

STATE STREET CORP  
Form 10-Q  
May 03, 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  
OF 1934

For the quarterly period ended March 31, 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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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  (Do not check if a smaller reporting 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 April 30, 2018 was 365,408,056.



STATE STREET CORPORATION  
QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTERLY PERIOD ENDED  
March 31, 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>43</u>
Controls and Procedures	<u>43</u>
Consolidated Statement of Income (Unaudited) for the three months ended March 31, 2018 and 2017	<u>44</u>
Consolidated Statement of Comprehensive Income (Unaudited) for the three months ended March 31, 2018 and 2017	<u>45</u>
Consolidated Statement of Condition as of March 31, 2018 (Unaudited) and December 31, 2017	<u>46</u>
Consolidated Statement of Changes in Shareholders' Equity (Unaudited) for the three months ended March 31, 2018 and 2017	<u>47</u>
Consolidated Statement of Cash Flows (Unaudited) for the three months ended March 31, 2018 and 2017	<u>48</u>
Condensed Notes to Consolidated Financial Statements (Unaudited)	<u>49</u>
Review Report of Independent Registered Public Accounting Firm	<u>88</u>

PART II. OTHER INFORMATION

Unregistered Sales of Equity Securities and Use of Proceeds	<u>91</u>
Exhibits	<u>92</u>
Signatures	<u>93</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>8</u>
<u>Consolidated Results of Operations</u>	<u>10</u>
<u>Total Revenue</u>	<u>10</u>
<u>Fee Revenue</u>	<u>10</u>
Net Interest Income	<u>12</u>
<u>Expenses</u>	<u>14</u>
<u>Income Tax Expense</u>	<u>15</u>
<u>Line of Business Information</u>	<u>15</u>
<u>Financial Condition</u>	<u>20</u>
<u>Investment Securities</u>	<u>21</u>
<u>Loans and Leases</u>	<u>23</u>
<u>Cross-Border Outstandings</u>	<u>24</u>
<u>Risk Management</u>	<u>25</u>
<u>Credit Risk Management</u>	<u>25</u>
<u>Liquidity Risk Management</u>	<u>25</u>
<u>Operational Risk Management</u>	<u>29</u>
<u>Information Technology Risk Management</u>	<u>29</u>
<u>Market Risk Management</u>	<u>30</u>
<u>Model Risk Management</u>	<u>33</u>
<u>Capital</u>	<u>33</u>
<u>Off-Balance Sheet Arrangements</u>	<u>42</u>
<u>Recent Accounting Developments</u>	<u>42</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.



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 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 \$33.28 trillion of AUCA and \$2.73 trillion of AUM as of March 31, 2018.

As of March 31, 2018, we had consolidated total assets of \$250.29 billion, consolidated total deposits of \$191.52 billion, consolidated total shareholders' equity of \$22.40 billion and 37,192 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 Quarterly Report on Form 10-Q (Form 10-Q).

This Management's Discussion and Analysis is part of our Form 10-Q for the quarter ended March 31, 2018, 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 quarter 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 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 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

State Street Corporation | 5

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Table of Contents

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

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, or 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, 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

State Street Corporation | 6

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Table of Contents

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

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;
- 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 State Street 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 the 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 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 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.

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 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.

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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 | 7

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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

(Dollars in millions, except per share amounts)	Quarters Ended		% Change
	2018	2017	
Total fee revenue	\$2,363	\$2,198	8 %
Net interest income	658	510	29
Gains (losses) related to investment securities, net	(2 )	(40 )	(95 )
Total revenue	3,019	2,668	13
Provision for loan losses	—	(2 )	nm
Total expenses	2,256	2,086	8
Income before income tax expense	763	584	31
Income tax expense	102	82	24
Net income	\$661	\$502	32
Adjustments to net income:			
Dividends on preferred stock <sup>(1)</sup>	\$(55 )	\$(55 )	—
Earnings allocated to participating securities <sup>(2)</sup>	(1 )	(1 )	—
Net income available to common shareholders	\$605	\$446	36
Earnings per common share:			
Basic	\$1.65	\$1.17	41
Diluted	1.62	1.15	41
Average common shares outstanding (in thousands):			
Basic	367,439	381,224	(4 )
Diluted	372,619	386,417	(4 )
Cash dividends declared per common share	\$.42	\$.38	11
Return on average common equity	12.8 %	9.9 %	
Pre-tax margin	25.3	21.9	

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

(2) 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

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 March 31, 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 quarter ended March 31, 2018 to those for the quarter ended March 31, 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 \$1.62 in the first quarter of 2018 increased 41% compared to \$1.15 in the first quarter of 2017.

First quarter of 2018 ROE of 12.8% and pre-tax margin of 25.3% increased from 9.9% and 21.9%, respectively, in the first quarter of 2017.

- Operating leverage was 5.0%. 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 (0.6)%. 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 was primarily due to lower processing fees and other revenue.

#### Revenue

Total revenue<sup>(1)</sup> and fee revenue increased 13%, and 8%, respectively, in the first quarter of 2018 compared to the first quarter of 2017, primarily driven by higher servicing fees, management fees and NII.

Servicing fee revenue increased 10% in the first quarter of 2018 compared to the first quarter of 2017, primarily due to higher global equity markets, new business, client activity and the favorable impact of currency translation, partially offset by modest hedge fund outflows.

Management fee revenue increased 24% in the first quarter of 2018 compared to the first quarter of 2017, primarily due to higher global equity markets, the favorable impact of currency translation and the adoption of the new revenue recognition accounting standard.

Processing fees and other revenue decreased 78% in the first quarter of 2018 compared to the first quarter of 2017, largely reflecting the absence of a \$30 million gain from the sale of a business in the first quarter of 2017 and the impact of \$22 million higher FX swap costs not included in the net interest income deposit hedging program in the first quarter of 2018.

NII increased 29% in the first quarter of 2018 compared to the first quarter of 2017, driven by higher U.S. interest rates, disciplined liability pricing, higher client balances, and a continued shift away from wholesale certificate of deposits (wholesale CDs).

