal of impairment loss when the credit of the issuer improves. The guidance requires a cumulative effect of initial application to be recognized in retained earnings at the date of initial application. The standard simplifies the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. The ASU requires an entity to compare the fair value of a reporting unit with its carrying amount and recognize an impairment charge for the amount by which the carrying value exceeds the fair value of the reporting unit. Additionally, an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss. The standard shortens the</p>	<p>the expected credit losses are calculated in accordance with the standard. We continue to develop and test new and modified credit loss models and based on our analysis to date, we expect the recognition of credit losses to accelerate under the new standard. We are continuing to assess the extent of the impact on the allowance for credit losses which will be impacted by the Company's portfolio and the macroeconomic factors on the date of adoption. We plan to adopt the new guidance on January 1, 2020.</p> <p>January 1, 2020, We are evaluating the impacts of early adoption, and will apply this standard prospectively upon adoption.</p> <p>early adoption permitted</p>
<p>ASU 2017-08, Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium amortization on Purchased Callable Debt Securities</p>	<p>amortization period for certain purchased callable debt securities to the earliest call date. The standard does not impact debt securities which are held at a discount. The guidance requires a cumulative effect of initial application to be recognized in retained earnings at the beginning of the period of adoption.</p>	<p>January 1, 2019, We are currently evaluating the impact of the new standard and do not expect the impact to be significant.</p> <p>early adoption permitted</p>
<p>ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities</p>	<p>The standard amends the hedge accounting model to better portray the economics of risk management activities in the financial statements and enhances the presentation of hedge results. The amendments also make targeted changes to simplify</p>	<p>January 1, 2019, We anticipate adopting the standard in the fourth quarter of 2018. As part of that adoption we anticipate reclassifying certain debt securities from held-to-maturity to available-for-sale. We continue to assess the full impact of the standard, but we do not expect a significant impact on our</p> <p>early adoption permitted</p>

the application of hedge accounting consolidated financial statements.  
in certain situations.

ASU 2018-02, Income  
Statement - Reporting  
Comprehensive Income  
(Topic 220):  
Reclassification of  
Certain Tax Effects from  
Accumulated Other  
Comprehensive Income

This standard provides an election  
to reclassify the stranded tax effects January 1,  
resulting from the enactment of the 2019, We are currently evaluating the impact of the  
Tax Cuts and Jobs Act of 2017, early new standard and determining if the  
from accumulated other adoption adjustments in the new standard will be  
comprehensive income to retained permitted adopted.  
earnings.

Table of ContentsSTATE STREET CORPORATION  
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

Relevant standards that were issued but not yet adopted:

Standard	Description	Date of Adoption	Effects on the financial statements or other significant matters
ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement	The standard eliminates, amends and adds disclosure requirements for fair value measurements.	January 1, 2020, early adoption permitted	This standard allows early adoption for the eliminated and amended disclosures upon issuance but the added disclosures can be delayed until effective date. We are currently evaluating the impact of the new standard and the early adoption provisions.
ASU 2018-15, Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract (a consensus of the FASB Emerging Issues Task Force)	This standard addresses accounting for fees paid by a customer for implementation, set-up and other upfront costs incurred in a cloud computing arrangement that is hosted by the vendor, i.e., a service contract. The new guidance aligns treatment for capitalization of implementation costs with guidance on internal-use software.	January 1, 2020, early adoption permitted	We are currently evaluating the impact of the new standard and the early adoption provisions.

We adopted ASU 2014-09, Revenue from Contracts with Customers (Topic 606), on January 1, 2018. The standard provides companies with a single model for recognizing revenue from contracts with customers. The core principle requires a company to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration that it expects to be entitled to in exchange for those goods or services. We used the modified retrospective method of transition, which requires the impact of applying the standard on prior periods to be reflected in opening retained earnings upon adoption. The adoption of the standard does not have a material impact on the timing of recognition of revenue in our consolidated statement of income, or our consolidated statement of position, and therefore no adjustment has been made to retained earnings. However, due to the updated principal and agent guidance in the standard, certain costs we pay to third parties on behalf of our clients previously reported in our consolidated statement of income on a net basis, primarily against the related management fee revenue, and trading services revenue are now reported on a gross basis as expenses.

For the nine months ended September 30, 2018, both revenues and expenses increased by approximately \$205 million, primarily due to the updated principal and agent guidance. The revenue impact was approximately \$140 million in management fees, \$47 million in trading services and \$18 million across other revenue line items, and the expense impact was approximately \$128 million in other expenses, \$48 million in transaction processing and \$29 million across other expense line items. Adoption of the standard had no impact on cash from or used in operating, financing, or investing activities on our consolidated statements of cash flows.

We adopted ASU 2016-01, Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, effective January 1, 2018. Under the new standard, all equity securities will be measured at fair value through earnings with certain exceptions, including investments accounted for under the

equity method of accounting or where the fair market value of an equity security is not readily available. Upon adoption of the standard on January 1, 2018, we reclassified approximately \$397 million of money market funds and \$46 million of equity securities classified as AFS to held at fair value through profit and loss in other assets. The cumulative-effect transition adjustment recognized in retained earnings on January 1, 2018, and the change in fair value recognized through profit and loss for the period ended September 30, 2018, were immaterial to the financial statements.

State Street Corporation | 60

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Table of Contents

STATE STREET CORPORATION

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note 2. Fair Value

Fair Value Measurements

We carry trading account assets and liabilities, AFS debt securities, certain equity securities and various types of derivative financial instruments, at fair value in our consolidated statement of condition on a recurring basis. Changes in the fair values of these financial assets and liabilities are recorded either as components of our consolidated statement of income or as components of AOCI within shareholders' equity in our consolidated statement of condition. We measure fair value for the above-described financial assets and liabilities in conformity with U.S. GAAP that governs the measurement of the fair value of financial instruments. Management believes that its valuation techniques and underlying assumptions used to measure fair value conform to the provisions of U.S. GAAP. We categorize the financial assets and liabilities

that we carry at fair value based on a prescribed three-level valuation hierarchy. For information about our valuation techniques for financial assets and financial liabilities measured at fair value and the fair value hierarchy, refer to pages 131 to 138 in Note 2 to the consolidated financial statements included under Item 8, Financial Statements and Supplementary Data, in our 2017 Form 10-K.

The following tables present information with respect to our financial assets and liabilities carried at fair value in our consolidated statement of condition on a recurring basis as of the dates indicated. During the nine months ended September 30, 2018, no assets or liabilities were transferred between levels 1 and 2. Approximately \$9 million of assets were transferred between levels 1 and 2 during the year ended December 31, 2017.

State Street Corporation | 61

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Table of Contents

## STATE STREET CORPORATION

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(In millions)	Fair Value Measurements on a Recurring Basis As of September 30, 2018				Total Net Carrying Value in Consolidated Statement of Condition
	Quoted Market Prices in Active Markets (Level 1)	Pricing Methods with Significant Observable Market Inputs (Level 2)	Pricing Methods with Significant Unobservable Market Inputs (Level 3)	Impact of Netting <sup>(1)</sup>	
Assets:					
Trading account assets:					
U.S. government securities	\$33	\$ —	\$ —		\$ 33
Non-U.S. government securities	151	180	—		331
Other	109	528	—		637
Total trading account assets	293	708	—		1,001
AFS investment securities:					
U.S. Treasury and federal agencies:					
Direct obligations	11	—	—		11
Mortgage-backed securities	—	15,473	—		15,473
Total U.S. Treasury and federal agencies	11	15,473	—		15,484
Asset-backed securities:					
Student loans	—	1,441	—		1,441
Credit cards	—	616	—		616
CLOs	—	—	611		611
Total asset-backed securities	—	2,057	611		2,668
Non-U.S. debt securities:					
Mortgage-backed securities	—	2,348	—		2,348
Asset-backed securities	—	930	591		1,521
Government securities	—	12,973	—		12,973
Other <sup>(2)</sup>	—	4,640	104		4,744
Total non-U.S. debt securities	—	20,891	695		21,586
State and political subdivisions	—	4,035	—		4,035
Collateralized mortgage obligations	—	295	8		303
Other U.S. debt securities	—	2,026	—		2,026
Total AFS investment securities	11	44,777	1,314		46,102
Other assets:					
Derivative instruments:					
Foreign exchange contracts	—	15,059	2	\$(10,351)	4,710
Interest-rate contracts	4	—	—	—	4
Other derivative contracts	2	11	—	—	13
Total derivative instruments	6	15,070	2	(10,351)	4,727
Other	—	390	—	—	390
Total assets carried at fair value	\$310	\$ 60,945	\$ 1,316	\$(10,351)	\$ 52,220
Liabilities:					
Accrued expenses and other liabilities:					
Trading account liabilities:					
Other	\$107	\$ —	\$ —	\$—	\$ 107

## Derivative instruments:

Foreign exchange contracts	—	14,933	2	(10,557 )	4,378
Interest-rate contracts	1	91	—	—	92
Other derivative contracts	2	250	—	—	252
Total derivative instruments	3	15,274	2	(10,557 )	4,722
Total liabilities carried at fair value	\$ 110	\$ 15,274	\$ 2	\$(10,557)	\$ 4,829

<sup>(1)</sup> Represents counterparty netting against level 2 financial assets and liabilities where a legally enforceable master netting agreement exists between State Street and the counterparty. Netting also reflects asset and liability reductions of \$1,191 million and \$1,397 million, respectively, for cash collateral received from and provided to derivative counterparties.

<sup>(2)</sup> As of September 30, 2018, the fair value of other non-U.S. debt securities was primarily composed of \$1,929 million of covered bonds and \$1,782 million of corporate bonds.

State Street Corporation | 62

---



Table of Contents

## STATE STREET CORPORATION

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(In millions)	Fair Value Measurements on a Recurring Basis As of December 31, 2017				Total Net Carrying Value in Consolidated Statement of Condition
	Quoted Prices in Active Markets (Level 1)	Pricing Methods with Significant Observable Market Inputs (Level 2)	Pricing Methods with Significant Unobservable Market Inputs (Level 3)	Impact of Netting <sup>(1)</sup>	
Assets:					
Trading account assets:					
U.S. government securities	\$ 39	\$ —	\$ —		\$ 39
Non-U.S. government securities	389	93	—		482
Other	44	528	—		572
Total trading account assets	472	621	—		1,093
AFS investment securities:					
U.S. Treasury and federal agencies:					
Direct obligations	11	212	—		223
Mortgage-backed securities	—	10,872	—		10,872
Total U.S. Treasury and federal agencies	11	11,084	—		11,095
Asset-backed securities:					
Student loans	—	3,358	—		3,358
Credit cards	—	1,542	—		1,542
CLOs	—	89	1,358		1,447
Total asset-backed securities	—	4,989	1,358		6,347
Non-U.S. debt securities:					
Mortgage-backed securities	—	6,576	119		6,695
Asset-backed securities	—	2,545	402		2,947
Government securities	—	10,721	—		10,721
Other <sup>(2)</sup>	—	5,904	204		6,108
Total non-U.S. debt securities	—	25,746	725		26,471
State and political subdivisions	—	9,108	43		9,151
Collateralized mortgage obligations	—	1,054	—		1,054
Other U.S. debt securities	—	2,560	—		2,560
U.S. equity securities	—	46	—		46
U.S. money-market mutual funds	—	397	—		397
Total AFS investment securities	11	54,984	2,126		57,121
Other assets:					
Derivatives instruments:					
Foreign exchange contracts	—	11,596	1	\$(7,593)	4,004
Interest-rate contracts	8	—	—	—	8
Other derivative contracts	1	—	—	—	1
Total derivative instruments	9	11,596	1	(7,593)	4,013
Total assets carried at fair value	\$ 492	\$ 67,201	\$ 2,127	\$(7,593)	\$ 62,227
Liabilities:					
Accrued expenses and other liabilities:					
Trading account liabilities:					

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Other	\$ 39	\$ —	\$ —	\$ —	\$ 39
Derivative instruments:					
Foreign exchange contracts	—	11,467	1	(5,970 )	5,498
Interest-rate contracts	—	100	—	—	100
Other derivative contracts	1	283	—	—	284
Total derivative instruments	1	11,850	1	(5,970 )	5,882
Total liabilities carried at fair value	\$ 40	\$ 11,850	\$ 1	\$ (5,970 )	\$ 5,921

<sup>(1)</sup> Represents counterparty netting against level 2 financial assets and liabilities where a legally enforceable master netting agreement exists between State Street and the counterparty. Netting also reflects asset and liability reductions of \$2,045 million and \$422 million, respectively, for cash collateral received from and provided to derivative counterparties.

<sup>(2)</sup> As of December 31, 2017, the fair value of other non-U.S. debt securities was primarily composed of \$3,537 million of covered bonds and \$1,885 million of corporate bonds.

Table of Contents

## STATE STREET CORPORATION

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

The following tables present activity related to our level 3 financial assets during the three and nine months ended September 30, 2018 and 2017, respectively, including total realized and unrealized gains and losses. Transfers into and out of level 3 are reported as of the beginning of the period presented. During the three and nine months ended September 30, 2018 and 2017, transfers into level 3 were mainly related to certain CMO, MBS and ABS, including non-U.S. debt securities, for which fair value was measured using information obtained from third-party sources, including non-binding broker/dealer quotes. During the three and nine months ended September 30, 2018 and 2017, transfers out of level 3 were mainly related to certain CMO, MBS and ABS, including non-U.S. debt securities, for which fair value was measured using prices for which observable market information became available.

## Fair Value Measurements Using Significant Unobservable Inputs

## Three Months Ended September 30, 2018

(In millions)	Fair Value as of June 30, 2018	Total Realized and Unrealized Gains (Losses)						Fair Value as of September 30, 2018 <sup>(1)</sup>	Change in Unrealized Gains (Losses) Related to Financial Instruments Held as of September 30, 2018
		Recorded in Revenue <sup>(1)</sup>	Recorded in Other Comprehensive Income <sup>(1)</sup>	Purchases	Settlements	Transfers into Level 3	Transfers out of Level 3		
Assets:									
AFS Investment securities:									
Asset-backed securities:									
CLOs	\$851	\$ 1	\$ (2 )	\$ —	\$ (239 )	\$ —	\$ —	\$ 611	
Total asset-backed securities	851	1	(2 )	—	(239 )	—	—	611	
Non-U.S. debt securities:									
Asset-backed securities	474	—	(2 )	76	(3 )	46	—	591	
Other	169	—	—	—	(1 )	—	(64 )	104	
Total non-U.S. debt securities	643	—	(2 )	76	(4 )	46	(64 )	695	
CMOs	—	—	—	—	—	8	—	8	
Total AFS investment securities	1,494	1	(4 )	76	(243 )	54	(64 )	1,314	
Derivative instruments:									
Foreign exchange contracts	7	(2 )	—	3	(6 )	—	—	2	\$ (2 )
Total derivative instruments	7	(2 )	—	3	(6 )	—	—	2	(2 )
Total assets carried at fair value	\$1,501	\$ (1 )	\$ (4 )	\$ 79	\$ (249 )	\$ 54	\$ (64 )	\$ 1,316	\$ (2 )

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(1) Total realized and unrealized gains (losses) on AFS investment securities are included within gains (losses) related to investment securities, net. Total realized and unrealized gains (losses) on derivative instruments are included within trading services.

Fair Value Measurements Using Significant Unobservable Inputs  
Nine Months Ended September 30, 2018

(In millions)	Total Realized and Unrealized Gains (Losses)								Fair Value as of September 30, 2018 <sup>(1)</sup>	Change in Unrealized Gains (Losses) Related to Financial Instruments Held as of September 30, 2018
	Fair Value as of December 31, 2017	Recorded in Revenue	Recorded in Other Comprehensive Income <sup>(1)</sup>	Purchases	Sales	Settlements	Transfers into Level 3	Transfers out of Level 3		
Assets:										
AFS Investment securities:										
Asset-backed securities:										
CLOs	\$1,358	\$ 3	\$ (5 )	\$ 319	\$(636)	\$(219 )	\$ —	\$(209 )	\$ 611	
Total asset-backed securities	1,358	3	(5 )	319	(636 )	(219 )	—	(209 )	611	
Non-U.S. debt securities:										
Mortgage-backed securities	119	—	—	—	—	—	—	(119 )	—	
Asset-backed securities	402	—	(3 )	455	(310 )	(67 )	114	—	591	
Other	204	—	—	—	—	(36 )	—	(64 )	104	
Total non-U.S. debt securities	725	—	(3 )	455	(310 )	(103 )	114	(183 )	695	
State and political subdivisions	43	—	—	—	(37 )	(1 )	—	(5 )	—	
CMOs	—	—	—	—	—	—	8	—	8	
Total AFS investment securities	2,126	3	(8 )	774	(983 )	(323 )	122	(397 )	1,314	
Derivative instruments:										
Foreign exchange contracts	1	(3 )	—	4	—	—	—	—	2	\$ (2 )
Total derivative instruments	1	(3 )	—	4	—	—	—	—	2	(2 )
Total assets carried at fair value	\$2,127	\$ —	\$ (8 )	\$ 778	\$(983)	\$(323 )	\$ 122	\$(397 )	\$ 1,316	\$ (2 )

(1) Total realized and unrealized gains (losses) on AFS investment securities are included within gains (losses) related to investment securities, net. Total realized and unrealized gains (losses) on derivative instruments are included within trading services.



Table of Contents

## STATE STREET CORPORATION

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(In millions)	Fair Value Measurements Using Significant Unobservable Inputs Three Months Ended September 30, 2017								Fair Value as of September 30, 2017	Change in Unrealized Gains (Losses) Related to Financial Instruments Held as of September 30, 2017
	Fair Value as of June 30, 2017	Recorded in Revenue <sup>(1)</sup>	Recorded in Other Comprehensive Income <sup>(1)</sup>	Purchases	Sales	Settlements	Transfers into Level 3	Transfers out of Level 3		
Assets:										
AFS Investment securities:										
Mortgage-backed securities	\$—	\$ —	\$ —	\$ —	\$—	\$ —	\$ 25	\$ 25		
Asset-backed securities:										
Student loans	—	—	—	200	—	—	—	200		
Other	951	1	1	60	—	(2 )	175	1,186		
Total asset-backed securities	951	1	1	260	—	(2 )	175	1,386		
Non-U.S. debt securities:										
Mortgage-backed securities	—	—	—	118	—	—	—	118		
Asset-backed securities	63	—	—	29	(10 )	—	15	97		
Other	274	—	—	—	(80 )	7	—	201		
Total non-U.S. debt securities	337	—	—	147	(90 )	7	15	416		
State and political subdivisions	38	—	—	—	—	—	—	38		
Other U.S. debt securities	19	—	—	—	—	—	—	19		
Total AFS investment securities	1,345	1	1	407	(90 )	5	215	1,884		
Derivative instruments:										
Foreign exchange contracts	5	—	—	2	—	(5 )	—	2		\$ (2 )
Total derivative instruments	5	—	—	2	—	(5 )	—	2		(2 )
Total assets carried at fair value	\$ 1,350	\$ 1	\$ 1	\$ 409	\$ (90)	\$ —	\$ 215	\$ 1,886		\$ (2 )

<sup>(1)</sup> Total realized and unrealized gains (losses) on AFS investment securities are included within gains (losses) related to investment securities, net. Total realized and unrealized gains (losses) on derivative instruments are included within trading services.

(In millions)	Fair Value Measurements Using Significant Unobservable Inputs Nine Months Ended September 30, 2017								Fair Value as of September 30, 2017	Change in Unrealized Gains (Losses)
	Fair Value as of December 31, 2016	Total Realized and Unrealized Gains (Losses) Recorded in Revenue <sup>(1)</sup>	Recorded in Other Comprehensive Income <sup>(1)</sup>	Purchases	Sales	Settlements	Transfers into Level 3	Transfers out of Level 3		

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	Income <sup>(1)</sup>								2017	Related to Financial Instruments Held as of September 30, 2017	
Assets:											
AFS Investment securities:											
Mortgage-backed securities	\$—	\$ —	\$ —	\$ —	\$—	\$ —	\$ 25	\$—	\$ 25		
Asset-backed securities:											
Student loans	97	—	1	200	—	—	—	(98	) 200		
Other	905	2	—	415	—	(412	) 276	—	1,186		
Total asset-backed securities	1,002	2	1	615	—	(412	) 276	(98	) 1,386		
Non-U.S. debt securities:											
Mortgage-backed securities	—	—	—	118	—	—	—	—	118		
Asset-backed securities	32	1	(1	) 60	(10	) (21	) 67	(31	) 97		
Other	248	—	—	5	(80	) 28	—	—	201		
Total non-U.S. debt securities	280	1	(1	) 183	(90	) 7	67	(31	) 416		
State and political subdivisions	39	—	—	—	—	(1	) —	—	38		
CMOs	16	—	—	23	—	—	—	(39	) —		
Other U.S. debt securities	—	—	—	19	—	—	—	—	19		
Total AFS investment securities	1,337	3	—	840	(90	) (406	) 368	(168	) 1,884		
Derivative instruments:											
Foreign exchange contracts	8	(6	) —	4	—	(4	) —	—	2	\$ (1	)
Total derivative instruments	8	(6	) —	4	—	(4	) —	—	2	(1	)
Total assets carried at fair value	\$1,345	\$ (3	) \$ —	\$ 844	\$(90)	\$(410	) \$ 368	\$(168)	\$ 1,886	\$ (1	)

<sup>(1)</sup> Total realized and unrealized gains (losses) on AFS investment securities are included within gains (losses) related to investment securities, net. Total realized and unrealized gains (losses) on derivative instruments are included within trading services.

Table of Contents

## STATE STREET CORPORATION

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

The following table presents quantitative information, as of the dates indicated, about the valuation techniques and significant unobservable inputs used in the valuation of our level 3 financial assets and liabilities measured at fair value on a recurring basis for which we use internally-developed pricing models. The significant unobservable inputs for our level 3 financial assets and liabilities whose fair value is measured using pricing information from non-binding broker/dealer quotes are not included in the table, as the specific inputs applied are not provided by the broker/dealer.

(Dollars in millions)	Quantitative Information about Level 3 Fair Value Measurements						
	Fair Value		Valuation Technique	Significant Unobservable Input <sup>(1)</sup>	Weighted-Average		
	As of September 30, 2018	As of December 31, 2017			As of September 30, 2018	As of December 31, 2017	
Significant unobservable inputs readily available to State Street:							
Assets:							
Derivative instruments, foreign exchange contracts	\$2	\$ 1	Option model	Volatility	10.9 %	7.2 %	
Total	\$2	\$ 1					
Liabilities:							
Derivative instruments, foreign exchange contracts	\$2	\$ 1	Option model	Volatility	11.8 %	7.2 %	
Total	\$2	\$ 1					

<sup>(1)</sup> Significant changes in these unobservable inputs would result in significant changes in fair value measurement.

## Fair Value Estimates

Estimates of fair value for financial instruments not carried at fair value on a recurring basis in our consolidated statement of condition are generally subjective in nature, and are determined as of a specific point in time based on the characteristics of the financial instruments and relevant market information.

The following tables present the reported amounts and estimated fair values of the financial assets and liabilities not carried at fair value on a recurring basis, as they would be categorized within the fair value hierarchy, as of the dates indicated.

(In millions)	Reported Amount	Estimated Fair Value	Fair Value Hierarchy			
			Quoted Prices in Active Markets (Level 1)	Market Pricing with Observable Inputs (Level 2)	Market Methods with Significant Unobservable Market Inputs (Level 3)	Pricing Methods with Significant Unobservable Market Inputs (Level 3)
September 30, 2018						
Financial Assets:						
Cash and due from banks	\$4,145	\$4,145	\$4,145	\$ —		\$ —
Interest-bearing deposits with banks	63,618	63,618	—	63,618		—
Securities purchased under resale agreements	4,195	4,195	—	4,195		—
Investment securities held-to-maturity	40,567	39,591	14,785	24,623		183
Net loans (excluding leases) <sup>(1)</sup>	23,062	23,058	—	23,018		40
Other <sup>(2)</sup>	8,505	8,505	—	8,505		—



## Financial Liabilities:

## Deposits:

Non-interest-bearing	\$ 41,893	\$ 41,893	\$—	\$ 41,893	\$	—
Interest-bearing - U.S.	63,661	63,661	—	63,661	—	—
Interest-bearing - non-U.S.	62,644	62,644	—	62,644	—	—
Securities sold under repurchase agreements	1,690	1,690	—	1,690	—	—
Other short-term borrowings	1,009	1,009	—	1,009	—	—
Long-term debt	10,335	10,549	—	10,309	240	—
Other <sup>(2)</sup>	8,505	8,505	—	8,505	—	—

<sup>(1)</sup> Includes \$33 million of loans classified as held-for-sale that were measured at fair value on a non-recurring basis as of September 30, 2018.

<sup>(2)</sup> Represents a portion of underlying client assets related to our enhanced custody business, which assets clients have allowed us to transfer and re-pledge.

Table of Contents

## STATE STREET CORPORATION

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(In millions)	Reported Amount	Estimated Fair Value	Fair Value Hierarchy		
			Quoted Prices in Active Markets (Level 1)	Market Pricing Methods with Significant Observable Market Inputs (Level 2)	Pricing Methods with Significant Unobservable Market Inputs (Level 3)
December 31, 2017					
Financial Assets:					
Cash and due from banks	\$ 2,107	\$ 2,107	\$ 2,107	\$ —	\$ —
Interest-bearing deposits with banks	67,227	67,227	—	67,227	—
Securities purchased under resale agreements	3,241	3,241	—	3,241	—
Investment securities held-to-maturity	40,458	40,255	16,814	23,318	123
Net loans (excluding leases) <sup>(1)</sup>	22,577	22,482	—	22,431	51
Financial Liabilities:					
Deposits:					
Non-interest-bearing	\$ 47,175	\$ 47,175	\$ —	\$ 47,175	\$ —
Interest-bearing - U.S.	50,139	50,139	—	50,139	—
Interest-bearing - non-U.S.	87,582	87,582	—	87,582	—
Securities sold under repurchase agreements	2,842	2,842	—	2,842	—
Other short-term borrowings	1,144	1,144	—	1,144	—
Long-term debt	11,620	11,919	—	11,639	280

<sup>(1)</sup> Includes \$3 million of loans classified as held-for-sale that were measured at fair value on a non-recurring basis as of December 31, 2017.

Table of Contents

STATE STREET CORPORATION

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note 3. Investment Securities

Investment securities held by us are classified as either trading account assets, AFS, HTM or equity securities held at fair value at the time of purchase and reassessed periodically, based on management's intent.

As described in Note 1, upon adoption of ASU 2016-01 we reclassified approximately \$397 million of money market funds and \$46 million of equity securities to other assets, where they are held at fair value with changes to fair value recorded through our consolidated statement of income.

Generally, trading assets are debt and equity securities purchased in connection with our trading activities and, as such, are expected to be sold in the near term. Our trading activities typically involve active and frequent buying and selling with the objective of generating profits on short-term movements. AFS investment securities are those securities that we intend to hold for an indefinite period of time. AFS investment

securities include securities utilized as part of our asset and liability management activities that may be sold in response to changes in interest rates, prepayment risk, liquidity needs or other factors. HTM securities are debt securities that management has the intent and the ability to hold to maturity.

Trading assets are carried at fair value. Both realized and unrealized gains and losses on trading assets are recorded in trading services revenue in our consolidated statement of income. AFS securities are carried at fair value, and after-tax net unrealized gains and losses are recorded in AOCI. Gains or losses realized on sales of AFS investment securities are computed using the specific identification method and are recorded in gains (losses) related to investment securities, net, in our consolidated statement of income. HTM investment securities are carried at cost, adjusted for amortization of premiums and accretion of discounts.

State Street Corporation | 68

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Table of Contents

## STATE STREET CORPORATION

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

The following table presents the amortized cost, fair value and associated unrealized gains and losses of AFS and HTM investment securities as of the dates indicated:

(In millions)	September 30, 2018			December 31, 2017				
	Amortized Cost	Gross Unrealized Gains	Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:								
U.S. Treasury and federal agencies:								
Direct obligations	\$11	\$—	\$—	\$11	\$222	\$2	\$1	\$223
Mortgage-backed securities	15,841	8	376	15,473	10,975	26	129	10,872
Total U.S. Treasury and federal agencies	15,852	8	376	15,484	11,197	28	130	11,095
Asset-backed securities:								
Student loans <sup>(1)</sup>	1,422	20	1	1,441	3,325	37	4	3,358
Credit cards	639	1	24	616	1,565	2	25	1,542
CLOs	609	3	1	611	1,440	7	—	1,447
Total asset-backed securities	2,670	24	26	2,668	6,330	46	29	6,347
Non-U.S. debt securities:								
Mortgage-backed securities	2,348	4	4	2,348	6,664	36	5	6,695
Asset-backed securities	1,523	1	3	1,521	2,942	5	—	2,947
Government securities	13,080	8	115	12,973	10,754	16	49	10,721
Other <sup>(2)</sup>	4,747	14	17	4,744	6,076	38	6	6,108
Total non-U.S. debt securities	21,698	27	139	21,586	26,436	95	60	26,471
State and political subdivisions <sup>(3)</sup>	3,959	93	17	4,035	8,929	245	23	9,151
Collateralized mortgage obligations	310	—	7	303	1,060	3	9	1,054
Other U.S. debt securities	2,065	4	43	2,026	2,563	12	15	2,560
U.S. equity securities <sup>(4)</sup>	—	—	—	—	40	8	2	46
U.S. money-market mutual funds <sup>(4)</sup>	—	—	—	—	397	—	—	397
Total	\$46,554	\$156	\$608	\$46,102	\$56,952	\$437	\$268	\$57,121
Held-to-maturity:								
U.S. Treasury and federal agencies:								
Direct obligations	\$15,168	\$—	\$325	\$14,843	\$17,028	\$—	\$143	\$16,885
Mortgage-backed securities	19,697	2	802	18,897	16,651	22	225	16,448
Total U.S. Treasury and federal agencies	34,865	2	1,127	33,740	33,679	22	368	33,333
Asset-backed securities:								
Student loans <sup>(1)</sup>	3,031	43	7	3,067	3,047	32	9	3,070
Credit cards	325	—	—	325	798	2	—	800
Other	1	—	—	1	1	—	—	1
Total asset-backed securities	3,357	43	7	3,393	3,846	34	9	3,871
Non-U.S. debt securities:								
Mortgage-backed securities	672	81	6	747	939	82	6	1,015
Asset-backed securities	228	—	—	228	263	1	—	264
Government securities	357	1	—	358	474	2	—	476
Other	46	—	—	46	48	—	—	48
Total non-U.S. debt securities	1,303	82	6	1,379	1,724	85	6	1,803
Collateralized mortgage obligations	1,042	44	7	1,079	1,209	45	6	1,248
Total	\$40,567	\$171	\$1,147	\$39,591	\$40,458	\$186	\$389	\$40,255

(1) Primarily composed of securities guaranteed by the federal government with respect to at least 97% of defaulted principal and accrued interest on the underlying loans.

(2) As of September 30, 2018 and December 31, 2017, the fair value of other non-U.S. debt securities was primarily composed of \$1,929 million and \$3,537 million, respectively, of covered bonds and \$1,782 million and \$1,885 million, respectively, of corporate bonds.

(3) As of September 30, 2018 and December 31, 2017, the fair value of State and Political subdivisions includes securities in trusts of \$1,131 million and \$1,247 million, respectively. Additional information about these trusts is provided in Note 11 to the consolidated financial statements in this Form 10-Q.

(4) During the first quarter of 2018, we adopted ASU 2016-01. For additional information see Note 1.

Table of ContentsSTATE STREET CORPORATION  
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

Aggregate investment securities with carrying values of approximately \$34 billion and \$48 billion as of September 30, 2018 and December 31, 2017, respectively, were designated as pledged for public and trust deposits, short-term borrowings and for other purposes as provided by law.

In the nine months ended September 30, 2018, we sold approximately \$16 billion of AFS, primarily asset-backed securities, municipal bonds and covered bonds, resulting in a net pre-tax gain of approximately \$8 million.

The following tables present the aggregate fair values of AFS and HTM investment securities that have been in a continuous unrealized loss position for less than 12 months, and those that have been in a continuous unrealized loss position for 12 months or longer, as of the dates indicated:

September 30, 2018 (In millions)	Less than 12 months		12 months or longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-sale:						
U.S. Treasury and federal agencies:						
Mortgage-backed securities	\$10,651	\$ 175	\$3,708	\$ 201	\$14,359	\$ 376
Total U.S. Treasury and federal agencies	10,651	175	3,708	201	14,359	376
Asset-backed securities:						
Student loans	262	1	142	—	404	1
Credit cards	—	—	491	24	491	24
CLOs	357	1	—	—	357	1
Total asset-backed securities	619	2	633	24	1,252	26
Non-U.S. debt securities:						
Mortgage-backed securities	1,063	4	57	—	1,120	4
Asset-backed securities	769	3	—	—	769	3
Government securities	10,408	115	—	—	10,408	115
Other	1,468	14	164	3	1,632	17
Total non-U.S. debt securities	13,708	136	221	3	13,929	139
State and political subdivisions	662	10	266	7	928	17
Collateralized mortgage obligations	217	5	77	2	294	7
Other U.S. debt securities	1,229	29	316	14	1,545	43
Total	\$27,086	\$ 357	\$5,221	\$ 251	\$32,307	\$ 608
Held-to-maturity:						
U.S. Treasury and federal agencies:						
Direct obligations	\$8,963	\$ 222	\$5,879	\$ 103	\$14,842	\$ 325
Mortgage-backed securities	11,692	386	6,303	416	17,995	802
Total U.S. Treasury and federal agencies	20,655	608	12,182	519	32,837	1,127
Asset-backed securities:						
Student loans	160	1	533	6	693	7
Total asset-backed securities	160	1	533	6	693	7
Non-U.S. debt securities:						
Mortgage-backed securities	97	1	125	5	222	6
Total non-U.S. debt securities	97	1	125	5	222	6
Collateralized mortgage obligations	5	—	224	7	229	7
Total	\$20,917	\$ 610	\$13,064	\$ 537	\$33,981	\$ 1,147



Table of Contents

## STATE STREET CORPORATION

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

December 31, 2017 (In millions)	Less than 12 months		12 months or longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-sale:						
U.S. Treasury and federal agencies:						
Direct obligations	\$—	\$ —	\$67	\$ 1	\$67	\$ 1
Mortgage-backed securities	5,161	31	3,341	98	8,502	129
Total U.S. Treasury and federal agencies	5,161	31	3,408	99	8,569	130
Asset-backed securities:						
Student loans	—	—	769	4	769	4
Credit cards	1,289	25	—	—	1,289	25
Total asset-backed securities	1,289	25	769	4	2,058	29
Non-U.S. debt securities:						
Mortgage-backed securities	1,059	4	469	1	1,528	5
Government securities	7,629	48	68	1	7,697	49
Other	816	4	289	2	1,105	6
Total non-U.S. debt securities	9,504	56	826	4	10,330	60
State and political subdivisions	734	6	901	17	1,635	23
Collateralized mortgage obligations	399	5	136	4	535	9
Other U.S. debt securities	1,007	8	345	7	1,352	15
U.S. equity securities	—	—	6	2	6	2
Total	\$18,094	\$ 131	\$6,391	\$ 137	\$24,485	\$ 268
Held-to-maturity:						
U.S. Treasury and federal agencies:						
Direct obligations	\$14,439	\$ 109	\$2,447	\$ 34	\$16,886	\$ 143
Mortgage-backed securities	6,785	38	5,988	187	12,773	225
Total U.S. Treasury and federal agencies	21,224	147	8,435	221	29,659	368
Asset-backed securities:						
Student loans	440	3	423	6	863	9
Total asset-backed securities	440	3	423	6	863	9
Non-U.S. debt securities:						
Mortgage-backed securities	—	—	239	6	239	6
Total non-U.S. debt securities	—	—	239	6	239	6
Collateralized mortgage obligations	—	—	276	6	276	6
Total	\$21,664	\$ 150	\$9,373	\$ 239	\$31,037	\$ 389

State Street Corporation | 71



Table of Contents

## STATE STREET CORPORATION

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

The following table presents contractual maturities of debt investment securities by carrying amount as of September 30, 2018. The maturities of certain ABS, MBS, and CMOs are based on expected principal payments. Actual maturities may differ from these expected maturities since certain borrowers have the right to prepay obligations with or without prepayment penalties.