<sup>(1)</sup> The impact of adopting the new revenue recognition standard was an increase in both total revenue and total expense of \$65 million, or 3% of the change in both total revenue and total expenses compared to the first quarter of 2017.

Revenues increased approximately \$45 million in management fee revenue, \$15 million in trading services and

\$5 million  
across other  
revenue lines.  
Expenses  
increased  
approximately  
\$45 million in  
other  
expenses, \$15  
million in  
transaction  
processing and  
\$5 million  
across other  
expense lines.

State Street Corporation | 8

---



Table of Contents

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

Expenses

Total expenses<sup>(1)</sup> increased 8% in the first quarter of 2018 compared to the first quarter of 2017, primarily due to investments to support new business, compensation and employee benefit costs, transaction processing costs, the expense impact of the new revenue recognition accounting standard and the unfavorable impact of currency translation, partially offset by the absence of restructuring charges and the effects of Beacon savings, net of Beacon investments.

AUCA/AUM

AUCA increased 12% in the first quarter of 2018 compared to the first quarter of 2017, primarily due to strength in equity markets, new business and client activity. Asset servicing mandates newly announced in the first quarter of 2018 totaled approximately \$1.3 trillion. Servicing assets remaining to be installed in future periods totaled approximately \$1.6 trillion as of March 31, 2018.

AUM increased 7% in the first quarter of 2018 compared to the first quarter of 2017, primarily driven by strength in equity markets and ETF net inflows, partially offset by thinner-yielding institutional outflows.

Capital

We declared aggregate common stock dividends of \$0.42 per share, totaling approximately \$154 million in the first quarter of 2018, compared to \$0.38 per share, totaling \$144 million in the first quarter of 2017, representing an increase of approximately 11% on a per share basis.

In the first quarter of 2018, we acquired 3.3 million shares of common stock at an average per-share cost of \$105.31 and an aggregate cost of approximately \$350 million under the common stock purchase program approved by our Board in June 2017.

CET1 capital ratio decreased to 10.8% as of March 31, 2018 compared to 11.9% as of December 31, 2017 primarily due to an increase in overdraft exposure as of March 31, 2018. Subsequent to March 31, 2018 such overdrafts have been covered by our clients.

Tier 1 leverage ratio decreased to 6.9% as of March 31, 2018, compared to 7.3% as of December 31, 2017. The decrease was primarily due to an increase in client deposits.

(1) The impact of adopting the new revenue recognition standard was an increase in both total revenue and total expense of \$65 million, or 3% of the change in both total revenue and total expenses compared to the first quarter of 2017.

Revenues increased approximately \$45 million in management fee revenue, \$15 million in trading services and \$5 million across other revenue lines.

Expenses increased approximately \$45 million in other expenses, \$15 million in transaction processing and \$5 million across other expense lines.

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

## CONSOLIDATED RESULTS OF OPERATIONS

This section discusses our consolidated results of operations for the quarter ended March 31, 2018 compared to the quarter ended March 31, 2017, and should be read in conjunction with the consolidated financial statements and accompanying condensed notes to the consolidated financial statements included in this Form 10-Q.

## Total Revenue

TABLE 2: TOTAL REVENUE

(Dollars in millions)	Quarters Ended March 31,		% Change
	2018	2017	
Fee revenue:			
Servicing fees	\$1,421	\$1,296	10 %
Management fees	472	382	24
Trading services:			
Foreign exchange trading	181	164	10
Brokerage and other trading services	123	111	11
Total trading services	304	275	11
Securities finance	141	133	6
Processing fees and other	25	112	(78 )
Total fee revenue	2,363	2,198	8
Net interest income:			
Interest income	857	650	32
Interest expense	199	140	42
Net interest income	658	510	29
Gains (losses) related to investment securities, net	(2 )	(40 )	(95 )
Total revenue	\$3,019	\$2,668	13

## Fee Revenue

Table 2: Total Revenue, provides the breakout of fee revenue for the quarters ended March 31, 2018 and 2017. Servicing and management fees collectively made up approximately 80% of total fee revenue in the first quarter of 2018, compared to approximately 76% in the first quarter of 2017. 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. Additional factors, such as the relative mix of assets serviced, the level of transaction volumes, changes in service level, the nature of services provided, balance credits, client minimum balances, pricing concessions, the geographical location in which services are provided 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 using multiple services.

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.

In light of the above, we estimate, using relevant information as of March 31, 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 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 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.

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

Further discussion of fee revenue is provided under Line of Business Information in this Management's Discussion and Analysis in this Form 10-Q.

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 March 31,			Quarters Ended March 31,			Quarters Ended March 31,		
	2018	2017	% Change	2018	2017	% Change	2018	2017	% Change
S&P 500 <sup>®</sup>	2,733	2,326	17 %	2,726	2,335	17 %	2,641	2,363	12 %
MSCI EAFE <sup>®</sup>	2,072	1,749	18	2,070	1,759	18	2,006	1,793	12
MSCI <sup>®</sup> Emerging Markets	1,204	927	30	1,207	935	29	1,171	958	22
HFRI Asset Weighted Composite <sup>®</sup>	NA	NA	NA	1,406	1,323	6	1,392	1,331	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 March 31,		
	2018	2017	% Change
Barclays Capital U.S. Aggregate Bond Index <sup>®</sup>	2,016	1,993	1 %
Barclays Capital Global Aggregate Bond Index <sup>®</sup>	491	459	7

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

Table of ContentsMANAGEMENT'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 quarters ended March 31, 2018 and 2017. NII was \$658 million and \$510 million for the quarters ended March 31, 2018 and 2017, respectively. 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, repurchase 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.