September 30, 2018 (In millions)	Under 1 Year	1 to 5 Years	6 to 10 Years	Over 10 Years	Total
Available-for-sale:					
U.S. Treasury and federal agencies:					
Direct obligations	\$ 11	\$—	\$—	\$—	\$ 11
Mortgage-backed securities	129	830	2,547	11,967	15,473
Total U.S. Treasury and federal agencies	140	830	2,547	11,967	15,484
Asset-backed securities:					
Student loans	71	311	391	668	1,441
Credit cards	198	292	126	—	616
CLOs	—	449	141	21	611
Total asset-backed securities	269	1,052	658	689	2,668
Non-U.S. debt securities:					
Mortgage-backed securities	175	1,638	158	377	2,348
Asset-backed securities	103	637	607	174	1,521
Government securities	2,100	5,184	5,430	259	12,973
Other	1,346	2,647	731	20	4,744
Total non-U.S. debt securities	3,724	10,106	6,926	830	21,586
State and political subdivisions	379	1,329	1,625	702	4,035
Collateralized mortgage obligations	8	—	—	295	303
Other U.S. debt securities	160	1,241	625	—	2,026
Total	\$ 4,680	\$ 14,558	\$ 12,381	\$ 14,483	\$ 46,102
Held-to-maturity:					
U.S. Treasury and federal agencies:					
Direct obligations	\$ 2,897	\$ 12,213	\$ 12	\$ 46	\$ 15,168
Mortgage-backed securities	8	173	1,403	18,113	19,697
Total U.S. Treasury and federal agencies	2,905	12,386	1,415	18,159	34,865
Asset-backed securities:					
Student loans	32	300	185	2,514	3,031
Credit cards	58	267	—	—	325
Other	—	—	—	1	1
Total asset-backed securities	90	567	185	2,515	3,357
Non-U.S. debt securities:					
Mortgage-backed securities	71	143	8	450	672
Asset-backed securities	98	130	—	—	228
Government securities	240	117	—	—	357
Other	46	—	—	—	46
Total non-U.S. debt securities	455	390	8	450	1,303
Collateralized mortgage obligations	2	438	11	591	1,042
Total	\$ 3,452	\$ 13,781	\$ 1,619	\$ 21,715	\$ 40,567



Table of Contents

## STATE STREET CORPORATION

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## (UNAUDITED)

The following table presents a roll-forward with respect to net impairment losses that have been recognized in income for the periods indicated.

(In millions)	Nine Months Ended September 30, 2018 2017	
Balance, beginning of period	\$ 64	\$ 66
Additions:		
Losses for which OTTI was previously recognized	2	—
Deductions:		
Previously recognized losses related to securities sold or matured	—	(2 )
Balance, end of period	\$ 66	\$ 64

Interest income related to debt securities is recognized in our consolidated statement of income using the effective interest method, or on a basis approximating a level rate of return over the contractual or estimated life of the security. The level rate of return considers any non-refundable fees or costs, as well as purchase premiums or discounts, resulting in amortization or accretion, accordingly.

For certain debt securities acquired which are considered to be beneficial interests in securitized financial assets, the excess of our estimate of undiscounted future cash flows from these securities over their initial recorded investment is accreted into interest income on a level-yield basis over the securities' estimated remaining terms. Subsequent decreases in these securities' expected future cash flows are either recognized prospectively through an adjustment of the yields on the securities over their remaining terms, or are evaluated for OTTI. Increases in expected future cash flows are recognized prospectively over the securities' estimated remaining terms through the recalculation of their yields.

**Impairment**

We conduct periodic reviews of individual securities to assess whether OTTI exists. For additional information about the review of securities for impairment, refer to pages 144 to 146 in Note 3 to the consolidated financial statements included under Item 8, Financial Statements and Supplementary Data, in our 2017 Form 10-K.

We recorded approximately \$1 million and \$2 million of OTTI in the three and nine months ended September 30, 2018, respectively, and less than \$1 million of OTTI in both of the same periods in 2017, which resulted from adverse changes in the timing of expected future cash flows from the securities.

After a review of the investment portfolio, taking into consideration current economic conditions, adverse situations that might affect our ability to fully collect principal and interest, the timing of future payments, the credit quality and performance of the

collateral underlying MBS and ABS and other relevant factors, management considers the aggregate decline in fair value of the investment securities portfolio and the resulting gross pre-tax unrealized losses of \$1,755 million related to 1,255 securities as of September 30, 2018 to be temporary, and not the result of any material changes in the credit characteristics of the securities.

**Note 4. Loans and Leases**

We segregate our loans and leases into three segments: commercial and financial loans, commercial real estate loans and lease financing. We further classify commercial and financial loans as loans to investment funds, senior secured bank loans, loans to municipalities and other. These classifications reflect their risk characteristics, their initial measurement attributes and the methods we use to monitor and assess credit risk. For additional information on our loans and leases, including our internal risk-rating system used to assess our risk of credit loss for each loan or lease,

refer to pages 147 to 149 in Note 4 to the consolidated financial statements included under Item 8, Financial Statements and Supplementary Data, in our 2017 Form 10-K.

The following table presents our recorded investment in loans and leases, by segment, as of the dates indicated:

(In millions)	September 30, December 31,	
	2018	2017
Domestic:		
Commercial and financial:		
Loans to investment funds	\$ 12,863	\$ 13,618
Senior secured bank loans	3,150	2,923
Loans to municipalities	908	2,105
Other	40	50
Commercial real estate	602	98
Lease financing	39	267
Total domestic	17,602	19,061
Non-U.S.:		
Commercial and financial:		
Loans to investment funds	4,819	3,213
Senior secured bank loans	740	624
Lease financing	211	396
Total non-U.S.	5,770	4,233
Total loans and leases	23,372	23,294
Allowance for loan and lease losses	(60 )	(54 )
Loans and leases, net of allowance	\$ 23,312	\$ 23,240

The commercial and financial segment is composed of primarily floating-rate loans to mutual fund clients, purchased senior secured bank loans and loans to municipalities. Investment fund lending is composed of short-duration revolving credit lines providing liquidity to fund clients in support of their transaction flows associated with securities' settlement activities.

Table of Contents

## STATE STREET CORPORATION

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Certain loans are pledged as collateral for access to the Federal Reserve's discount window. As of September 30, 2018 and December 31, 2017, the loans pledged as collateral totaled \$4.6 billion and \$1.9 billion, respectively.

The following tables present our recorded investment in each class of loans and leases by credit quality indicator as of the dates indicated:

September 30, 2018 (In millions)	Commercial and Financial	Commercial Real Estate	Lease Financing	Total Loans and Leases
Investment grade <sup>(1)</sup>	\$ 17,753	\$ 602	\$ 250	\$ 18,605
Speculative <sup>(2)</sup>	4,728	—	—	4,728
Special mention <sup>(3)</sup>	39	—	—	39
Total	\$ 22,520	\$ 602	\$ 250	\$ 23,372
December 31, 2017 (In millions)	Commercial and Financial	Commercial Real Estate	Lease Financing	Total Loans and Leases
Investment grade <sup>(1)</sup>	\$ 17,866	\$ 98	\$ 663	\$ 18,627
Speculative <sup>(2)</sup>	4,638	—	—	4,638
Special mention <sup>(3)</sup>	29	—	—	29
Total	\$ 22,533	\$ 98	\$ 663	\$ 23,294

<sup>(1)</sup> Investment-grade loans and leases consist of counterparties with strong credit quality and low expected credit risk and probability of default. Ratings apply to counterparties with a strong capacity to support the timely repayment of any financial commitment.

<sup>(2)</sup> Speculative loans and leases consist of counterparties that face ongoing uncertainties or exposure to business, financial, or economic downturns. However, these counterparties may have financial flexibility or access to financial alternatives, which allow for financial commitments to be met.

<sup>(3)</sup> Special mention loans and leases consist of counterparties with potential weakness that, if uncorrected, may result in deterioration of repayment prospects.

As of September 30, 2018 and December 31, 2017, we had no impaired loans and leases, no loans or leases on non-accrual status and no loans or leases 90 days or more contractually past due.

In certain circumstances, we restructure troubled loans by granting concessions to borrowers experiencing financial difficulty. Once restructured, the loans are generally considered impaired until their maturity, regardless of whether the borrowers perform under the modified terms of the loans. There were no loans modified in troubled debt restructurings during the nine months ended September 30, 2018 and the year ended December 31, 2017.

We review all loans individually for indicators of impairment. Loans where indicators exist are evaluated individually for impairment at least quarterly. For those loans where no such indicators are identified, the loans are collectively evaluated for impairment. As of September 30, 2018 and December 31, 2017, there were no indicators of impairment.

## Allowance for loan and lease losses

The following table presents activity in the allowance for loan and lease losses for the periods indicated:

	Three Months Ended September 30, 2018	2017
(In millions)		

## Allowance for loan and lease losses:

Beginning balance	\$ 55	\$ 54
Provision for loan and lease losses	5	3
Ending balance	\$ 60	\$ 57

Nine  
Months  
Ended  
September  
30,

(In millions) 2018 2017

## Allowance for loan and lease losses:

Beginning balance	\$ 54	\$ 53
Provision for loan and lease losses	7	4
Charge-offs	(1 )	—
Ending balance	\$ 60	\$ 57

Loans and leases are reviewed on a regular basis, and any provisions for loan and lease losses that are recorded reflect management's estimate of the amount necessary to maintain the allowance for loan and lease losses at a level considered appropriate to absorb estimated incurred losses in the loan and lease portfolio.

Table of ContentsSTATE STREET CORPORATION  
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

## Note 5. Goodwill and Other Intangible Assets

The following table presents changes in the carrying amount of goodwill during the periods indicated:

(In millions)	Investment Servicing	Investment Management	Total
Goodwill:			
Ending balance December 31, 2016	\$ 5,550	\$ 264	\$5,814
Acquisitions	17	—	17
Divestitures and other reductions	(9 )	—	(9 )
Foreign currency translation	194	6	200
Ending balance December 31, 2017	5,752	270	6,022
Acquisitions	53	—	53
Foreign currency translation	(56 )	(3 )	(59 )
Ending balance September 30, 2018	\$ 5,749	\$ 267	\$6,016

The following table presents changes in the net carrying amount of other intangible assets during the periods indicated:

(In millions)	Investment Servicing	Investment Management	Total
Other intangible assets:			
Ending balance December 31, 2016	\$ 1,539	\$ 211	\$1,750
Acquisitions	16	—	16
Divestitures	(11 )	—	(11 )
Amortization	(183 )	(31 )	(214 )
Foreign currency translation	71	1	72
Ending balance December 31, 2017	1,432	181	1,613
Acquisitions	10	—	10
Amortization	(123 )	(22 )	(145 )
Foreign currency translation	(17 )	—	(17 )
Ending balance September 30, 2018	\$ 1,302	\$ 159	\$1,461

The following table presents the gross carrying amount, accumulated amortization and net carrying amount of other intangible assets by type as of the dates indicated:

(In millions)	September 30, 2018			December 31, 2017		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Other intangible assets:						
Client relationships	\$2,630	\$ (1,553 )	\$ 1,077	\$2,669	\$ (1,470 )	\$ 1,199
Core deposits	680	(343 )	337	686	(320 )	366
Other	143	(96 )	47	142	(94 )	48
Total	\$3,453	\$ (1,992 )	\$ 1,461	\$3,497	\$ (1,884 )	\$ 1,613

Table of ContentsSTATE STREET CORPORATION  
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

## Note 6. Other Assets

The following table presents the components of other assets as of the dates indicated:

(In millions)	September 30, 2018	December 31, 2017
Securities borrowed <sup>(1)</sup>	\$ 23,727	\$ 19,404
Derivative instruments, net	4,727	4,013
Bank-owned life insurance	3,300	3,242
Investments in joint ventures and other unconsolidated entities <sup>(2)</sup>	2,797	2,259
Collateral, net	1,268	473
Receivable for securities settlement	749	188
Prepaid expenses	510	364
Accounts receivable	361	348
Deposits with clearing organizations	126	120
Deferred tax assets, net of valuation allowance <sup>(3)</sup>	120	113
Income taxes receivable	61	97
Other	455	397
Total	\$ 38,201	\$ 31,018

<sup>(1)</sup> Refer to Note 8 for further information on the impact of collateral on our financial statement presentation of securities borrowing and securities lending transactions.

<sup>(2)</sup> Includes certain equity securities held at fair value through profit and loss that were transferred from AFS as part of our adoption of ASU 2016-01. Refer to Note 1 for further information on this new accounting standard.

<sup>(3)</sup> Deferred tax assets and liabilities recorded in our consolidated statement of condition are netted within the same tax jurisdiction.

## Note 7. Derivative Financial Instruments

We use derivative financial instruments to support our clients' needs and to manage our interest-rate and currency risk. In undertaking these activities, we assume positions in both the foreign exchange and interest-rate markets by buying and selling cash instruments and using derivative financial instruments, including foreign exchange forward contracts, foreign exchange options and interest-rate contracts. For information on our derivative instruments, including the related accounting policies, refer to pages 153 to 159 in Note 10 to the consolidated financial statements included under Item 8, Financial Statements and Supplementary Data, in our 2017 Form 10-K.

Derivative financial instruments are also subject to credit and counterparty risk, which we manage by performing credit reviews, maintaining individual counterparty limits, entering into netting arrangements and requiring the receipt of collateral. Cash collateral received from and provided to counterparties in connection with derivative financial instruments is recorded in accrued expenses and other liabilities and other assets, respectively, in our consolidated statement of condition. As of September 30, 2018 and December 31, 2017, we had recorded approximately \$2.14 billion and \$2.55 billion, respectively, of cash collateral received from counterparties and approximately \$2.33 billion and \$869 million,

respectively, of cash collateral provided to counterparties in connection with derivative financial instruments in our consolidated statement of condition.

Certain of our derivative assets and liabilities as of September 30, 2018 and December 31, 2017 are subject to master netting agreements with our derivative counterparties. Certain of these agreements contain credit risk-related contingent features in which the counterparty has the right to declare us in default and accelerate cash settlement of our net derivative liabilities with the counterparty in the event that our credit rating falls below specified levels. The aggregate fair value of all derivative instruments with credit risk-related contingent features that were in a net liability



position as of September 30, 2018 totaled approximately \$2.98 billion, against which we provided \$1.04 billion in underlying collateral. If our credit rating were downgraded below levels specified in the agreements, the maximum additional amount of payments related to termination events that could have been required pursuant to these contingent features, assuming no change in fair value, as of September 30, 2018 was approximately \$1.94 billion. Such accelerated settlement would be at fair value and therefore not affect our consolidated results of operations.

#### Derivatives Not Designated as Hedging Instruments

In connection with our trading activities, we use derivative financial instruments in our role as a financial intermediary and as both a manager and servicer of financial assets, in order to accommodate our clients' investment and risk management needs. In addition, we use derivative financial instruments for risk management purposes as economic hedges, which are not formally designated as accounting hedges, in order to contribute to our overall corporate earnings and liquidity. These activities are designed to generate trading services revenue and to manage volatility in our NII. The level of market risk that we assume is a function of our overall objectives and liquidity needs, our clients' requirements and market volatility. For additional information on derivatives not designated as hedging instruments, refer to pages 154 to 155 in Note 10 to the consolidated financial statements included under Item 8, Financial Statements and Supplementary Data, in our 2017 Form 10-K.

#### Derivatives Designated as Hedging Instruments

In connection with our asset and liability management activities, we use derivative financial instruments to manage our interest rate risk and foreign currency risk. Interest rate risk, defined as the sensitivity of income or financial condition to variations in interest rates, is a significant non-trading market risk to which our assets and liabilities are exposed. We

Table of Contents

## STATE STREET CORPORATION

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## (UNAUDITED)

manage our interest rate risk by identifying, quantifying and hedging our exposures, using fixed-rate portfolio securities and a variety of derivative financial instruments, most frequently interest-rate swaps. Interest rate swap agreements alter the interest-rate characteristics of specific balance sheet assets or liabilities. We use foreign exchange forward and swap contracts to hedge foreign exchange exposure to various foreign currencies with respect to certain assets and liabilities. Our hedging relationships are formally designated, and qualify for hedge accounting, as fair value, cash flow or net investment hedges. For additional information on derivatives designated as hedging instruments, refer to pages 155 to 159 in Note 10 to the consolidated financial statements included under Item 8, Financial Statements and Supplementary Data, in our 2017 Form 10-K.

Fair Value Hedges

We have entered into interest rate swap agreements to modify our interest income from certain AFS investment securities from a fixed rate to a floating rate. The hedged AFS investment securities included hedged trusts that had a weighted-average life of approximately 3.6 years as of September 30, 2018, compared to 4.6 years as of December 31, 2017.

We have entered into interest rate swap agreements to modify our interest expense on eight senior notes and one subordinated note from fixed rates to floating rates. The senior and subordinated notes are hedged with interest rate swap contracts with notional amounts, maturities and fixed-rate coupon terms that effectively hedge the fixed-rate notes. The table below summarizes the maturities and the fixed interest rates paid for the hedged senior and subordinated notes:

September 30, 2018

Maturity Fixed Interest Rate Paid

Senior Notes

2020	2.55%
2021	4.38
2021	1.95
2022	2.65
2023	3.70
2024	3.30
2025	3.55
2026	2.65

Subordinated Notes

2023	3.10
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As of January 1, 2018, we prospectively changed the presentation of gains (losses) on hedging instruments and hedge items designated as fair value hedges of interest rate risk, and any resulting hedge ineffectiveness, from processing fees and other revenue to NII. The change was made prospectively and prior periods have not been adjusted.

We have entered into foreign exchange swap contracts to hedge the change in fair value attributable to foreign exchange movements in our foreign currency denominated investment securities and deposits. These forward contracts convert the foreign currency risk to U.S. dollars, thereby mitigating our exposure to fluctuations in the fair value of the securities and deposits attributable to changes in foreign exchange rates.

Cash Flow Hedges

We have entered into foreign exchange contracts to hedge the change in cash flows attributable to foreign exchange movements in foreign currency denominated investment securities. These foreign exchange contracts convert the foreign currency risk to U.S. dollars, thereby mitigating our exposure to fluctuations in the cash flows of the securities attributable to changes in foreign exchange rates.

We have entered into interest rate swap agreements to hedge the forecasted cash flows associated with LIBOR-indexed floating-rate loans. The interest rate swaps synthetically convert the loan interest receipts from a variable-rate to a fixed-rate, thereby mitigating the risk attributable to changes in the LIBOR benchmark rate. As of September 30, 2018, the maximum maturity date of the underlying loans is approximately 4 years.

#### Net Investment Hedges

We have entered into foreign exchange contracts to protect the net investment in our foreign operations against adverse changes in exchange rates. These forward contracts convert the foreign currency risk to U.S. dollars, thereby mitigating our exposure to fluctuations in the fair value of our net investments in our foreign operations attributable to changes in foreign exchange rates. The changes in fair value of the foreign exchange forward contracts are recorded, net of taxes, in the foreign currency translation component of other comprehensive income. Effectiveness of net investment hedges is based on the overall changes in the fair value of the forward contracts.

State Street Corporation | 77

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	Fair Value Hedges	Cash Flow Hedges	
Investment securities available-for-sale	\$ 1,254	\$ —	\$ 1,254
Long-term debt <sup>(1)</sup>	8,493	—	8,493
Floating rate loans	—	1,300	1,300
Total	\$ 9,747	\$ 1,300	\$ 11,047

<sup>(1)</sup> As of September 30, 2018, these fair value hedges decreased the carrying value of LTD presented in our consolidated statement of condition by \$347 million. As of December 31, 2017, these fair value hedges decreased the carrying value of long-term debt presented in our consolidated statement of condition by \$87 million. The following tables present the fair value of derivative financial instruments, excluding the impact of master netting agreements, recorded in our consolidated statement of condition as of the dates indicated. The impact of master netting agreements is provided in Note 8 to the consolidated financial statements in this Form 10-Q.

(In millions)	Derivative Assets <sup>(1)</sup> Fair Value	
	September 30, 2018	December 31, 2017
Derivatives not designated as hedging instruments:		
Foreign exchange contracts	\$ 15,032	\$ 11,477
Interest-rate contracts	1	—
Other derivative contracts	13	1
Total	\$ 15,046	\$ 11,478

Derivatives designated as hedging instruments:		
Foreign exchange contracts	\$ 29	\$ 120
Interest-rate contracts	3	8
Total	\$ 32	\$ 128

<sup>(1)</sup> Derivative assets are included within other assets in our consolidated statement of condition.

(In millions)	Derivative Liabilities <sup>(1)</sup> Fair Value	
	September 30, 2018	December 31, 2017
Derivatives not designated as hedging instruments:		
Foreign exchange contracts	\$ 14,878	\$ 11,361
Interest-rate contracts	1	—
Other derivative contracts	252	284
Total	\$ 15,131	\$ 11,645

Derivatives designated as hedging instruments:		
Foreign exchange contracts	\$ 57	\$ 107
Interest-rate contracts	91	100
Total	\$ 148	\$ 207

(1) Derivative liabilities are included within accrued expenses and other liabilities in our consolidated statement of condition.

State Street Corporation | 78

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Table of Contents

## STATE STREET CORPORATION

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

The following tables present the impact of our use of derivative financial instruments on our consolidated statement of income for the periods indicated:

	Location of Gain (Loss) on Derivative in Consolidated Statement of Income	Amount of Gain (Loss) on Derivative Recognized in Consolidated Statement of Income			
		Three Months Ended September 30,		Nine Months Ended September 30,	
		2018	2017	2018	2017
(In millions)					
Derivatives not designated as hedging instruments:					
Foreign exchange contracts	Trading services revenue	\$170	\$152	\$549	\$485
Foreign exchange contracts	Processing fees and other revenue <sup>(1)</sup>	—	(9 )	—	(11 )
Foreign exchange contracts	Interest expense <sup>(1)</sup>	(3 )	—	(18 )	—
Interest-rate contracts	Trading services revenue	(2 )	(2 )	(6 )	7
Interest-rate contracts	Processing fees and other revenue	(1 )	—	(1 )	—
Other derivative contracts	Trading services revenue	3	—	3	—
Other derivative contracts	Compensation and employee benefits	(34 )	(25 )	(140 )	(120 )
Total		\$133	\$116	\$387	\$361

<sup>(1)</sup> The first nine months of 2018 includes approximately \$15 million of swap costs related to the first quarter of 2018 that were reclassified from Processing fees and other revenues to NII.

	Amount of Gain (Loss) on Derivative Recognized in Other Comprehensive Income		Location of Gain (Loss) Reclassified from OCI to Consolidated Statement of Income	Amount of Gain (Loss) Reclassified from OCI to Consolidated Statement of Income		Location of Gain (Loss) on Derivative in Consolidated Statement of Income	Amount of Gain (Loss) Derivatives Recognized in Consolidated Statement of Income	
	Three Months Ended September 30,			Three Months Ended September 30,			Three Months Ended September 30,	
	2018	2017		2018	2017		2018	2017
(In millions)								
Derivatives designated as cash flow hedges:								
Interest-rate contracts	\$ (6 )	\$ (1 )	Net interest income	\$ —	\$ —	—Net interest income	\$ (1 )	\$ —
Foreign exchange contracts	32	(1 )	Net interest income	—	—	Net interest income	6	5
	\$ 26	\$ (2 )		\$ —	\$ —		\$ 5	\$ 5
Derivatives designated as net investment hedges:								
	\$ 19	\$ (47 )		\$ —	\$ —		\$ —	\$ —

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Foreign exchange contracts			Gains (Losses) related to investment securities, net			Gains (Losses) related to investment securities, net		
Total	\$ 19	\$ (47 )	Total	\$ —	\$ —	Total	\$ —	\$ —
	Amount of Gain (Loss) on		Location of Gain	Amount of Gain (Loss) Reclassified		Location of Gain (Loss)	Amount of Gain (Loss)	
			(Loss) Reclassified	from OCI to		on Derivative in		
			from OCI to	Consolidated		Consolidated		
			Consolidated	Statement of		Statement of		
			Statement of	Income		Statement of		
			Income	Income		Income		
			Nine Months			Nine Months		
			Ended September			Ended		
			30,			September 30,		
(In millions)	2018	2017	2018			2017		
Derivatives designated as cash flow hedges:								
Interest-rate contracts	\$ (35 )	\$ (2 )	Net interest income	\$ —	\$ —	Net interest income	\$ —	\$ —
Foreign exchange contracts	(6 )	(93 )	Net interest income	—	—	Net interest income	20	18
	\$ (41 )	\$ (95 )		\$ —	\$ —		\$ 20	\$ 18
Derivatives designated as net investment hedges:								
Foreign exchange contracts	\$ 54	\$ (148 )	Gains (Losses) related to investment securities, net	\$ —	\$ —	Gains (Losses) related to investment securities, net	\$ —	\$ —
Total	\$ 54	\$ (148 )	Total	\$ —	\$ —	Total	\$ —	\$ —



Table of Contents

## STATE STREET CORPORATION

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

	Location of Gain (Loss) on Derivative in Consolidated Statement of Income	Amount of Gain (Loss) on Derivative Recognized in Consolidated Statement of Income		Hedged Item in Fair Value Hedging Relationship	Location of Gain (Loss) on Hedged Item in Consolidated Statement of Income	Amount of Gain (Loss) on Hedged Item Recognized in Consolidated Statement of Income	
		Three Months Ended September 30,				Three Months Ended September 30,	
		2018	2017			2018	2017
(In millions)							
Derivatives designated as fair value hedges:							
Foreign exchange contracts	Processing fees and other revenue	\$ (14 )	\$ 19	Investment securities	Processing fees and other revenue	\$ 14	\$ (19 )
Foreign exchange contracts	Processing fees and other revenue	33	200	FX deposit	Processing fees and other revenue	(33 )	(200 )
Interest-rate contracts <sup>(1)</sup>	Net interest income <sup>(2)</sup>	9	—	Available-for-sale securities	Net interest income <sup>(2)</sup>	(8 )	—
Interest-rate contracts <sup>(1)</sup>	Net interest income	(40 )	—	Long-term debt	Net interest income	39	—
Interest-rate contracts <sup>(1)</sup>	Processing fees and other revenue	—	9	Available-for-sale securities	Processing fees and other revenue <sup>(2)</sup>	—	(9 )
Interest-rate contracts <sup>(1)</sup>	Processing fees and other revenue	—	(8 )	Long-term debt	Processing fees and other revenue	—	5
Total		\$ (12 )	\$ 220			\$ 12	\$ (223 )

	Location of Gain (Loss) on Derivative in Consolidated Statement of Income	Amount of Gain (Loss) on Derivative Recognized in Consolidated Statement of Income		Hedged Item in Fair Value Hedging Relationship	Location of Gain (Loss) on Hedged Item in Consolidated Statement of Income	Amount of Gain (Loss) on Hedged Item Recognized in Consolidated Statement of Income	
		Nine Months Ended September 30,				Nine Months Ended September 30,	
		2018	2017			2018	2017
(In millions)							
Derivatives designated as fair value hedges:							
Foreign exchange contracts	Processing fees and other revenue	\$ (57 )	\$ 21	Investment securities	Processing fees and other revenue	\$ 57	\$ (21 )
Foreign exchange contracts	Processing fees and other revenue	(320 )	1,282	FX deposit	Processing fees and other revenue	320	(1,282 )
	Net interest income	(254 )	—	Long-term debt	Net interest income	239	—

Interest-rate contracts <sup>(1)</sup>						
Interest-rate contracts <sup>(1)</sup>	Net interest income <sup>(3)</sup>	40	—	Available-for-sale securities	Net interest income <sup>(3)</sup>	(38 ) —
Interest-rate contracts <sup>(1)</sup>	Processing fees and other revenue	—	23	Available-for-sale securities	Processing fees and other revenue <sup>(3)</sup>	— (21 )
Interest-rate contracts <sup>(1)</sup>	Processing fees and other revenue	—	37	Long-term debt	Processing fees and other revenue	— (39 )
Total		\$ (591 )	\$ 1,363			\$ 578 \$ (1,363 )

<sup>(1)</sup> As of January 1, 2018, we prospectively changed the presentation of gains (losses) on hedging instruments and hedge items designated as fair value hedges of interest rate risk, and any resulting hedge ineffectiveness, from processing fees and other revenue to NII.

<sup>(2)</sup> In the three months ended September 30, 2018 and 2017, \$20 million and \$4 million, respectively, of net unrealized (losses) gains on AFS investment securities designated in fair value hedges were recognized in OCI.

<sup>(3)</sup> In the nine months ended September 30, 2018 and 2017, \$29 million and \$13 million, respectively, of net unrealized (losses) gains on AFS investment securities designated in fair value hedges were recognized in OCI. Differences between the gains (losses) on foreign exchange contracts and the gains (losses) on the hedged item, excluding any accrued interest, represent hedge ineffectiveness. Similarly, differences between the gains (losses) on interest rate contracts and the gains (losses) on the hedged item represent hedge ineffectiveness.

State Street Corporation | 80

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Table of Contents

## STATE STREET CORPORATION

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

## Note 8. Offsetting Arrangements

We manage credit and counterparty risk by entering into enforceable netting agreements and other collateral arrangements with counterparties to derivative contracts and secured financing transactions, including resale and repurchase agreements, and principal securities borrowing and lending agreements. These netting agreements mitigate our counterparty credit risk by providing for a single net settlement with a counterparty of all financial transactions covered by the agreement in an event of default as defined under such agreement. In limited cases, a netting agreement may also provide for the periodic netting of settlement payments with respect to multiple different transaction types in the normal course of business. For additional information on offsetting arrangements, refer to pages 160 to 163 in Note 11 to the consolidated financial statements included under

Item 8, Financial Statements and Supplementary Data, in our 2017 Form 10-K.

As of September 30, 2018 and December 31, 2017, the value of securities received as collateral from third parties where we are permitted to transfer or re-pledge the securities totaled \$12.86 billion and \$2.47 billion, respectively, and the fair value of the portion that had been transferred or re-pledged as of the same dates was \$8.13 billion and \$15 million, respectively. The increase in 2018 primarily relates to a portion of underlying client assets related to our enhanced custody business, which assets clients have allowed us to transfer or re-pledge.

The following tables present information about the offsetting of assets related to derivative contracts and secured financing transactions, as of the dates indicated:

Assets:	September 30, 2018				
(In millions)	Gross Amounts of Recognized Assets <sup>(1)</sup>	Gross Amounts Offset in Statement of Condition <sup>(2)</sup>	Net Amounts of Assets Presented in Statement of Condition	Gross Amounts Not Offset in Statement of Condition Cash and Securities Received <sup>(4)</sup>	Net Amount <sup>(5)</sup>
Derivatives:					
Foreign exchange contracts	\$ 15,061	\$ (9,160 )	\$ 5,901	\$—	\$ 5,901
Interest-rate contracts <sup>(6)</sup>	4	—	4	—	4
Other derivative contracts	13	—	13	—	13
Cash collateral and securities netting	NA	(1,191 )	(1,191 )	(73 )	(1,264 )
Total derivatives	15,078	(10,351 )	4,727	(73 )	4,654
Other financial instruments:					
Resale agreements and securities borrowing <sup>(7)</sup>	80,072	(52,150 )	27,922	(27,343 )	579
Total derivatives and other financial instruments	\$95,150	\$ (62,501 )	\$ 32,649	\$(27,416)	\$ 5,233

Assets:	December 31, 2017				
(In millions)	Gross Amounts of Recognized Assets <sup>(1)</sup>	Gross Amounts Offset in Statement of Condition <sup>(2)</sup>	Net Amounts of Assets Presented in Statement of Condition	Gross Amounts Not Offset in Statement of Condition Cash and Securities Received <sup>(4)</sup>	Net Amount <sup>(5)</sup>
Derivatives:					

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Foreign exchange contracts	\$ 11,597	\$ (5,548	) \$ 6,049	\$—	\$ 6,049
Interest-rate contracts <sup>(6)</sup>	8	—	8	—	8
Other derivative contracts	1	—	1	—	1
Cash collateral and securities netting	NA	(2,045	) (2,045	) (124	) (2,169
Total derivatives	11,606	(7,593	) 4,013	(124	) 3,889
Other financial instruments:					
Resale agreements and securities borrowing <sup>(7)</sup>	70,079	(47,434	) 22,645	(22,645	) —
Total derivatives and other financial instruments	\$ 81,685	\$ (55,027	) \$ 26,658	\$ (22,769)	\$ 3,889

(1) Amounts include all transactions regardless of whether or not they are subject to an enforceable netting arrangement.

(2) Derivative amounts are carried at fair value and securities financing amounts are carried at amortized cost, except for securities collateral which is also carried at fair value. For additional information about the measurement basis of these instruments, refer to pages 127 to 138 in Notes 1 and 2 to the consolidated financial statements included under Item 8, Financial Statements and Supplementary Data, in our 2017 Form 10-K.