TABLE 5: AVERAGE BALANCES AND INTEREST RATES - FULLY TAXABLE-EQUIVALENT BASIS<sup>(1)</sup>

(Dollars in millions; fully taxable-equivalent basis)	Quarters Ended March 31, 2018			2017		
	Average Balance	Interest Revenue/ Expense	Rate	Average Balance	Interest Revenue/ Expense	Rate
Interest-bearing deposits with banks	\$51,492	\$ 82	.64 %	\$48,893	\$ 34	.28 %
Securities purchased under resale agreements <sup>(2)</sup>	2,872	77	10.89	2,056	46	9.07
Trading account assets	1,138	—	—	914	—	—
Investment securities	95,362	484	2.03	97,219	471	1.94
Loans and leases	23,959	158	2.68	20,139	108	2.17
Other interest-earning assets	17,733	77	1.78	22,619	34	.62
Average total interest-earning assets	\$192,556	\$ 878	1.85	\$191,840	\$ 693	1.47
Interest-bearing deposits:						
U.S.	\$48,638	\$ 34	.28 %	\$25,928	\$ 32	.50 %
Non-U.S. <sup>(3)</sup>	78,582	14	.07	94,990	12	.05
Securities sold under repurchase agreements <sup>(4)</sup>	2,617	—	—	3,894	—	—
Other short-term borrowings	1,255	3	1.09	1,341	2	.63
Long-term debt	11,412	97	3.37	11,421	73	2.56
Other interest-bearing liabilities	5,260	51	3.87	5,240	21	1.63
Average total interest-bearing liabilities	\$147,764	\$ 199	.55	\$142,814	\$ 140	.40
Interest-rate spread			1.30 %			1.07 %
Net interest income—fully taxable-equivalent basis		\$ 679			\$ 553	
Net interest margin—fully taxable-equivalent basis			1.43 %			1.17 %
Tax-equivalent adjustment		(21 )			(43 )	
Net interest income—GAAP basis		\$ 658			\$ 510	

<sup>(1)</sup> 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.

<sup>(2)</sup> Reflects the impact of balance sheet netting under enforceable netting agreements of approximately \$32 billion and \$31 billion for the quarters ended March 31, 2018 and 2017, respectively. Excluding the impact of netting, the average interest rates would be approximately 0.89% and 0.56% for the quarters ended March 31, 2018 and 2017, respectively.

(3) Average rate includes the impact of FX swap costs of approximately \$19 million and \$32 million for the quarters ended March 31, 2018 and 2017, respectively. Average rates for total interest-bearing deposits excluding the impact of FX swap costs were 0.09% and 0.04% for the quarters ended March 31, 2018 and 2017, respectively.

(4) Interest for the quarters ended March 31, 2018 and 2017 was less than \$1 million, representing an average interest rate of 0.16% and 0.03%, respectively.

See Table 5: Average Balances and Interest Rates - Fully Taxable-Equivalent Basis, for the breakout of NII on a fully taxable-equivalent (FTE) basis for the quarters ended March 31, 2018 and 2017. NII on a FTE basis increased in the first quarter of 2018 compared to the first quarter of 2017, primarily due to higher U.S. interest rates, disciplined liability pricing and a continued shift away from wholesale CDs. Average interest-bearing and non-interest-bearing deposits were relatively stable in the first quarter of 2018 compared to the first quarter of 2017, primarily due to a \$4.22 billion reduction in wholesale CDs, offset by an increase in client deposits.

We recorded aggregate discount accretion in interest income of approximately \$5 million in both the first quarters of 2018 and 2017 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 \$116 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

State Street Corporation | 12

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Table of Contents

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

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 approximately \$716 million higher in the quarter ended March 31, 2018 compared to the quarter ended March 31, 2017. The increase was primarily driven by higher interest-bearing client deposits, offset by lower wholesale CDs and non-interest-bearing client deposits.

Interest-bearing deposits with banks averaged \$51.49 billion in the quarter ended March 31, 2018 compared to \$48.89 billion in the quarter ended March 31, 2017. 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 \$2.87 billion in the quarter ended March 31, 2018 compared to \$2.06 billion in the quarter ended March 31, 2017, which reflects the impact of balance sheet netting under enforceable netting agreements of approximately \$32 billion and \$31 billion for the quarters ended March 31, 2018 and 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 \$95.36 billion in the quarter ended March 31, 2018 compared to \$97.22 billion in the quarter ended March 31, 2017. The decrease in average investment securities was driven by a reduction in U.S.

Treasury and asset-backed securities, partially offset by an increase in foreign sovereign bonds. We sold approximately \$12 billion of non-HQLA securities during the quarter, primarily asset-backed securities, municipal bonds and covered bonds. These sales were part of our strategy to prioritize capital efficient client lending while managing OCI sensitivity. Sale proceeds will be reinvested into additional interest earning assets.

Loans and leases averaged \$23.96 billion in quarter ended March 31, 2018 compared to \$20.14

billion in the quarter ended March 31, 2017. The increase in average loans and leases was primarily driven by higher levels of overdrafts and senior secured bank loans. Loans and leases also includes U.S. and non-U.S. overdrafts, which provide liquidity to clients in support of investment activities. Average U.S. and non-U.S. overdrafts were \$734 million higher in the quarter ended March 31, 2018 compared to the quarter ended March 31, 2017.

Our average other interest-earning assets, largely associated with our enhanced custody business, comprised approximately 9% and 12% of our average total assets in the quarters ended March 31, 2018 and 2017, respectively.

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. Average other interest-earning assets decreased to \$17.73 billion in the quarter ended March 31, 2018 from \$22.62 billion in the quarter ended March 31, 2017, largely driven by a reduction in the level of cash collateral posted by our enhanced custody business.

Aggregate average U.S. and non-U.S. interest-bearing deposits increased to \$127.22 billion in the quarter ended March 31, 2018 from \$120.92 billion in the quarter ended March 31, 2017. The higher levels compared to the prior year period were a result of higher client deposit levels, offset by management actions to reduce wholesale CDs. 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 declined to \$1.26 billion in the quarter ended March 31, 2018 from \$1.34 billion in the quarter ended March 31, 2017, as bonds matured in the tax-exempt investment program.



Average other interest-bearing liabilities were \$5.26 billion in the quarter ended March 31, 2018 compared to \$5.24 billion in the quarter ended March 31, 2017. 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 liabilities; actions of various central banks; 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.

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

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 securities, such as U.S. Treasury and agency securities, municipal securities, federal agency MBS and U.S. and non-U.S. mortgage- and ABS. The pace at which we continue to 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 influence what effect our reinvestment program will have on future levels of our NII and NIM.

## Expenses

Table 6: Expenses, provides the breakout of expenses for the quarters ended March 31, 2018 and 2017.

TABLE 6: EXPENSES

(Dollars in millions)	Quarters Ended March 31,		% Change
	2018	2017	
Compensation and employee benefits	\$ 1,249	\$ 1,166	7 %
Information systems and communications	315	287	10
Transaction processing services	242	197	23
Occupancy	120	110	9
Acquisition costs	—	12	(100 )
Restructuring charges, net	—	17	(100 )
Other:			
Professional services	79	94	(16 )
Amortization of other intangible assets	50	52	(4 )
Regulatory fees and assessments	27	27	—
Other	174	124	40
Total other	330	297	11
Total expenses	\$ 2,256	\$ 2,086	8
Number of employees at quarter-end	37,192	34,817	7

Compensation and employee benefits expenses increased 7% in the first quarter of 2018 compared to the first quarter of 2017, primarily due to increased costs to support new business, annual merit and performance based incentives and the unfavorable impact of currency translation, partially offset by Beacon savings.

Compensation and employee benefits expenses in the first quarter of 2018 and the first quarter of 2017 included approximately \$148 million and \$154 million, respectively, of deferred incentive compensation expense for retirement-eligible employees and payroll taxes.

Headcount increased 7% in the first quarter of 2018 compared to the first quarter of 2017. The growth in headcount was all within low cost locations and was driven by new business and strategic initiatives, as well as regulatory initiatives and contractor conversions to full-time employees, partially offset by reductions from

Beacon. Headcount in high cost locations fell compared to the first quarter of 2017.

Information systems and communications expenses increased 10% in the first quarter of 2018 compared to the first quarter of 2017. The increases were primarily related to higher technology costs.

Other expenses increased 11% in the first quarter of 2018 compared to the first quarter of 2017, primarily due to the \$45 million impact of the adoption of the new revenue recognition accounting standard.

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. We anticipate that these evolving regulatory compliance requirements and expectations will continue to affect our expenses.

#### 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 run-rate 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 the first quarter of 2018, we recorded no restructuring charges, compared to \$17 million in the first quarter of 2017, related to Beacon. In aggregate, we have recorded restructuring charges of approximately \$385 million related to Beacon, including \$300 million in severance costs and \$85 million in information technology application rationalization and real estate action.

In the first quarter of 2018, we achieved approximately \$58 million of Beacon pre-tax run rate savings, net of Beacon investments, and expect total target pre-tax run rate net savings of \$550 million to be realized by mid-2019, of which \$385 million has been realized as of March 31, 2018.

State Street Corporation | 14

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Table of Contents

## MANAGEMENT'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	186	32	27	245
Payments and Other Adjustments	(57 )	(17 )	(26 )	(100 )
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

## Income Tax Expense

Income tax expense was \$102 million in the first quarter of 2018 compared to \$82 million in the first quarter of 2017. Our effective tax rate in the first quarter of 2018 was 13.5%, compared to 14.0% in the same period of 2017. The 2018 tax expense included net benefits from the enactment of the Tax Cuts and Jobs Act and an increase in excess deductions related to stock based compensation, partially offset by a decrease in tax advantaged investments. In the first quarter of 2018, we continued to perform our analysis and evaluate interpretations and other guidance regarding the Tax Cuts and Jobs Act, but did not record any adjustments to the amounts recorded on a provisional basis in the year ended December 31, 2017 or deem any such amounts as complete.

## 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® 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.

## Investment Servicing

TABLE 8: INVESTMENT SERVICING LINE OF BUSINESS RESULTS

(Dollars in millions, except where otherwise noted)	Quarters Ended	
	2018	2017
	March 31,	

			%
			Change
Servicing fees	\$1,421	\$1,296	10 %
Trading services	274	257	7
Securities finance	141	133	6
Processing fees and other	25	106	(76 )
Total fee revenue	1,861	1,792	4
Net interest income	663	509	30
Gains (losses) related to investment securities, net	(2 )	(40 )	(95 )
Total revenue	2,522	2,261	12
Provision for loan losses	—	(2 )	nm
Total expenses	1,858	1,728	8
Income before income tax expense	\$664	\$535	24
Pre-tax margin	26 %	24 %	

<sup>nm</sup> Not meaningful

#### Servicing Fees

Servicing fees increased 10% in the first quarter of 2018 compared to the first quarter of 2017, primarily due to higher global equity markets, new business, client activity and the favorable impact of currency translation, partially offset by modest hedge fund outflows.

Servicing fees generated outside the U.S. were approximately 46% and 43% of total servicing fees in the first quarters of 2018 and 2017, respectively.

State Street Corporation | 15

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Table of Contents

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

TABLE 9: ASSETS UNDER CUSTODY AND ADMINISTRATION BY PRODUCT

(In billions)	March 31, 2018	December 31, 2017	March 31, 2017
Mutual funds	\$7,503	\$ 7,603	\$7,033
Collective funds	9,908	9,707	8,024
Pension products	6,802	6,704	5,775
Insurance and other products	9,071	9,105	9,001
Total	\$33,284	\$ 33,119	\$29,833

TABLE 10: ASSETS UNDER CUSTODY AND ADMINISTRATION BY ASSET CLASS

(In billions)	March 31, 2018	December 31, 2017	March 31, 2017
Equities	\$19,198	\$ 19,214	\$16,651
Fixed-income	10,186	10,070	9,786
Short-term and other investments	3,900	3,835	3,396
Total	\$33,284	\$ 33,119	\$29,833

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

(In billions)	March 31, 2018	December 31, 2017	March 31, 2017
North America	\$24,336	\$ 24,418	\$22,361
Europe/Middle East/Africa	7,211	7,028	5,979
Asia/Pacific	1,737	1,673	1,493
Total	\$33,284	\$ 33,119	\$29,833

<sup>(1)</sup> Geographic mix is based on the location in which the assets are serviced.