(3) Amounts subject to netting arrangements which have been determined to be legally enforceable and eligible for netting in the consolidated statement of condition.

(4) Includes securities in connection with our securities borrowing transactions.

(5) Includes amounts secured by collateral not determined to be subject to enforceable netting arrangements.

(6) Variation margin payments presented as settlements rather than collateral.

(7) Included in the \$27,922 million as of September 30, 2018 were \$4,195 million of resale agreements and \$23,727 million of collateral provided related to securities borrowing. Included in the \$22,645 million as of December 31, 2017 were \$3,241 million of resale agreements and \$19,404 million of collateral provided related to securities borrowing. Resale agreements and collateral provided related to securities borrowing were recorded in securities purchased under resale agreements and other assets, respectively, in our consolidated statement of condition. Refer to Note 9 for additional information with respect to principal securities finance transactions.

NA Not applicable

Table of ContentsSTATE STREET CORPORATION  
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

The following tables present information about the offsetting of liabilities related to derivative contracts and secured financing transactions, as of the dates indicated:

(In millions)	September 30, 2018				
	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in Statement of Condition <sup>(2)</sup>	Net Amounts of Liabilities Presented in Statement of Condition	Gross Amounts Offset in Statement of Condition	Net Amount <sup>(5)</sup>
				Cash and Securities Provided <sup>(4)</sup>	
<b>Liabilities:</b>					
<b>Derivatives:</b>					
Foreign exchange contracts	\$ 14,935	\$ (9,160 )	\$ 5,775	\$—	\$ 5,775
Interest-rate contracts <sup>(6)</sup>	92	—	92	—	92
Other derivative contracts	252	—	252	—	252
Cash collateral and securities netting	NA	(1,397 )	(1,397 )	(263 )	(1,660 )
Total derivatives	15,279	(10,557 )	4,722	(263 )	4,459
<b>Other financial instruments:</b>					
Repurchase agreements and securities lending <sup>(7)</sup>	69,457	(52,150 )	17,307	(15,640 )	1,667
Total derivatives and other financial instruments	\$ 84,736	\$ (62,707 )	\$ 22,029	\$ (15,903 )	\$ 6,126
<b>Liabilities:</b>					
<b>December 31, 2017</b>					
(In millions)					
	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in Statement of Condition <sup>(2)</sup>	Net Amounts of Liabilities Presented in Statement of Condition	Gross Amounts Offset in Statement of Condition	Net Amount <sup>(5)</sup>
				Cash and Securities Provided <sup>(4)</sup>	
<b>Derivatives:</b>					
Foreign exchange contracts	\$ 11,467	\$ (5,548 )	\$ 5,919	\$—	\$ 5,919
Interest-rate contracts <sup>(6)</sup>	100	—	100	—	100
Other derivative contracts	285	—	285	—	285
Cash collateral and securities netting	NA	(422 )	(422 )	(450 )	(872 )
Total derivatives	11,852	(5,970 )	5,882	(450 )	5,432
<b>Other financial instruments:</b>					
Repurchase agreements and securities lending <sup>(7)</sup>	54,127	(47,434 )	6,693	(4,299 )	2,394
Total derivatives and other financial instruments	\$ 65,979	\$ (53,404 )	\$ 12,575	\$ (4,749 )	\$ 7,826

(1) Amounts include all transactions regardless of whether or not they are subject to an enforceable netting arrangement.

(2) Derivative amounts are carried at fair value and securities financing amounts are carried at amortized cost, except for securities collateral which is also carried at fair value. For additional information about the measurement basis of these instruments, refer to pages 127 to 138 in Notes 1 and 2 to the consolidated financial statements included under

Item 8, Financial Statements and Supplementary Data, in our 2017 Form 10-K.

(3) Amounts subject to netting arrangements which have been determined to be legally enforceable and eligible for netting in the consolidated statement of condition.

(4) Includes securities provided in connection with our securities lending transactions.

(5) Includes amounts secured by collateral not determined to be subject to enforceable netting arrangements.

(6) Variation margin payments presented as settlements rather than collateral.

(7) Included in the \$17,307 million as of September 30, 2018 were \$1,690 million of repurchase agreements and \$15,617 million of collateral received related to securities lending transactions. Included in the \$6,693 million as of December 31, 2017 were \$2,842 million of repurchase agreements and \$3,851 million of collateral received related to securities lending transactions. Repurchase agreements and collateral received related to securities lending were recorded in securities sold under repurchase agreements and accrued expenses and other liabilities, respectively, in our consolidated statement of condition. Refer to Note 9 for additional information with respect to principal securities finance transactions.

<sup>NA</sup> Not applicable

Table of ContentsSTATE STREET CORPORATION  
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

The securities transferred under resale and repurchase agreements typically are U.S. Treasury, agency and agency MBS. In our principal securities borrowing and lending arrangements, the securities transferred are predominantly equity securities and some corporate debt securities. The fair value of the securities transferred may increase in value to an amount greater than the amount received under our repurchase and securities lending arrangements, which exposes the Company with counterparty risk. We require the review of the price of the underlying securities in relation to the carrying value of the

repurchase agreements and securities lending arrangements on a daily basis and when appropriate, adjust the cash or security to be obtained or returned to counterparties that is reflective of the required collateral levels.

The following table summarizes our enhanced custody repurchase agreements and securities lending transactions by category of collateral pledged and remaining maturity of these agreements as of the periods indicated:

(In millions)	Remaining Contractual Maturity of the Agreements			
	As of September 30, 2018	As of December 31, 2017 <sup>(1)</sup>		
	Overnight and Continuous	Up to 30 Days	Total	Overnight and Continuous
Repurchase agreements:				
U.S. Treasury and agency securities	\$49,858	\$—	\$49,858	\$ 43,072
Total	49,858	—	49,858	43,072
Securities lending transactions:				
US Treasury and agency securities	209	—	209	—
Corporate debt securities	80	—	80	35
Equity securities	10,637	168	10,805	11,020
Other <sup>(2)</sup>	8,505	—	8,505	—
Total	19,431	168	19,599	11,055
Gross amount of recognized liabilities for repurchase agreements and securities lending	\$69,289	\$ 168	\$69,457	\$ 54,127

<sup>(1)</sup> As of December 31, 2017, there were no balances with contractual maturities up to 30 days.

<sup>(2)</sup> Represents a portion of underlying client assets related to our enhanced custody business, which assets clients have allowed us to transfer and re-pledge.

Table of ContentsSTATE STREET CORPORATION  
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

## Note 9. Commitments and Guarantees

For additional information about our commitments and guarantees, refer to pages 164 to 165 in Note 12 to the consolidated financial statements included under Item 8, Financial Statements and Supplementary Data, in our 2017 Form 10-K.

The following table presents the aggregate gross contractual amounts of our off-balance sheet commitments and off-balance sheet guarantees as of the dates indicated.

(In millions)	September 30, 2018	December 31, 2017
Commitments:		
Unfunded credit facilities	\$27,782	\$26,488
Guarantees <sup>(1)</sup> :		
Indemnified securities financing	\$380,389	\$381,817
Stable value protection	26,313	26,653
Standby letters of credit	3,006	3,158

<sup>(1)</sup> The potential losses associated with these guarantees equal the gross contractual amounts and do not consider the value of any collateral or reflect any participations to independent third parties.

## Unfunded Credit Facilities

Unfunded credit facilities consist of liquidity facilities for our fund and municipal lending clients and undrawn lines of credit related to senior secured bank loans.

As of September 30, 2018, approximately 76% of our unfunded commitments to extend credit expire within one year. Since many of these commitments are expected to expire or renew without being drawn upon, the gross contractual amounts do not necessarily represent our future cash requirements.

## Indemnified Securities Financing

On behalf of our clients, we lend their securities, as agent, to brokers and other institutions. In most circumstances, we indemnify our clients for the fair market value of those securities against a failure of the borrower to return such securities.

The following table summarizes the aggregate fair values of indemnified securities financing and related collateral, as well as collateral invested in indemnified repurchase agreements, as of the dates indicated:

(In millions)	September 30, 2018	December 31, 2017
Fair value of indemnified securities financing	\$380,389	\$381,817
Fair value of cash and securities held by us, as agent, as collateral for indemnified securities financing	399,249	400,828
Fair value of collateral for indemnified securities financing invested in indemnified repurchase agreements	55,534	61,270
Fair value of cash and securities held by us or our agents as collateral for investments in indemnified repurchase agreements	58,976	65,272

In certain cases, we participate in securities finance transactions as a principal. As a principal, we borrow securities from the lending client and then lend such securities to the subsequent borrower, either our client or a broker/dealer. Our right to receive and obligation to return collateral in connection with our securities lending transactions are recorded in other assets and other liabilities, respectively, in our consolidated statement of condition. As of September 30, 2018 and December 31, 2017, we had approximately \$23.73 billion and \$19.40 billion, respectively, of collateral



provided and approximately \$15.62 billion and \$3.85 billion, respectively, of collateral received from clients in connection with our participation in principal securities finance transactions.

**Stable Value Protection**

In the normal course of our business, we offer products that provide book-value protection, primarily to plan participants in stable value funds managed by non-affiliated investment managers of post-retirement defined contribution benefit plans, particularly 401(k) plans. The book-value protection is provided on portfolios of intermediate investment grade fixed-income securities, and is intended to provide safety and stable growth of principal invested. The protection is intended to cover any shortfall in the event that a significant number of plan participants withdraw funds when book value exceeds market value and the liquidation of the assets is not sufficient to redeem the participants. The investment parameters of the underlying portfolios, combined with structural protections, are designed to provide cushion and guard against payments even under extreme stress scenarios.

State Street Corporation | 84

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Table of Contents

STATE STREET CORPORATION

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

These contingencies are individually accounted for as derivative financial instruments. The notional amounts of the stable value contracts are presented as “derivatives not designated as hedging instruments” in the table of aggregate notional amounts of derivative financial instruments provided in Note 7 to the consolidated financial statements in this Form 10-Q. We have not made a payment under these contingencies that we consider material to our consolidated financial condition, and management believes that the probability of payment under these contingencies in the future, that we would consider material to our consolidated financial condition, is remote.

Standby Letters of Credit

Standby letters of credit provide credit enhancement to our municipal clients to support the issuance of capital markets financing.

Note 10. Contingencies

Legal and Regulatory Matters

In the ordinary course of business, we and our subsidiaries are involved in disputes, litigation, and governmental or regulatory inquiries and investigations, both pending and threatened. These matters, if resolved adversely against us or settled, may result in monetary awards or payments, fines and penalties or require changes in our business practices. The resolution or settlement of these matters is inherently difficult to predict. Based on our assessment of these pending matters, we do not believe that the amount of any judgment, settlement or other action arising from any pending matter is likely to have a material adverse effect on our consolidated financial condition. However, an adverse outcome in certain of the matters described below could have a material adverse effect on our consolidated results of operations for the period in which such matter is resolved, or an accrual is determined to be required, on our consolidated financial condition, or on our reputation.

We evaluate our needs for accruals of loss contingencies related to legal and regulatory proceedings on a case-by-case basis. When we have a liability that we deem probable, and we deem the amount of such liability can be reasonably estimated as of the date of our consolidated financial statements, we accrue our estimate of the amount of loss. We also consider a loss probable and establish an accrual when we make, or intend to make, an offer of settlement. Once established, an accrual is subject to subsequent adjustment as a result of additional information. The resolution of legal and regulatory proceedings and the amount of reasonably estimable loss (or range thereof) are inherently difficult to predict, especially in the early stages of proceedings. Even if a loss is probable, an

amount (or range) of loss might not be reasonably estimated until the later stages of the proceeding due to many factors such as the presence of complex or novel legal theories, the discretion of governmental authorities in seeking sanctions or negotiating resolutions in civil and criminal matters, the pace and timing of discovery and other assessments of facts and the procedural posture of the matter (collectively, "factors influencing reasonable estimates"). As of September 30, 2018, our aggregate accruals for loss contingencies for legal and regulatory matters totaled approximately \$13 million. To the extent that we have established accruals in our consolidated statement of condition for probable loss contingencies, such accruals may not be sufficient to cover our ultimate financial exposure associated with any settlements or judgments. Any such ultimate financial exposure, or proceedings to which we may become subject in the future, could have a material adverse effect on our businesses, on our future consolidated financial statements or on our reputation. Except where otherwise noted below, we have not established significant accruals with respect to the claims discussed.

We have identified certain matters for which loss is reasonably possible (but not probable) in future periods, whether in excess of an accrued liability or where there is no accrued liability, and for which we are able to estimate a range of reasonably possible loss. As of September 30, 2018, our estimate of the range of reasonably possible loss for these matters is from zero to approximately \$45 million in the aggregate. Our estimate with respect to the aggregate range of reasonably possible loss is based upon currently available information and is subject to significant judgment and a variety of assumptions and known and unknown uncertainties. The matters underlying the estimated range will change from time to time, and actual results may vary significantly from the current estimate.

In certain other pending matters, including claims that represent the substantial majority of the potential exposure with respect to the invoicing matter, the Federal Reserve/Massachusetts Division of Banks written agreement and the shareholder derivative litigation matter discussed below, it is not currently feasible to reasonably estimate the amount or a range of reasonably possible loss (including reasonably possible loss in excess of amounts accrued), and such losses, which may be significant, are not included in the estimate of reasonably possible loss discussed above. This is due to, among other factors, the factors influencing reasonable estimates described above. These factors are particularly prevalent in governmental and regulatory inquiries and investigations. As a result,

State Street Corporation | 85

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Table of Contents

STATE STREET CORPORATION

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

reasonably possible loss estimates often are not feasible until the later stages of the inquiry or investigation or of any related legal or regulatory proceeding. An adverse outcome in one or more of the matters for which we have not estimated the amount or a range of reasonably possible loss, individually or in the aggregate, could have a material adverse effect on our businesses, on our future consolidated financial statements or on our reputation. Given that we cannot estimate reasonably possible loss for all legal and regulatory proceedings as to which we may be subject now or in the future, including matters that if adversely concluded may present material financial, regulatory and reputational risks, no conclusion as to the ultimate exposure from current pending or potential legal or regulatory proceedings should be drawn from the current estimate of reasonably possible loss.

The following discussion provides information with respect to significant legal, governmental and regulatory matters. Invoicing Matter

In December 2015, we announced a review of the manner in which we invoiced certain expenses to some of our Investment Servicing clients, primarily in the United States, during an 18-year period going back to 1998, and our determination that we had incorrectly invoiced clients for certain expenses. We continue to implement enhancements to our billing processes, and we are reviewing the conduct of our employees and have taken appropriate steps to address conduct inconsistent with our standards, including, in some cases, termination of employment. In connection with our enhancements to our billing processes, we continue to review historical billing practices and may from time to time identify additional remediation. We currently expect the cumulative total of our payments to customers for these matters to be at least \$360 million.

In March 2017, a purported class action was commenced against us alleging that our invoicing practices violated duties owed to retirement plan customers under ERISA. In addition, we have received a purported class action demand letter alleging that our invoicing practices were unfair and deceptive under Massachusetts law. A class of customers, or particular customers, may assert that we have not paid to them all amounts incorrectly invoiced, and may seek double or treble damages under Massachusetts law.

We are also responding to requests for information from, and are cooperating with investigations by, governmental and regulatory authorities on these matters, including the civil and criminal divisions of the DOJ, the SEC, the DOL and the Massachusetts Attorney General, which could result in significant fines or other sanctions, civil and criminal, against us. If these governmental or regulatory authorities were to conclude

that all or a portion of the billing errors merited civil or criminal sanctions, any fine or other penalty could be a significant percentage, or a multiple of, the portion of the overcharging serving as the basis of such a claim or of the full amount overcharged. The governmental and regulatory authorities have significant discretion in civil and criminal matters as to the fines and other penalties they may seek to impose. The severity of such fines or other penalties could take into account factors such as the amount and duration of our incorrect invoicing, the government's or regulator's assessment of the conduct of our employees, as well as prior conduct such as that which resulted in our January 2017 deferred prosecution agreement in connection with transition management services and our recent settlement of civil claims regarding our indirect foreign exchange business. The SEC has requested that we commence settlement discussions to resolve claims the SEC may bring against us relating to our overcharges of registered investment companies. There can be no assurance that any settlement will be reached or, if so, the impact of any such settlement on other claims relating to these matters.

The outcome of any of these proceedings and, in particular, any criminal sanction could materially adversely affect our results of operations and could have significant collateral consequences for our business and reputation.

Federal Reserve/Massachusetts Division of Banks Written Agreement

On June 1, 2015, we entered into a written agreement with the Federal Reserve and the Massachusetts Division of Banks relating to deficiencies identified in our compliance programs with the requirements of the Bank Secrecy Act, AML regulations and U.S. economic sanctions regulations promulgated by OFAC. As part of this enforcement action, we have been required to, among other things, implement improvements to our compliance programs. If we fail to

comply with the terms of the written agreement, we may become subject to fines and other regulatory sanctions, which may have a material adverse effect on us.

#### Shareholder Litigation

A State Street shareholder has filed a purported class action complaint against the Company alleging that the Company's financial statements in its annual reports for the 2011-2014 period were misleading due to the inclusion of revenues associated with the invoicing matter referenced above and the facts surrounding our 2017 settlements with the U.S. government relating to our transition management business. We have agreed in principle to settle this matter on a class basis for \$4.9 million, subject to final approval by the Court. In addition, a State Street

State Street Corporation | 86

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Table of Contents

STATE STREET CORPORATION

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

shareholder has filed a derivative complaint against the Company's past and present officers and directors to recover alleged losses incurred by the Company relating to the invoicing matter and to our Ohio public retirement plans matter.