Asset servicing mandates newly announced in the first quarter of 2018 totaled approximately \$1.3 trillion. Servicing assets remaining to be installed in future periods totaled approximately \$1.6 trillion as of March 31, 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.

We expect that for the remainder of the year newly announced asset servicing mandates will return to levels more commonly reflected historically. New asset servicing mandates and servicing assets remaining to be installed in future periods exclude new business which has been contracted, but for which the client has not yet provided permission to publicly disclose and is not yet installed. 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 to be installed in the period in which the client provides its permission. Newly announced servicing asset mandates for the first quarter of 2018 include a significant amount of assets contracted for in the fourth quarter of 2017 for which we received client consent to disclose in the first quarter of 2018. 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.

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 will move a portion of its assets, largely common trust funds, currently with us to another service provider. We expect to remain a significant service provider to this client. The transition will principally occur in 2018 and beyond and represents approximately \$1 trillion in assets with respect to which we will no longer derive revenue post-transition.

#### Trading Services

Trading services revenue increased 11% in the first quarter of 2018 compared to the first quarter of 2017, primarily due to stronger client FX volumes, the adoption of the new revenue recognition accounting standard and higher electronic trading activity. 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.

Table of Contents

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

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**

We also offer a range of brokerage and other trading products tailored specifically to meet the needs of the global pension community, including transition management and commission recapture. These products and services are generally offered by us as agent of the institutional investor. Revenue earned from these services is recorded in other trading, transition management and brokerage revenue within brokerage and other trading services revenue.

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 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 and administration 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, increased 6% in the first quarter of 2018 compared to the first quarter of 2017, primarily as a result of higher lending activity from our agency 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.

State Street Corporation | 17

---

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

## 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, derivative financial instruments to support our clients' needs and to manage our interest-rate and currency risk, and amortization of our tax-advantaged investments.

Processing fees and other revenue, presented in Table 8: Investment Servicing Line of Business Results, decreased 76% in the first quarter of 2018 compared to the first quarter of 2017. The decrease is primarily due to the absence of a \$30 million gain in the first quarter of 2017 from the sale of a business and the impact of \$22 million higher FX swap costs not included in our net interest income deposit hedging program in the first quarter of 2018.

## Expenses

Total expenses for Investment Servicing increased 8% in the first quarter of 2018 compared to the first quarter of 2017, primarily due to higher technology costs, costs to support new business, higher annual merit and performance based incentive compensation and the unfavorable impact of currency translation, partially offset by the effects of Beacon savings. Seasonal deferred incentive compensation expense for retirement eligible employees and payroll taxes was \$132 million and \$137 million for the quarters ended March 31, 2018 and 2017, respectively.

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.

## Investment Management

TABLE 12: INVESTMENT MANAGEMENT LINE OF  
BUSINESS RESULTS

(Dollars in millions)	Quarters Ended		
	March 31,		%
	2018	2017	Change
Management fees	\$472	\$382	24 %
Trading services <sup>(1)</sup>	30	18	67
Processing fees and other	—	6	nm
Total fee revenue	502	406	24
Net interest income	(5 )	1	nm
Total revenue	497	407	22
Total expenses	398	329	21
Income before income tax expense	\$99	\$78	27
Pre-tax margin	20 %	19 %	

<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. While certain management fees are directly determined by the values of AUM and the investment strategies employed, management fees reflect other factors as well, including our relationship pricing for clients who use multiple services and the benchmarks specified in the respective management agreements related to performance fees.

Management fees increased 24% in the first quarter of 2018 compared to the first quarter of 2017, primarily due to higher global equity markets, the adoption of the new revenue recognition accounting standard and the favorable impact of currency translation.

Management fees generated outside the U.S. were approximately 27% of total management fees in both the first quarters of 2018 and 2017.

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

(In billions)	March 31, 2018	December 31, 2017	March 31, 2017
Equity:			
Active	\$94	\$ 95	\$77
Passive	1,576	1,650	1,482
Total Equity	1,670	1,745	1,559
Fixed-Income:			
Active	79	77	69
Passive	354	337	312
Total Fixed-Income	433	414	381
Cash <sup>(1)</sup>	336	330	335
Multi-Asset-Class Solutions:			
Active	18	18	19
Passive	128	129	113
Total Multi-Asset-Class Solutions	146	147	132
Alternative Investments <sup>(2)</sup> :			
Active	23	23	26
Passive	121	123	128
Total Alternative Investments	144	146	154
Total	\$2,729	\$ 2,782	\$2,561

<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 of ContentsMANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONSTABLE 14: EXCHANGE - TRADED FUNDS BY  
ASSET CLASS<sup>(1)(2)</sup>

(In billions)	March 31, 2018	December 31, 2017	March 31, 2017
Alternative Investments <sup>(2)</sup>	\$ 48	\$ 48	\$ 46
Cash	3	2	2
Equity	513	531	457
Fixed-income	65	63	53
Total Exchange-Traded Funds	\$ 629	\$ 644	\$ 558

<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)	March 31, 2018	December 31, 2017	March 31, 2017
North America	\$1,885	\$ 1,931	\$1,772
Europe/Middle East/Africa	511	521	486
Asia/Pacific	333	330	303
Total	\$2,729	\$ 2,782	\$2,561

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

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 March 31, 2017	\$1,559	\$ 381	\$ 335	\$ 132	\$ 154	\$2,561
Long-term institutional inflows <sup>(3)</sup>	199	72	—	44	12	327
Long-term institutional outflows <sup>(3)</sup>	(259 )	(67 )	—	(41 )	(23 )	(390 )
Long-term institutional flows, net	(60 )	5	—	3	(11 )	(63 )
ETF flows, net	16	9	—	—	—	25
Cash fund flows, net	—	—	(11 )	—	—	(11 )
Total flows, net	(44 )	14	(11 )	3	(11 )	(49 )
Market appreciation	212	13	4	9	(1 )	237
Foreign exchange impact	18	6	2	3	4	33
Total market/foreign exchange impact	230	19	6	12	3	270
Balance as of December 31, 2017	\$1,745	\$ 414	\$ 330	\$ 147	\$ 146	\$2,782
Long-term institutional inflows <sup>(3)</sup>	62	47	—	19	6	134
Long-term institutional outflows <sup>(3)</sup>	(109 )	(29 )	—	(18 )	(5 )	(161 )
Long-term institutional flows, net	(47 )	18	—	1	1	(27 )
ETF flows, net	(8 )	2	1	—	—	(5 )
Cash fund flows, net	—	—	6	—	—	6
Total flows, net	(55 )	20	7	1	1	(26 )
Market appreciation	(28 )	(5 )	(2 )	(3 )	(2 )	(40 )

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Foreign exchange impact	8	4	1	1	(1	)	13	
Total market/foreign exchange impact	(20	)	(1	)	(1	)	(27	)
Balance as of March 31, 2018	\$1,670	\$ 433	\$ 336	\$ 146	\$ 144		\$2,729	

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

(2) 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.

(3) 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 March 31, 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 March 31, 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.

State Street Corporation | 19

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

## Expenses

Total expenses for Investment Management increased 21% in the first quarter of 2018 compared to the first quarter of 2017, primarily due to the \$60 million impact from the adoption of the new revenue recognition accounting standard, costs to support new business and the unfavorable impact of currency translation. Seasonal deferred incentive compensation expense for retirement eligible employees and payroll taxes was \$16 million and \$17 million for the quarters ended March 31, 2018 and 2017, respectively.

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.

## 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>

	Quarters Ended	
	March 31,	
	2018	2017
(In millions)	Average	Average
	Balance	Balance
Assets:		
Interest-bearing deposits with banks	\$51,492	\$48,893
Securities purchased under resale agreements	2,872	2,056
Trading account assets	1,138	914
Investment securities	95,362	97,219
Loans and leases	23,959	20,139
Other interest-earning assets	17,733	22,619
Average total interest-earning assets	192,556	191,840
Cash and due from banks	3,081	2,608
Other non-interest-earning assets	31,233	24,761
Average total assets	\$226,870	\$219,209
Liabilities and shareholders' equity:		
Interest-bearing deposits:		
U.S.	\$48,638	\$25,928
Non-U.S.	78,582	94,990
Total interest-bearing deposits	127,220	120,918

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Securities sold under repurchase agreements	2,617	3,894
Other short-term borrowings	1,255	1,341
Long-term debt	11,412	11,421
Other interest-bearing liabilities	5,260	5,240
Average total interest-bearing liabilities	147,764	142,814
Non-interest-bearing deposits	37,790	44,249
Other non-interest-bearing liabilities	18,942	10,626
Preferred shareholders' equity	3,197	3,197
Common shareholders' equity	19,177	18,323
Average total liabilities and shareholders' equity	\$226,870	\$219,209

(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 included in this Form 10-Q.

State Street Corporation | 20

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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)	March 31, 2018	December 31, 2017
Available-for-sale:		
U.S. Treasury and federal agencies:		
Direct obligations	\$89	\$ 223
Mortgage-backed securities	10,290	10,872
Total U.S. Treasury and federal agencies	10,379	11,095
Asset-backed securities:		
Student loans <sup>(1)</sup>	1,743	3,358
Credit cards	1,431	1,542
Sub-prime	—	—
Other	826	1,447
Total asset-backed securities	4,000	6,347
Non-U.S. debt securities:		
Mortgage-backed securities	2,952	6,695
Asset-backed securities	1,633	2,947
Government securities	10,875	10,721
Other	4,531	6,108
Total non-U.S. debt securities	19,991	26,471
State and political subdivisions	7,307	9,151
Collateralized mortgage obligations	347	1,054
Other U.S. debt securities	2,280	2,560
U.S. equity securities	—	46
U.S. money-market mutual funds	—	397
Total	\$44,304	\$ 57,121
Held-to-maturity <sup>(2)</sup> :		
U.S. Treasury and federal agencies:		
Direct obligations	\$16,903	\$ 17,028
Mortgage-backed securities	17,879	16,651
Total U.S. Treasury and federal agencies	34,782	33,679
Asset-backed securities:		
Student loans <sup>(1)</sup>	2,973	3,047
Credit cards	709	798
Other	1	1
Total asset-backed securities	3,683	3,846
Non-U.S. debt securities:		
Mortgage-backed securities	791	939
Asset-backed securities	259	263
Government securities	411	474
Other	49	48
Total non-U.S. debt securities	1,510	1,724
Collateralized mortgage obligations	1,183	1,209



Total \$41,158 \$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) 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 that we consider to be operational deposits 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 3.0 years as of March 31, 2018, compared to 2.7 years as of December 31, 2017. The increase is primarily driven by higher U.S. rates and the sale of lower duration non-HQLA securities.

We sold approximately \$12 billion of non-HQLA securities during the quarter, primarily asset-backed securities, municipal bonds and covered bonds. These sales were part of our strategy to prioritize capital efficient client lending while managing OCI sensitivity. Sale proceeds will be reinvested into additional interest earning assets.

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

TABLE 19: INVESTMENT  
PORTFOLIO BY  
EXTERNAL CREDIT  
RATING

	March 31, 2018	December 31, 2017		
AAA <sup>(1)</sup>	75 %	74 %		
AA	15	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 March 31, 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

	March 31, 2018	December 31, 2017		
US Treasuries	20 %	17 %		
US Agency MBS	31	26		
ABS	15	22		
Foreign Sovereign	14	12		
Other Credit	20	23		
	100 %	100 %		



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

## Non-U.S. Debt Securities

Approximately 25% of the aggregate carrying value of our investment securities portfolio was non-U.S. debt securities as of March 31, 2018, compared to approximately 29% as of December 31, 2017.