Income Taxes

In determining our provision for income taxes, we make certain judgments and interpretations with respect to tax laws in jurisdictions in which we have business operations. Because of the complex nature of these laws, in the normal course of our business, we are subject to challenges from U.S. and non-U.S. income tax authorities regarding the amount of income taxes due. These challenges may result in adjustments to the timing or amount of taxable income or deductions or the allocation of taxable income among tax jurisdictions. We recognize a tax benefit when it is more likely than not that our position will result in a tax deduction or credit. Unrecognized tax benefits of approximately \$93 million as of September 30, 2018 decreased from \$94 million as of December 31, 2017.

We are presently under audit by a number of tax authorities, and the Internal Revenue Service is currently reviewing our U.S. income tax returns for the tax years 2014 and 2015. The earliest tax year open to examination in jurisdictions where we have material operations is 2011. Management believes that we have sufficiently accrued liabilities as of September 30, 2018 for tax exposures.

Note 11. Variable Interest Entities

For additional information on our VIEs, refer to pages 167 to 168 in Note 14 to the consolidated financial statements included under Item 8, Financial Statements and Supplementary Data, in our 2017 Form 10-K.

Tax Exempt Investment Program

In the normal course of our business, we structure and sell certificated interests in pools of tax exempt investment grade assets, principally to our mutual fund clients. We structure these pools as partnership trusts, and the assets and liabilities of the trusts are recorded in our consolidated statement of condition as AFS investment securities and other short term borrowings. As of September 30, 2018 and December 31, 2017, we carried AFS investment securities, composed of securities related to state and political subdivisions, with a fair value of \$1.13 billion and \$1.25 billion, respectively, and other short term borrowings of \$1.00 billion and \$1.08 billion, respectively, in our consolidated statement of condition in connection with these trusts. The interest income and interest expense generated by the investments and certificated interests, respectively, are recorded as components of NII when earned or incurred.

The trusts had a weighted average life of approximately 3.6 years as of September 30, 2018, compared to approximately 4.6 years as of December 31, 2017.

Interests in Investment Funds

As of September 30, 2018, the aggregate assets and liabilities of our consolidated sponsored investment funds totaled \$241 million and \$140 million, respectively. As of December 31, 2017, the aggregate assets and liabilities of our consolidated sponsored investment funds totaled \$149 million and \$50 million, respectively.

As of September 30, 2018, our potential maximum total exposure associated with the consolidated sponsored investment funds totaled \$100 million and represented the value of our economic ownership interest in the funds. As of September 30, 2018 and December 31, 2017, we managed certain funds, considered VIEs, in which we held a variable interest but for which we were not deemed to be the primary beneficiary. Our potential maximum loss exposure related to these unconsolidated funds totaled \$93 million as of September 30, 2018 and \$72 million as of December 31, 2017, and represented the carrying value of our investments, which are recorded in either AFS investment securities or other assets in our consolidated statement of condition. The amount of loss we may recognize during any period is limited to the carrying amount of our investments in the unconsolidated funds.

Table of Contents

## STATE STREET CORPORATION

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

## Note 12. Shareholders' Equity

## Preferred Stock

In September 2018, we issued 500,000 depositary shares, each representing 1/100th ownership interest in shares of our fixed-to-floating rate non-cumulative perpetual preferred stock, Series H, without par value per share, with a liquidation preference of \$100,000 per share (equivalent to \$1,000 per depositary share), in a public offering. The aggregate proceeds, net of underwriting discounts, commissions and other issuance costs, were approximately \$500 million, and were used to fund a portion of our acquisition of Charles River Development on October 1, 2018.

Dividends on the Series H Preferred stock will be paid semi-annually and will commence on December 15, 2018, with the first dividend paid on a pro-rata basis.

The following table summarizes selected terms of each of the series of the preferred stock issued and outstanding as of September 30, 2018:

	Issuance Date	Depositary Shares Issued	Ownership Interest Per Depositary Share	Liquidation Preference Per Share	Liquidation Preference Per Depositary Share	Net Proceeds of Offering (In millions)	Redemption Date <sup>(1)</sup>
Preferred Stock <sup>(2)</sup> :							
Series C	August 2012	20,000,000	1/4,000th	\$ 100,000	\$ 25	\$ 488	September 15, 2017
Series D	February 2014	30,000,000	1/4,000th	100,000	25	742	March 15, 2024
Series E	November 2014	30,000,000	1/4,000th	100,000	25	728	December 15, 2019
Series F	May 2015	750,000	1/100th	100,000	1,000	742	September 15, 2020
Series G	April 2016	20,000,000	1/4,000th	100,000	25	493	March 15, 2026
Series H	September 2018	500,000	1/100th	100,000	1,000	494	December 15, 2023

<sup>(1)</sup> On the redemption date, or any dividend declaration date thereafter, the preferred stock and corresponding depositary shares may be redeemed by us, in whole or in part, at the liquidation price per share and liquidation price per depositary share plus any declared and unpaid dividends, without accumulation of any undeclared dividends.

<sup>(2)</sup> The preferred stock and corresponding depositary shares may be redeemed at our option in whole, but not in part, prior to the redemption date upon the occurrence of a regulatory capital treatment event, as defined in the certificate of designation, at a redemption price equal to the liquidation price per share and liquidation price per depositary share plus any declared and unpaid dividends, without accumulation of any undeclared dividends.

Table of Contents

## STATE STREET CORPORATION

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## (UNAUDITED)

The following table presents the dividends declared for each of the series of preferred stock issued and outstanding for the periods indicated:

	Three Months Ended September 30, 2018			2017		
	Dividends Declared per Share	Dividends Declared per Depository Share	Total (In millions) <sup>(1)</sup>	Dividends Declared per Share	Dividends Declared per Depository Share	Total (In millions)
Preferred Stock:						
Series C	\$1,313	\$ 0.33	\$ 6	\$1,313	\$ 0.33	\$ 6
Series D	1,475	0.37	11	1,475	0.37	11
Series E	1,500	0.38	11	1,500	0.38	11
Series F	2,625	26.25	20	2,625	26.25	20
Series G	1,338	0.33	7	1,338	0.33	7
Total			\$ 55			\$ 55

	Nine Months Ended September 30, 2018			2017		
	Dividends Declared per Share	Dividends Declared per Depository Share	Total (In millions)	Dividends Declared per Share	Dividends Declared per Depository Share	Total (In millions)
Preferred Stock:						
Series C	\$3,939	\$ 0.99	\$ 19	\$3,939	\$ 0.99	\$ 19
Series D	4,425	1.11	33	4,425	1.11	33
Series E	4,500	1.14	33	4,500	1.14	33
Series F	5,250	52.50	40	5,250	52.50	40
Series G	4,014	0.99	21	4,014	0.99	21
Total			\$ 146			\$ 146

<sup>(1)</sup> Dividends were paid in September 2018.

In October 2018, we declared dividends on our Series C, D, E, G and H preferred stock of approximately \$1,313, \$1,475, \$1,500, \$1,338 and \$1,219, respectively, per share, or approximately \$0.33, \$0.37, \$0.38, \$0.33 and \$12.19, respectively, per depository share. These dividends total approximately \$7 million, \$11 million, \$11 million, \$7 million and \$6 million on our Series C, D, E, G and H preferred stock, respectively, which will be paid in December 2018.

**Common Stock**

In July 2018, we completed a public offering of approximately 13.24 million shares of our common stock. The offering price was \$86.93 per share and net proceeds totaled approximately \$1.15 billion, and were used to fund a portion of the acquisition of Charles River Development on October 1, 2018.

In June 2017, our Board approved a common stock purchase program authorizing the purchase of up to \$1.4 billion of our common stock through June 30, 2018 (the 2017 Program). In June 2018, our Board approved a common stock purchase program authorizing the purchase of up to \$1.2 billion of our common stock through June 30, 2019 (the 2018



Program). We did not purchase any common stock during either the quarter ended June 30, 2018 under the 2017 Program or the quarter ended September 30, 2018 under the 2018 Program. The table below presents the activity under our common stock purchase program during the period indicated:

Nine Months Ended September 30, 2018 <sup>(1)</sup>		
Shares Acquired (In millions)	Average Cost per Share	Total Acquired (In millions)
2017 Program 3.3	\$ 105.31	\$ 350

<sup>(1)</sup> There were no shares repurchased in the three months ended September 30, 2018 under the 2018 Program.

State Street Corporation | 89

---

Table of Contents

## STATE STREET CORPORATION

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

The table below presents the dividends declared on common stock for the periods indicated:

	Three Months Ended September 30, 2018		September 30, 2017		Nine Months Ended September 30, 2018		September 30, 2017	
	Dividends Declared per Share	Total (In millions)	Dividends Declared per Share	Total (In millions)	Dividends Declared per Share	Total (In millions)	Dividends Declared per Share	Total (In millions)
Common Stock	\$0.47	\$ 179	\$0.42	\$ 156	\$1.31	\$ 486	\$1.18	\$ 442
Accumulated Other Comprehensive Income (Loss)								

The following table presents the after-tax components of AOCI as of the dates indicated:

(In millions)	September 30, 2018	December 31, 2017
Net unrealized (losses) on cash flow hedges	\$(83 )	\$(56 )
Net unrealized (losses) gains on available-for-sale securities portfolio	(330 )	148
Net unrealized gains related to reclassified available-for-sale securities	22	19
Net unrealized (losses) gains on available-for-sale securities	(308 )	167
Net unrealized (losses) on available-for-sale securities designated in fair value hedges	(35 )	(64 )
Net unrealized (losses) on hedges of net investments in non-U.S. subsidiaries	(11 )	(65 )
Other-than-temporary impairment on held-to-maturity securities related to factors other than credit	(5 )	(6 )
Net unrealized (losses) on retirement plans	(156 )	(170 )
Foreign currency translation	(1,113 )	(815 )
Total	\$(1,711 )	\$(1,009 )

The following table presents changes in AOCI by component, net of related taxes, for the periods indicated:

(In millions)	Nine Months Ended September 30, 2018						
	Net Unrealized Gains (Losses) on Cash Flow Hedges	Net Unrealized Gains (Losses) on Available-for-Sale Securities	Net Unrealized (Losses) on Investment in Non-U.S. Subsidiaries	Other-Than-Temporary Impairment on Held-to-Maturity Securities	Net Unrealized Losses on Retirement Plans	Foreign Currency Translation	Total
Balance as of December 31, 2017	\$(56)	\$ 103	\$(65)	\$(6)	\$(170)	\$(815)	\$(1,009)
Other comprehensive income (loss) before reclassifications	(27)	(452)	54	4	—	(298)	(719)
Amounts reclassified into (out of) earnings	—	6	—	(3)	14	—	17
Other comprehensive income (loss)	(27)	(446)	54	1	14	(298)	(702)
Balance as of September 30, 2018	\$(83)	\$ (343)	\$(11)	\$(5)	\$(156)	\$(1,113)	\$(1,711)

Nine Months Ended September 30, 2017

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(In millions)	Net Unrealized Gains (Losses) on Cash Flow Hedges	Net Unrealized Gains (Losses) on Available-for- Sale Securities	Net Unrealized (Losses) on Hedges of Net Investments in Non-U.S. Subsidiaries	Other-Than-Temporary Impairment on Held-to-Maturity Securities	Net Unrealized Losses on Retirement Plans	Foreign Currency Translation	Total
Balance as of December 31, 2016	\$229	\$ (286 )	\$ 95	\$ (9 )	\$ (194 )	\$ (1,875 )	\$ (2,040)
Other comprehensive income (loss) before reclassifications	(274 )	555	(147 )	3	—	932	1,069
Amounts reclassified into (out of) earnings	—	(23 )	—	—	10	—	(13 )
Other comprehensive income (loss)	(274 )	532	(147 )	3	10	932	1,056
Balance as of September 30, 2017	\$ (45 )	\$ 246	\$ (52 )	\$ (6 )	\$ (184 )	\$ (943 )	\$ (984 )

State Street Corporation | 90





Table of Contents

STATE STREET CORPORATION

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note 13. Regulatory Capital

We are subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum regulatory capital requirements can initiate certain mandatory and discretionary actions by regulators that, if undertaken, could have a direct material effect on our consolidated financial condition. Under current regulatory capital adequacy guidelines, we must meet specified capital requirements that involve quantitative measures of our consolidated assets, liabilities and off-balance sheet exposures calculated in conformity with regulatory accounting practices. Our capital components and their classifications are subject to qualitative judgments by regulators about components, risk weightings and other factors. For additional information on regulatory capital, and the requirements to which we are subject, refer to pages 171 to 172 in Note 16 to the consolidated financial statements included under Item 8, Financial Statements and Supplementary Data, in our 2017 Form 10-K.

As required by the Dodd-Frank Act, we and State Street Bank, as advanced approaches banking organizations, are subject to a permanent "capital floor" in the calculation and assessment of regulatory capital adequacy by U.S. banking regulators. Beginning on January 1, 2015, we were required to calculate our risk-based capital ratios using both the advanced approaches and the standardized approach. As a result, from January 1, 2015 going forward, our risk-based capital ratios for regulatory assessment purposes are the lower of each ratio calculated under the standardized approach and the advanced approaches.

The methods for the calculation of our and State Street Bank's risk-based capital ratios will change as the provisions of the Basel III final rule related to the numerator (capital) and denominator (RWAs) are phased in, and as we begin calculating our RWAs using the advanced approaches. These ongoing methodological changes will result in differences in our reported capital ratios from one reporting period to the next that are independent of applicable changes to our capital base, our asset composition, our off-balance sheet exposures or our risk profile.

As of September 30, 2018, we and State Street Bank exceeded all regulatory capital adequacy requirements to which we were subject. As of September 30, 2018, State Street Bank was categorized as "well capitalized" under the applicable regulatory capital adequacy framework, and exceeded all "well capitalized" ratio guidelines to which it was subject. Management believes that no conditions or events have occurred since September 30, 2018 that have changed the capital categorization of State Street Bank.

The following table presents the regulatory capital structure, total RWAs, related regulatory capital ratios and the minimum required regulatory capital ratios for us and State Street Bank as of the dates indicated. As a result of changes in the methodologies used to calculate our regulatory capital ratios from period to period as the provisions of the Basel III final rule are phased in, the ratios presented in the table for each period-end are not directly comparable. Refer to the footnotes following the table.

State Street Corporation | 92

---

Table of Contents

## STATE STREET CORPORATION

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(In millions)	State Street				State Street Bank			
	Basel III Advanced Approaches September 30, 2018 <sup>(1)</sup>	Basel III Standardized Approach September 30, 2018 <sup>(2)</sup>	Basel III Advanced Approaches December 31, 2017 <sup>(1)</sup>	Basel III Standardized Approach December 31, 2017 <sup>(2)</sup>	Basel III Advanced Approaches September 30, 2018 <sup>(1)</sup>	Basel III Standardized Approach September 30, 2018 <sup>(2)</sup>	Basel III Advanced Approaches December 31, 2017 <sup>(1)</sup>	Basel III Standardized Approach December 31, 2017 <sup>(2)</sup>
Common shareholders' equity:								
Common stock and related surplus	\$10,922	\$10,922	\$10,302	\$10,302	\$13,262	\$13,262	\$11,612	\$11,612
Retained earnings	20,387	20,387	18,856	18,856	13,969	13,969	12,312	12,312
Accumulated other comprehensive income (loss)	(1,661 )	(1,661 )	(972 )	(972 )	(1,450 )	(1,450 )	(809 )	(809 )
Treasury stock, at cost	(8,735 )	(8,735 )	(9,029 )	(9,029 )	—	—	—	—
Total	20,913	20,913	19,157	19,157	25,781	25,781	23,115	23,115
Regulatory capital adjustments:								
Goodwill and other intangible assets, net of associated deferred tax liabilities <sup>(3)</sup>	(7,016 )	(7,016 )	(6,877 )	(6,877 )	(6,721 )	(6,721 )	(6,579 )	(6,579 )
Other adjustments <sup>(4)</sup>	(194 )	(194 )	(76 )	(76 )	(48 )	(48 )	(5 )	(5 )
Common equity tier 1 capital	13,703	13,703	12,204	12,204	19,012	19,012	16,531	16,531
Preferred stock	3,690	3,690	3,196	3,196	—	—	—	—
Trust preferred capital securities subject to phase-out from tier 1 capital	—	—	—	—	—	—	—	—
Other adjustments	—	—	(18 )	(18 )	—	—	—	—
Tier 1 capital	17,393	17,393	15,382	15,382	19,012	19,012	16,531	16,531
Qualifying subordinated long-term debt	761	761	980	980	759	759	983	983
Trust preferred capital securities phased out of tier 1 capital	—	—	—	—	—	—	—	—
ALLL and other	5	74	4	72	—	75	—	72
Other adjustments	—	—	1	1	—	—	—	—
Total capital	\$18,159	\$18,228	\$16,367	\$16,435	\$19,771	\$19,846	\$17,514	\$17,586

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RWAs:									
Credit risk <sup>(5)</sup>	\$50,272	\$104,515	\$52,000	\$101,349	\$47,732	\$101,444	\$49,489	\$98,433	
Operational risk <sup>(6)</sup>	45,840	NA	45,822	NA	45,315	NA	45,295	NA	
Market risk	1,255	1,255	1,334	1,334	1,255	1,255	1,334	1,334	
Total RWAs	\$97,367	\$105,770	\$99,156	\$102,683	\$94,302	\$102,699	\$96,118	\$99,767	
Adjusted quarterly average assets	\$214,103	\$214,103	\$209,328	\$209,328	\$211,477	\$211,477	\$206,070	\$206,070	

	2018	2017									
Capital Ratios:											
Minimum Requirements Including Capital Conservation Buffer and G-SIB Surcharge <sup>(8)</sup>											
Common equity tier 1 capital	7.5 %	6.5 %	14.1 %	13.0 %	12.3 %	11.9 %	20.2 %	18.5 %	17.2 %	16.6 %	%
Tier 1 capital	9.0	8.0	17.9	16.4	15.5	15.0	20.2	18.5	17.2	16.6	
Total capital	11.0	10.0	18.7	17.2	16.5	16.0	21.0	19.3	18.2	17.6	
Tier 1 leverage	4.0	4.0	8.1	8.1	7.3	7.3	9.0	9.0	8.0	8.0	

(1) CET1 capital, tier 1 capital and total capital ratios as of September 30, 2018 and December 31, 2017 were calculated in conformity with the advanced approaches provisions of the Basel III final rule. Tier 1 leverage ratio as of September 30, 2018 and December 31, 2017 were calculated in conformity with the Basel III final rule.