TABLE 21: NON-U.S. DEBT  
SECURITIES

(In millions)	March 31, December 31,	
	2018	2017
Available-for-sale:		
United Kingdom	\$ 3,707	\$ 5,721
Australia	2,745	4,717
Canada	2,509	3,066
France	2,157	2,500
Italy	1,436	1,645
Japan	1,400	1,319
Spain	1,234	1,413
Belgium	1,077	1,193
Ireland	724	787
Netherlands	669	1,175
Hong Kong	664	666
Sweden	396	538
Germany	336	529
Finland	282	299
Norway	243	514
Austria	233	234
South Korea	19	19
Other <sup>(1)</sup>	160	136
Total	\$ 19,991	\$ 26,471
Held-to-maturity:		
United Kingdom	\$ 402	\$ 410
Netherlands	255	372
Singapore	288	353
Australia	213	235
Spain	105	104
Germany	124	127
Other <sup>(2)</sup>	123	123
Total	\$ 1,510	\$ 1,724

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

<sup>(2)</sup> Included approximately \$74 million and \$75 million as of March 31, 2018 and December 31, 2017, respectively, related to Italy and Portugal, all of which were related to MBS and auto loans.

Approximately 74% and 80% of the aggregate carrying value of these non-U.S. debt securities was rated "AAA" or "AA" as of March 31, 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 March 31, 2018 and December 31, 2017, approximately 86% and 61%, respectively, of the aggregate carrying value of these non-U.S. debt securities was floating-rate, and accordingly, we consider these securities to have minimal interest-rate risk.

As of March 31, 2018, our non-U.S. debt securities had an average market-to-book ratio of 100.5%, and an aggregate pre-tax net unrealized gain of approximately \$105 million, composed of gross unrealized gains of \$158 million and gross unrealized losses of \$53 million. These unrealized amounts included;

a pre-tax net unrealized gain of \$20 million, composed of gross unrealized gains of \$68 million and gross unrealized losses of \$48 million, associated with non-U.S. debt securities available-for-sale and;

a pre-tax net unrealized gain of \$85 million, composed of gross unrealized gains of \$90 million and gross unrealized losses of \$5 million, associated with non-U.S. debt securities held-to-maturity.

As of March 31, 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 | 22

---

Table of Contents

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

## Municipal Obligations

We carried approximately \$7.31 billion of municipal securities classified as state and political subdivisions in our investment securities portfolio as of March 31, 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 \$9.22 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	
As of March 31, 2018					
State of Issuer:					
Texas	\$ 1,230	\$ 1,597	\$2,827	17	%
California	342	2,237	2,579	16	
New York	690	1,433	2,123	13	
Massachusetts	804	991	1,795	11	
Washington	505	365	870	5	
Total	\$ 3,571	\$ 6,623	\$10,194		

As of 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 \$16.53 billion and \$18.47 billion across our businesses as of March 31, 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 90% of the obligors rated "AAA" or "AA" as of March 31, 2018. As of that date, approximately 44% and 55% 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.

We recorded approximately \$1 million of OTTI in the first quarter of 2018 and less than \$1 million of OTTI in the first quarter of 2017. Management considers the aggregate decline in fair value of the remaining investment securities and the resulting gross unrealized losses of \$1.26 billion as of March 31, 2018 to be temporary and not the result of any material changes in the credit characteristics of the securities. 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)	March 31, 2018	December 31, 2017
Domestic:		
Commercial and financial	\$23,581	\$ 18,696
Commercial real estate	257	98
Lease financing	261	267
Total domestic	24,099	19,061
Non-U.S.:		
Commercial and financial	5,080	3,837
Lease financing	403	396
Total non-U.S.	5,483	4,233
Total loans and leases	\$29,582	\$ 23,294

The increase in loans in the commercial and financial segment as of March 31, 2018 compared to December 31, 2017 was primarily driven by higher levels of overdrafts and senior secured bank loans.

As of March 31, 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 March 31, 2018 and December 31, 2017 of \$338 million and \$279 million, respectively, to participate in such syndications.

Table of Contents

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

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 89% of the loans rated "BB" or "B" as of both March 31, 2018 and December 31, 2017. Our investment strategy involves generally limiting our 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.

Loans to municipalities included in the commercial and financial segment were \$1.9 billion and \$2.1 billion as of March 31, 2018 and December 31, 2017, respectively.

As of March 31, 2018 and December 31, 2017, unearned income deducted from our investment in leveraged lease financing was \$32 million and \$75 million, respectively, for U.S. leases and \$110 million and \$159 million, respectively, for non-U.S. leases.

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 in the quarters ended March 31, 2018 and 2017.

## TABLE 24: ALLOWANCE FOR LOAN AND LEASE LOSSES

	Quarters Ended	
(In millions)	March 31, 2018	2017
Allowance for loan and lease losses:		
Beginning balance	\$54	\$53
Provision for loan and lease losses <sup>(1)</sup>	—	(2)
Ending balance	\$54	\$51

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

As of March 31, 2018 and March 31, 2017, approximately \$46 million and \$43 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 \$8 million as of both March 31, 2018 and March 31, 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 26% of our consolidated total assets as of both March 31, 2018 and December 31, 2017.

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

(In millions)	Investment Securities and Other Assets	Derivatives and Securities on Loan	Total Cross-Border Outstandings
March 31, 2018			
Germany	\$ 22,295	\$ 351	\$ 22,646
United Kingdom	16,524	1,349	17,873
Japan	9,497	1,346	10,843
Canada	3,183	1,079	4,262
Australia	3,080	909	3,989
France	2,967	423	3,390
Switzerland	1,749	553	2,302
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.



Table of Contents

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

As of March 31, 2018, countries whose aggregate cross-border outstandings amounted to between 0.75% and 1% of our consolidated assets were Ireland, Italy and Luxembourg at approximately \$1.80 billion, \$1.67 billion and \$1.73 billion, respectively. 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.

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 liquidity transferred to SSIF continues to be available to the Parent Company. As of March 31, 2018, the Parent Company and State Street Bank had approximately \$904 million of senior notes and junior 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,

State Street Corporation | 25

---

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

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. 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), selected non-U.S. Government and supranational securities as well as certain other high-quality securities which generally are more liquid than other types of assets even in times of stress. In 2014, U.S. banking regulators issued a final rule to implement the BCBS' LCR in the United States. 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. The LCR was fully implemented beginning on January 1, 2017. We report LCR to the Federal Reserve daily. In addition, in December 2016, the Federal Reserve issued a final rule requiring large banking organizations, including us, to publicly disclose certain qualitative and quantitative information about their LCR. As of both March 31, 2018 and December 31, 2017, our LCR was in excess of 100%. The average HQLA for the Parent Company under the LCR final rule was \$80.29 billion and \$65.35 billion, post-prescribed haircuts, for the quarters ended March 31, 2018 and December 31, 2017, respectively.