(2) CET1 capital, tier 1 capital and total capital ratios as of September 30, 2018 and December 31, 2017 were calculated in conformity with the standardized approach provisions of the Basel III final rule. Tier 1 leverage ratio as of September 30, 2018 and December 31, 2017 were calculated in conformity with the Basel III final rule.

(3) Amounts for State Street and State Street Bank as of September 30, 2018 consisted of goodwill, net of associated deferred tax liabilities, and 100% of other intangible assets, net of associated deferred tax liabilities. Amounts for State Street and State Street Bank as of December 31, 2017 consisted of goodwill, net of deferred tax liabilities and 80% of other intangible assets, net of associated deferred tax liabilities. Intangible assets, net of associated deferred tax liabilities is phased in as a deduction from capital, in conformity with the Basel III final rule.

(4) Other adjustments within CET1 primarily include the overfunded portion of the firm's defined benefit pension plan obligation net of associated deferred tax liabilities, disallowed deferred tax assets, and other required credit risk based deductions.

(5) Includes a CVA which reflects the risk of potential fair value adjustments for credit risk reflected in our valuation of over-the-counter derivative contracts. We used a simple CVA approach in conformity with the Basel III advanced approaches.

(6) Under the current advanced approaches rules and regulatory guidance concerning operational risk models, RWA attributable to operational risk can vary substantially from period-to-period, without direct correlation to the effects of a particular loss event on our results of operations and financial condition and impacting dates and periods that may differ from the dates and periods as of and during which the loss event is reflected in our financial statements, with the timing and categorization dependent on the processes for model updates and, if applicable, model revalidation and



regulatory review and related supervisory processes. An individual loss event can have a significant effect on the output of our operational RWA under the advanced approaches depending on the severity of the loss event and its categorization among the seven Basel-defined UOMs.

(7) Minimum requirements will be phased in up to full implementation beginning on January 1, 2019; minimum requirements listed are as of September 30, 2018.

(8) Minimum requirements will be phased in up to full implementation beginning on January 1, 2019; minimum requirements listed are as of December 31, 2017.

<sup>NA</sup> Not applicable

Table of Contents

## STATE STREET CORPORATION

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

## Note 14. Net Interest Income

The following table presents the components of interest income and interest expense, and related NII, for the periods indicated:

	Three		Nine Months	
	Months		Months	
	Ended		Ended	
	September		September 30,	
	30,		30,	
(In millions)	2018	2017	2018	2017
Interest income:				
Deposits with banks	\$94	\$45	\$267	\$121
Investment securities:				
U.S. Treasury and federal agencies	300	207	835	627
State and political subdivisions	29	56	125	171
Other investments	136	173	434	495
Securities purchased under resale agreements	87	74	246	189
Loans and leases	173	139	498	362
Other interest-earning assets	97	67	275	146
Total interest income	916	761	2,680	2,111
Interest expense:				
Deposits	84	39	236	96
Securities sold under repurchase agreements	4	1	11	2
Other short-term borrowings	4	3	12	7
Long-term debt	100	78	293	227
Other interest-bearing liabilities	52	37	154	91
Total interest expense	244	158	706	423
Net interest income	\$672	\$603	\$1,974	\$1,688

## Note 15. Expenses

The following table presents the components of other expenses for the periods indicated:

	Three		Nine	
	Months		Months	
	Ended		Ended	
	September		September	
	30,		30,	
(In millions)	2018	2017	2018	2017
Insurance	\$15	\$27	\$79	\$84
Regulatory fees and assessments	15	24	71	77
Sales advertising public relations	29	14	84	42
Bank operations	14	19	53	53
Litigation	—	3	7	(15 )
Other	99	57	285	186
Total other expenses	\$172	\$144	\$579	\$427

## Restructuring Charges

In both the three and nine months ended September 30, 2018, we recorded minimal changes related to Beacon, compared to \$33 million and \$112 million of restructuring charges in the same periods of 2017, respectively.

The following table presents aggregate restructuring activity for the periods indicated:

(In millions)	Employee Related Costs	Real Estate Actions	Asset and Other Write-offs	Total
Accrual Balance at December 31, 2016	\$ 37	\$ 17	\$ 2	\$56
Accruals for Beacon	14	—	2	16
Payments and Other Adjustments	(13 )	(3 )	(2 )	(18 )
Accrual Balance at March 31, 2017	38	14	2	54
Accruals for Beacon	60	—	2	62
Payments and Other Adjustments	(11 )	(3 )	(2 )	(16 )
Accrual Balance at June 30, 2017	87	11	2	100
Accruals for Beacon	23	9	1	33
Payments and Other Adjustments	(10 )	(5 )	(1 )	(16 )
Accrual Balance at September 30, 2017	\$ 100	\$ 15	\$ 2	\$117
Accrual Balance at December 31, 2017	\$ 166	\$ 32	\$ 3	\$201
Accruals for Beacon	—	—	—	—
Payments and Other Adjustments	(22 )	(4 )	—	(26 )
Accrual Balance at March 31, 2018	144	28	3	175
Accruals for Beacon	—	—	—	—
Payments and Other Adjustments	(31 )	(3 )	—	(34 )
Accrual Balance at June 30, 2018	113	25	3	141
Accruals for Beacon	(1 )	—	—	(1 )
Payments and Other Adjustments	(18 )	(4 )	(1 )	(23 )
Accrual Balance at September 30, 2018	\$ 94	\$ 21	\$ 2	\$117

State Street Corporation | 94

Table of Contents

## STATE STREET CORPORATION

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

## Note 16. Earnings Per Common Share

Basic EPS is calculated pursuant to the two-class method, by dividing net income available to common shareholders by the weighted-average common shares outstanding during the period. Diluted EPS is calculated pursuant to the two-class method, by dividing net income available to common shareholders by the total weighted-average number of common shares outstanding for the period plus the shares representing the dilutive effect of equity-based awards. The effect of equity-based awards is excluded from the calculation of diluted EPS in periods in which their effect would be anti-dilutive.

The two-class method requires the allocation of undistributed net income between common and participating shareholders. Net income available to common shareholders, presented separately in our consolidated statement of income, is the basis for the calculation of both basic and diluted EPS. Participating securities are composed of unvested and fully vested SERP shares and fully vested deferred director stock awards, which are equity-based awards that contain non-forfeitable rights to dividends, and are considered to participate with the common stock in undistributed earnings.

The following table presents the computation of basic and diluted earnings per common share for the periods indicated:

	Three Months Ended September 30,	
(Dollars in millions, except per share amounts)	2018	2017
Net income	\$765	\$685
Less:		
Preferred stock dividends	(55 )	(55 )
Dividends and undistributed earnings allocated to participating securities <sup>(1)</sup>	(1 )	(1 )
Net income available to common shareholders	\$709	\$629
Average common shares outstanding (In thousands):		
Basic average common shares	374,963	372,765
Effect of dilutive securities: equity-based awards	4,420	5,753
Diluted average common shares	379,383	378,518
Anti-dilutive securities <sup>(2)</sup>	1,360	—
Earnings per common share:		
Basic	\$1.89	\$1.69
Diluted <sup>(3)</sup>	1.87	1.66
	Nine Months Ended September 30,	
(Dollars in millions, except per share amounts)	2018	2017
Net income	\$2,160	\$1,807
Less:		
Preferred stock dividends	(146 )	(146 )
Dividends and undistributed earnings allocated to participating securities <sup>(1)</sup>	(2 )	(2 )
Net income available to common shareholders	\$2,012	\$1,659
Average common shares outstanding (In thousands):		
Basic average common shares	369,368	376,430
Effect of dilutive securities: equity-based awards	4,696	5,349

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Diluted average common shares	374,064	381,779
Anti-dilutive securities <sup>(2)</sup>	871	250
Earnings per common share:		
Basic	\$5.45	\$4.41
Diluted <sup>(3)</sup>	5.38	4.35

<sup>(1)</sup> Represents the portion of net income available to common equity allocated to participating securities, composed of unvested and fully vested SERP shares and fully vested deferred director stock awards, which are equity-based awards that contain non-forfeitable rights to dividends, and are considered to participate with the common stock in undistributed earnings.

<sup>(2)</sup> Represents equity-based awards outstanding but not included in the computation of diluted average common shares, because their effect was anti-dilutive. For additional information about equity-based awards, refer to pages 173 to 175 in Note 18 to the consolidated financial statements included under Item 8, Financial Statements and Supplementary Data, in our 2017 Form 10-K.

<sup>(3)</sup> Calculations reflect allocation of earnings to participating securities using the two-class method, as this computation is more dilutive than the treasury stock method.

State Street Corporation | 95

---

Table of Contents

## STATE STREET CORPORATION

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

## Note 17. Line of Business Information

Our operations are organized into two lines of business: Investment Servicing and Investment Management, which are defined based on products and services provided. The results of operations for these lines of business are not necessarily comparable with those of other companies, including companies in the financial services industry. For information about our two lines of business, as well as revenues, expenses and capital allocation methodologies associated with them, refer to pages 179 to 181 in Note 24 to the consolidated financial statements included under Item 8, Financial Statements and Supplementary Data, in our 2017 Form 10-K.

The following is a summary of our line-of-business results for the periods indicated. The "Other" columns represent costs incurred that are not allocated to a specific line of business, including certain severance and restructuring costs, acquisition costs and certain provisions for legal contingencies.

(Dollars in millions)	Three Months Ended September 30,								
	Investment Servicing		Investment Management		Other		Total		
	2018	2017	2018	2017	2018	2017	2018	2017	
Servicing fees	\$1,333	\$1,351	\$—	\$—	\$—	\$—	\$1,333	\$1,351	
Management fees	—	—	474	419	—	—	474	419	
Trading services	255	239	33	20	—	—	288	259	
Securities finance	128	147	—	—	—	—	128	147	
Processing fees and other	49	65	8	1	—	—	57	66	
Total fee revenue	1,765	1,802	515	440	—	—	2,280	2,242	
Net interest income	680	606	(8 )	(3 )	—	—	672	603	
Gains (losses) related to investment securities, net	(1 )	1	—	—	—	—	(1 )	1	
Total revenue	2,444	2,409	507	437	—	—	2,951	2,846	
Provision for loan losses	5	3	—	—	—	—	5	3	
Total expenses	1,693	1,673	386	314	—	34	2,079	2,021	
Income before income tax expense	\$746	\$733	\$121	\$123	\$—	\$(34 )	\$867	\$822	
Pre-tax margin	31	% 30	% 24	% 28	%		29	% 29	%

(Dollars in millions)	Nine Months Ended September 30,							
	Investment Servicing		Investment Management		Other		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
Servicing fees	\$4,135	\$3,986	\$—	\$—	\$—	\$—	\$4,135	\$3,986
Management fees	—	—	1,411	1,198	—	—	1,411	1,198
Trading services	810	768	97	55	—	—	907	823
Securities finance	423	459	—	—	—	—	423	459
Processing fees and other	131	203	9	6	—	—	140	209
Total fee revenue	5,499	5,416	1,517	1,259	—	—	7,016	6,675
Net interest income	1,991	1,691	(17 )	(3 )	—	—	1,974	1,688
Gains (losses) related to investment securities, net	6	(39 )	—	—	—	—	6	(39 )
Total revenue	7,496	7,068	1,500	1,256	—	—	8,996	8,324
Provision for loan losses	7	4	—	—	—	—	7	4
Total expenses	5,244	5,050	1,173	954	77	134	6,494	6,138
Income before income tax expense	\$2,245	\$2,014	\$327	\$302	\$(77)	\$(134)	\$2,495	\$2,182

Pre-tax margin	30	%	28	%	22	%	24	%	28	%	26	%
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State Street Corporation | 96

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Table of Contents

STATE STREET CORPORATION

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note 18. Revenue from Contracts with Customers

We account for revenue from contracts with customers in accordance with Topic 606, which we adopted on January 1, 2018. See Note 1 for further discussion of our adoption, including the impact on our consolidated financial statements.

The amount of revenue that we recognize is measured based on the consideration specified in contracts with our customers, and excludes taxes collected from customers subsequently remitted to governmental authorities. We recognize revenue when a performance obligation is satisfied over time as the services are performed or at a point in time depending on the nature of the services provided as further discussed below. Revenue recognition guidance related to contracts with customers excludes our NII, revenue earned on security lending transactions entered into as principal, realized gains/losses on securities, revenue earned on foreign exchange activity, loans and related fees, and gains/losses on hedging and derivatives, to which we apply other applicable U.S. GAAP guidance.

For contracts with multiple performance obligations, or contracts that have been combined, we allocate the contracts' transaction price to each performance obligation using our best estimate of the standalone selling price. Our contractual fees are negotiated on a customer by customer basis and are representative of standalone selling price utilized for allocating revenue when there are multiple performance obligations.

Substantially all of our services are provided as a distinct series of daily performance obligations that the customer simultaneously benefits from as they are performed. Payments may be made to third party service providers and the expense is recognized gross when we control those services as we are deemed the principal.

Contract durations may vary from short to long term or may be open ended. Termination notice periods are in line with general market practice and typically do not include termination penalties. Therefore for substantially all of our revenues, the duration of the contract and the enforceable rights and obligations do not extend beyond the services that are performed daily or at the transaction level. In instances where we have substantive termination penalties, the duration of the contract may extend through the date of substantive termination penalties.

Investment Servicing

Revenue from contracts with customers related to servicing fees is recognized over time as our customers benefit from the custody, administration, accounting, transfer agency and other related asset services as they are performed. At contract inception no revenue is estimated as the fees are dependent on assets under custody and/or administration and/or actual transactions which are susceptible to market factors outside of our control. Therefore, revenue is recognized using a time-based output method as the customers benefit from the services over time and as the assets under custody or transactions are known or determinable during each reporting period based on contractual fee schedules. Payments made to third party service providers, such as sub-custodians, are generally recognized gross as we control those services and is deemed to be a principal in such arrangements.

Trading services revenue includes revenue generated from providing access and use of electronic trading platforms and other trading, transition management and brokerage services. Electronic FX services are dependent on the volume of actual transactions initiated through our electronic exchange platforms. Revenue is recognized over time using a time-based measure as access to, and use of, the electronic exchange platforms is made available to the customer and the activity is determinable. Revenue related to other trading, transition management and brokerage services is recognized when the customer obtains the benefit of such services which may be over time or at a point in time upon trade execution.

Securities finance revenue is related to services for providing agency lending programs to SSGA-managed investment funds and third-party investment managers and asset owners. This securities finance revenue is recognized over time using a time-based measure as our customers benefit from these lending services over time.



Table of Contents

## STATE STREET CORPORATION

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

## Investment Management

Revenue from contracts with customers related to investment management, investment research and investment advisory services provided through SSGA is recognized over time as our customers benefit from the services as they are performed. Substantially all of our investment management fees are determined by the value of assets under management and the investment strategies employed. At contract inception, no revenue is estimated as the fees are dependent on assets under management which are susceptible to market factors outside of our control.

Therefore, substantially all of our Investment Management services revenue is recognized using a time-based output method as the customers benefit from the services over time and as the assets under management are known or determinable during each reporting period based on contractual fee schedules. Payments made to third party service providers, such as payments to others in unitary fee arrangements, are generally recognized on a gross basis when SSGA controls those services and is deemed to be a principal in such transactions.

## Revenue by category

In the following table, revenue is disaggregated by our two lines of business and by revenue stream for which the nature, amount, timing, and uncertainty of revenue and cash flows are affected by economic factors.

(Dollars in millions)	Three Months Ended September 30, 2018						
	Investment Servicing			Investment Management			Total 2018
	Topic 606 revenue	All other revenue	Total	Topic 606 revenue	All other revenue	Total	
Servicing fees	\$1,333	\$—	\$1,333	\$—	\$—	\$—	\$1,333
Management fees	—	—	—	474	—	474	474
Trading services	89	166	255	33	—	33	288
Securities finance	73	55	128	—	—	—	128
Processing fees and other	27	22	49	—	8	8	57
Total fee revenue	1,522	243	1,765	507	8	515	2,280
Net interest income	—	680	680	—	(8)	(8)	672
Gains (losses) related to investment securities, net	—	(1)	(1)	—	—	—	(1)
Total revenue	\$1,522	\$922	\$2,444	\$507	\$—	\$507	\$2,951

(Dollars in millions)	Nine Months Ended September 30, 2018						
	Investment Servicing			Investment Management			Total 2018
	Topic 606 revenue	All other revenue	Total	Topic 606 revenue	All other revenue	Total	
Servicing fees	\$4,135	\$—	\$4,135	\$—	\$—	\$—	\$4,135
Management fees	—	—	—	1,411	—	1,411	1,411
Trading services	275	535	810	97	—	97	907
Securities finance	240	183	423	—	—	—	423
Processing fees and other	69	62	131	—	9	9	140
Total fee revenue	4,719	780	5,499	1,508	9	1,517	7,016
Net interest income	—	1,991	1,991	—	(17)	(17)	1,974
Gains (losses) related to investment securities, net	—	6	6	—	—	—	6
Total revenue	\$4,719	\$2,777	\$7,496	\$1,508	\$ (8)	\$1,500	\$8,996

## Contract balances and contract costs

As of September 30, 2018 and December 31, 2017, net receivables of \$2.7 billion and 2.6 billion, respectively, are included in accrued interest and fees receivable, representing amounts billed or currently billable to or due from our

customers related to revenue from contracts with customers. As performance obligations are satisfied, we have an unconditional right to payment and billing is generally performed monthly; therefore, we do not have significant contract assets or liabilities.

No adjustments are made to the promised amount of consideration for the effects of a significant financing component as the period between when we transfer a promised service to a customer and when the customer pays for that service is expected to be one year or less.

State Street Corporation | 98

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Table of Contents

## STATE STREET CORPORATION

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

## Note 19. Non-U.S. Activities

We define our non-U.S. activities as those revenue-producing business activities that arise from clients which are generally serviced or managed outside the U.S. Due to the integrated nature of our business, precise segregation of our U.S. and non-U.S. activities is not possible.

Subjective estimates, assumptions and other judgments are applied to quantify the financial results and assets related to our non-U.S. activities, including our application of funds transfer pricing, our asset and liability management policies and our allocation of certain indirect corporate expenses. Management periodically reviews and updates its processes for quantifying the financial results and assets related to our non-U.S. activities.

The following table presents our U.S. and non-U.S. financial results for the periods indicated:

(In millions)	Three Months Ended September 30,					
	2018		2017			
	Non-U.S.	U.S.	Total	Non-U.S.	U.S.	Total
Total revenue	\$1,286	\$1,665	\$2,951	\$1,219	\$1,627	\$2,846
Income before income taxes	497	370	867	342	480	822

(In millions)	Nine Months Ended September 30,					
	2018		2017			
	Non-U.S.	U.S.	Total	Non-U.S.	U.S.	Total
Total revenue	\$3,929	\$5,067	\$8,996	\$3,494	\$4,830	\$8,324
Income before income taxes	1,343	1,152	2,495	919	1,263	2,182

Non-U.S. assets were \$83.1 billion and \$81.5 billion as of September 30, 2018 and 2017, respectively.

## Note 20. Subsequent Events

On October 1, 2018, we completed our previously announced acquisition of Charles River Development, a provider of investment management front office tools and solutions, for an all cash purchase price of approximately \$2.6 billion. We funded the acquisition with a July 2018 issuance of common stock of approximately \$1.15 billion, a September 2018 issuance of preferred stock of approximately \$500 million and the suspension of approximately \$950 million of share repurchases, which includes approximately \$350 million and approximately \$300 million in the second and third quarters of 2018, respectively, and a planned suspension of approximately \$300 million in the fourth quarter of 2018.

Table of Contents

Report of Ernst & Young LLP, Independent Registered Public Accounting Firm

The Shareholders and Board of Directors of  
State Street Corporation

Results of Review of Interim Financial Statements

We have reviewed the accompanying consolidated statement of condition of State Street Corporation (the "Corporation") as of September 30, 2018, and the related consolidated statements of income and comprehensive income for the three- and nine-month periods ended September 30, 2018 and 2017, and changes in shareholders' equity and cash flows for the nine-month periods ended September 30, 2018 and 2017, and the related condensed notes (collectively referred to as the "condensed consolidated interim financial statements"). Based on our reviews, we are not aware of any material modifications that should be made to the condensed consolidated interim financial statements for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated statement of condition of the Corporation as of December 31, 2017, the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and the related notes (not presented herein); and in our report dated February 26, 2018, we expressed an unqualified audit opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated statement of condition as of December 31, 2017, is fairly stated, in all material respects, in relation to the consolidated statement of condition from which it has been derived.

Basis for Review Results

These financial statements are the responsibility of the Corporation's management. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Corporation in accordance with the U.S. federal securities laws and the applicable rules and regulations of the SEC and the PCAOB. We conducted our review in accordance with the standards of the PCAOB. A review of interim financial statements consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the PCAOB, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

/s/ Ernst & Young LLP  
Boston, Massachusetts  
October 31, 2018

State Street Corporation | 100

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Table of Contents

## ACRONYMS

2017 Form 10-K	State Street Corporation Annual Report on Form 10-K for the year ended December 31, 2017	MRAC	Management Risk and Capital Committee
ABS	Asset-backed securities	NII	Net interest income
AFS	Available-for-sale	NIM	Net interest margin
AIFMD	Alternative Investment Fund Managers Directive	NSFR <sup>(1)</sup>	Net stable funding ratio
AIRB <sup>(1)</sup>	Advanced Internal Ratings-Based Approach	OCI	Other comprehensive income (loss)
ALLL	Allowance for loan and lease losses	OCIO	Outsourced Chief Investment Officer
AMA	Advanced Measurement Approach	OFAC	Office of Foreign Assets Control
AML	Anti-money laundering	OTC	Over-the-counter
AOCI	Accumulated other comprehensive income (loss)	OTTI	Other-than-temporary-impairment
ASU	Accounting Standards Update	Parent Company	State Street Corporation
AUCA	Assets under custody and/or administration	PCA	Prompt corrective action
AUM	Assets under management	PCAOB	Public Company Accounting Oversight Board
BCBS	Basel Committee on Banking Supervision	P&L	Profit-and-loss
Board	Board of Directors	RC	Risk Committee
bps	Basis points	ROE	Return on average common equity
CCAR	Comprehensive Capital Analysis and Review	RWA <sup>(1)</sup>	Risk-weighted asset
CD	Certificates of deposit	SCB	Stress Capital Buffer
CET1 <sup>(1)</sup>	Common equity tier 1	SEC	Securities and Exchange Commission
CLO	Collateralized loan obligations	SERP	Supplemental executive retirement plans
CMO	Collateralized mortgage obligations	SLB	Stress Leverage Buffer
CRE	Commercial real estate	SLR <sup>(1)</sup>	Supplementary leverage ratio
CVA	Credit valuation adjustment	SPDR	Spider; Standard and Poor's depository receipt
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act	SPOE Strategy	Single Point of Entry Strategy
DOJ	Department of Justice	SSGA	State Street Global Advisors
DOL	Department of Labor	SSIF	State Street Intermediate Funding, LLC
ECB	European Central Bank	State Street Bank	State Street Bank and Trust Company
EPS	Earnings per share	TMRC	Trading and Markets Risk Committee
ERISA	Employee Retirement Income Security Act	UCITS	Undertakings for Collective Investments in Transferable Securities
ERM	Enterprise Risk Management	UOM	Unit of measure
eSLR	Enhanced supplementary leverage ratio	VaR	Value-at-Risk
ETF	Exchange-Traded Fund	VIE	Variable interest entity
EVE	Economic value of equity		
FASB	Financial Accounting Standards Board		
FCA	Financial Conduct Authority		
FDIC	Federal Deposit Insurance Corporation		

Federal Reserve	Board of Governors of the Federal Reserve System
FHLB	Federal Home Loan Bank of Boston
Form 10-Q	State Street Corporation Quarterly Report on Form 10-Q
FRBB	Federal Reserve Bank of Boston
FSB	Financial Stability Board
FX	Foreign exchange
GAAP	Generally accepted accounting principles
GEAM	General Electric Asset Management
G-SIB	Global systemically important bank
HQLA <sup>(1)</sup>	High-quality liquid assets
HTM	Held-to-maturity
IDI	Insured depository institution
LCR <sup>(1)</sup>	Liquidity coverage ratio
LIBOR	London Interbank Offered Rate
LTD	Long term debt
MBS	Mortgage-backed securities
MiFID II	Markets in Financial Instruments Directive II
MiFIR	Markets in Financial Instruments Regulation

<sup>(1)</sup> As defined by the applicable U.S. regulations.

Table of Contents

GLOSSARY

<p>Asset-backed securities: A financial security backed by collateralized assets, other than real estate or mortgage backed securities.</p>	<p>High-quality liquid assets: Cash or assets that can be converted into cash at little or no loss of value in private markets and are considered unencumbered.</p>
<p>Assets under custody and/or administration: Assets that we hold directly or indirectly on behalf of clients under a safekeeping or custody arrangement or for which we provide administrative services for clients. To the extent that we provide more than one AUCA service for a client's assets, the value of the asset is only counted once in the total amount of AUCA.</p>	<p>Investment-grade: Loans and leases that consist of counterparties with strong credit quality and low expected credit risk and probability of default. Ratings apply to counterparties with a strong capacity to support the timely repayment of any financial commitment.</p>
<p>Assets under management: The total market value of client assets for which we provide investment management strategy services, advisory services and/or distribution services generating management fees based on a percentage of the assets' market values. These client assets are not included on our balance sheet.</p>	<p>Liquidity coverage ratio: A Basel III framework requirement for banks and bank holding companies to measure liquidity. It is designed to ensure that certain banking institutions, including us, maintain a minimum amount of unencumbered HQLA sufficient to withstand the net cash outflow under a hypothetical standardized acute liquidity stress scenario for a 30-day stress period. The ratio of our encumbered high-quality liquid assets divided by our total net cash outflows over a 30-day stress period.</p>
<p>Beacon: A multi-year program, announced in October 2015, to create cost efficiencies through changes in our operational processes and to further digitize our processes and interfaces with our clients.</p>	<p>Net asset value: The amount of net assets attributable to each share of capital stock (other than senior securities, such as, preferred stock) outstanding at the close of the period.</p>
<p>Certificates of deposit: A savings certificate with a fixed maturity date, specified fixed interest rate and can be issued in any denomination aside from the minimum investment requirements. A CD restricts access to the funds until the maturity date of the investment.</p>	<p>Net stable funding ratio: The ratio of the amount of available stable funding relative to the amount of required stable funding. This ratio should be equal to at least 100% on an ongoing basis.</p>
<p>Collateralized loan obligations: A security backed by a pool of debt, primarily senior secured leveraged loans. CLOs are similar to collateralized mortgage obligations, except for the different type of underlying loan. With a CLO, the investor receives scheduled debt payments from the underlying loans, assuming most of the risk in the event borrowers default, but is offered greater diversity and the potential for higher-than-average returns.</p>	<p>Other-than-temporary-impairment: Impairment charge taken on a security whose fair value has fallen below its carrying value on balance sheet and its value is not expected to recover through the holding period of the security.</p>
<p>Collateralized mortgage obligations: A security backed by a pool of debt, primarily senior secured leveraged loans. CMOs are similar to collateralized loan obligations, except for the different type of underlying loan. With a CMO, the investor receives scheduled debt payments from the underlying loans, assuming most of the risk in the event borrowers default, but is offered greater diversity and the potential for higher-than-average returns.</p>	<p>Probability of default: An internal risk rating that indicates the likelihood that a credit obligor will enter into default status.</p>
<p>Special mention: Loans and leases that consist of counterparties with potential weaknesses that, if uncorrected, may result in deterioration of repayment prospects.</p>	<p>Risk-weighted assets: A measurement used to quantify risk inherent in our on and off-balance sheet assets by adjusting the asset value for risk. RWA is used in the calculation of our risk-based capital ratios.</p>
<p>Speculative: Loans and leases that consist of counterparties that</p>	<p>Speculative: Loans and leases that consist of counterparties that</p>

Commercial real estate: Property intended to generate profit from capital gains or rental income. Our CRE loans are primarily composed of loans acquired in 2008 pursuant to indemnified repurchase agreements with an affiliate of Lehman Brothers.

face ongoing uncertainties or exposure to business, financial, or economic downturns. However, these counterparties may have financial flexibility or access to financial alternatives, which allow for financial commitments to be met.

Deposit beta: A measure of how much of an interest rate increase is expected to be passed on to client interest-bearing accounts, on average.

Supplementary leverage ratio: The ratio of our tier 1 capital to our total leverage exposure, which measures our capital adequacy relative to our on and off-balance sheet assets.

Economic value of equity: Long-term interest rate risk measure designed to estimate the fair value of assets, liabilities and off-balance sheet instruments based on a discounted cash flow model.

Total loss-absorbing capacity: The sum of our tier 1 regulatory capital plus eligible external long-term debt issued by us.

Value-at-Risk: Statistical model used to measure the potential loss in value of a portfolio that could occur in normal markets condition, over a defined holding period, within a certain confidence level.

Exchange-Traded Fund: A type of exchange-traded investment product that offer investors a way to pool their money in a fund that makes investments in stocks, bonds, or other assets and, in return, to receive an interest in that investment pool. ETF shares are traded on a national stock exchange and at market prices that may or may not be the same as the net asset value.

Variable interest entity: An entity that: (1) lacks enough equity investment at risk to permit the entity to finance its activities without additional financial support from other parties; (2) has equity owners that lack the right to make significant decisions affecting the entity's operations; and/or (3) has equity owners that do not have an obligation to absorb or the right to receive the entity's losses or return.

Global systemically important bank: A financial institution whose distress or disorderly failure, because of its size, complexity and systemic interconnectedness, would cause significant disruption to the wider financial system and economic activity, which will be subject to additional capital requirements.

Held-to-maturity investment securities: We classify investments in debt securities as held-to-maturity only if we have the positive intent and ability to hold those securities to maturity. Investments in debt securities classified as held-to-maturity are measured subsequently at amortized cost in the statement of financial position.



Table of Contents

PART II. OTHER INFORMATION

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

In June 2017, our Board approved a common stock purchase program authorizing the purchase of up to \$1.4 billion of our common stock through June 30, 2018 (the 2017 Program). In June 2018, our Board approved a common stock purchase program authorizing the purchase of up to \$1.2 billion of our common stock through June 30, 2019 (the 2018 Program).

Stock purchases may be made using various types of mechanisms, including open market purchases, accelerated share repurchases or transactions off market, and may be made under Rule 10b5-1 trading programs. The timing of stock purchases, types of transactions and number of shares purchased will

depend on several factors, including market conditions and State Street's capital positions, financial performance and investment opportunities. Our common stock purchase programs do not have specific price targets and may be suspended at any time. We may employ third-party broker/dealers to acquire shares on the open market in connection with our common stock purchase programs.

No shares were repurchased in both the second and the third quarters of 2018. In connection with our acquisition of Charles River Development, we do not plan to repurchase shares for the remainder of 2018. We intend to resume our common stock purchases in the first quarter of 2019 and may repurchase up to \$600 million through June 30, 2019.

Table of Contents

ITEM 6. EXHIBITS

Exhibit No.	Exhibit Description
<u>3.1</u>	<u>Restated Articles of Organization, as amended</u>
<u>4.1</u>	<u>Deposit agreement dated September 27, 2018, among State Street Corporation, American Stock Transfer &amp; Trust Company, LLC (as depository), and the holders from time to time of the depository receipts (filed as Exhibit 4.3 to State Street's Current Report on Form 8-K (File No. 001-07511), filed with the SEC on September 27, 2018 and incorporated herein by reference)</u>
<u>12</u>	<u>Statement of Ratios of Earnings to Fixed Charges</u>
<u>15</u>	<u>Letter regarding unaudited interim financial information</u>
<u>31.1</u>	<u>Rule 13a-14(a)/15d-14(a) Certification of Chairman and Chief Executive Officer</u>
<u>31.2</u>	<u>Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer</u>
<u>32</u>	<u>Section 1350 Certifications</u>
* 101.INS	XBRL Instance Document
* 101.SCH	XBRL Taxonomy Extension Schema Document
* 101.CAL	XBRL Taxonomy Calculation Linkbase Document
* 101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
* 101.LAB	XBRL Taxonomy Label Linkbase Document
* 101.PRE	XBRL Taxonomy Presentation Linkbase Document
* Submitted electronically herewith	

Attached as Exhibit 101 to this report are the following formatted in XBRL (Extensible Business Reporting Language): (i) consolidated statement of income for the three and nine months ended September 30, 2018 and 2017, (ii) consolidated statement of comprehensive income for the three and nine months ended September 30, 2018 and 2017, (iii) consolidated statement of condition as of September 30, 2018 and December 31, 2017, (iv) consolidated statement of changes in shareholders' equity for the nine months ended September 30, 2018 and 2017, (v) consolidated statement of cash flows for the nine months ended September 30, 2018 and 2017, and (vi) notes to consolidated financial statements.

Table of Contents

SIGNATURES

Pursuant to the requirement of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

STATE STREET CORPORATION  
(Registrant)

Date: October 31, 2018 By: /s/ ERIC W. ABOAF

Eric W. Aboaf,  
Executive Vice President and Chief Financial Officer (Principal Financial Officer)

Date: October 31, 2018 By: /s/ IAN W. APPLEYARD

Ian W. Appleyard,  
Executive Vice President, Global Controller and Chief Accounting Officer  
(Principal Accounting Officer)

State Street Corporation | 105