TABLE 26: COMPONENTS OF AVERAGE  
HQLA BY TYPE OF ASSET

(In millions)	Quarters Ended	
	March 31, 2018	December 31, 2017
Excess central bank balances	\$42,279	\$ 33,584
U.S. Treasuries	10,720	10,278
Other investment securities	17,287	13,422
Foreign government	10,003	8,064
Total	\$80,289	\$ 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 \$42.28 billion at the Federal Reserve, the ECB and other non-U.S. central banks for the quarter ended March 31, 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 March 31, 2018 compared to the quarter ended December 31, 2017 presented in the table above was primarily a result of the sale of \$12 billion in non-HQLA securities during the quarter ended March 31, 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 March 31, 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. The aggregate fair value of those securities was \$27.02 billion as of March 31, 2018, compared to \$66.10 billion as of December 31, 2017. These securities are available sources of liquidity, although not as rapidly deployed as those included in our asset liquidity.

#### 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

Table of Contents

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

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 \$26.83 billion and \$26.49 billion as of March 31, 2018 and December 31, 2017, respectively. These amounts do not reflect the value of any collateral. As of March 31, 2018, approximately 73% 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 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.

State Street Corporation | 27

---

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

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 our 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. The FDIC has

extended the date for the next IDI plan submission to July 1, 2018. This IDI plan will satisfy the annual plan submission requirements under the IDI Rule for 2016, 2017 and 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 March 31, 2018 and December 31, 2017, approximately 60% of our average client deposit balances were denominated in U.S. dollars, approximately 20% in EUR, 10% in GBP and 10% in all other currencies.

For the past several years, we have typically experienced higher client deposit inflows toward the end of each fiscal quarter or the end of the fiscal year. As a result, we believe average client deposit balances are more reflective of ongoing funding than period-end balances.

TABLE 27: TOTAL DEPOSITS

Quarters Ended	Average Balance
March 31,	Quarters Ended
	March 31,

(In millions)	2018	2017	2018	2017
Client deposits	\$187,507	\$176,702	\$160,681	\$156,623
Wholesale CDs	4,010	6,763	4,329	8,544
Total deposits	\$191,517	\$183,465	\$165,010	\$165,167

#### 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 \$2.02 billion and \$2.84 billion as of March 31, 2018 and December 31, 2017, respectively.

State Street Corporation | 28

---



Table of Contents

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

State Street Bank currently maintains a line of credit with a financial institution of CAD 1.40 billion, or approximately \$1.09 billion as of March 31, 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. As of March 31, 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 92 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.

State Street Corporation | 29

---

Table of Contents

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

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."

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 March 31, 2018, the notional amount of these derivative contracts was \$2.24 trillion, of which \$2.23 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, Stress Testing 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 our trading activities in conformity with currently applicable bank regulatory market risk requirements.

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 and Stressed VaR

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).

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.

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

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

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 both the quarters ended March 31, 2018 and March 31, 2017.

The following tables present VaR and stressed VaR associated with our trading activities for covered positions held during both the quarters ended March 31, 2018 and March 31, 2017, and as of March 31, 2018 and March 31, 2017, as measured by our VaR methodology:

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

	Quarters Ended March 31,			As of March 31,				
	2018		2017	2018		2017	VaR	VaR
(In thousands)	Average	Maximum	Minimum	Average	Maximum	Minimum		
Global Markets	\$6,496	\$ 11,390	\$ 2,967	\$6,614	\$ 13,090	\$ 2,566	\$4,233	\$8,599
Global Treasury	764	1,940	100	645	832	421	1,187	421
Total VaR	\$6,620	\$ 11,348	\$ 3,580	\$6,595	\$ 12,971	\$ 2,544	\$4,111	\$8,475

TABLE 29: TEN-DAY STRESSED VaR ASSOCIATED WITH TRADING ACTIVITIES FOR COVERED POSITIONS

	Quarters Ended March 31,			As of March 31,				
	2018		2017	2018		2017	Stressed	Stressed
(In thousands)	Average	Maximum	Minimum	Average	Maximum	Minimum	VaR	VaR
Global Markets	\$34,136	\$ 56,764	\$ 20,411	\$31,676	\$ 43,001	\$ 13,704	\$45,984	\$32,115
Global Treasury	4,118	10,177	342	10,892	17,019	6,609	7,024	7,396
Total Stressed VaR	\$34,060	\$ 56,297	\$ 20,478	\$34,846	\$ 46,895	\$ 18,119	\$44,989	\$33,745

The three month average of our stressed VaR-based measure was approximately \$34 million for the quarter ended March 31, 2018, compared to an average of approximately \$35 million for the quarter ended March 31, 2017.

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. Both

the ten-day VaR-based measures and the stressed VaR-based measures are based on historical changes observed during rolling ten-day periods for the portfolios as of the close of business each day over the past one-year period. 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.

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

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 March 31, 2018 and March 31, 2017. The totals of the VaR-based and stressed VaR-based measures for the three attributes in total exceeded the related total VaR and total stressed VaR presented in the foregoing tables as of each period-end, primarily due to the benefits of diversification across risk types.

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

(In thousands)	As of March 31, 2018			As of March 31, 2017		
	Foreign Exchange Rate Risk	Interest Rate Risk	Volatility Risk	Foreign Exchange Rate Risk	Interest Rate Risk	Volatility Risk
By component:						
Global Markets	\$2,407	\$3,806	\$ 243	\$6,107	\$3,682	\$ 263
Global Treasury	62	1,148	—	53	436	—
Total VaR	\$2,415	\$3,379	\$ 243	\$6,134	\$3,579	\$ 263

TABLE 31: TEN-DAY STRESSED VaR ASSOCIATED WITH  
TRADING ACTIVITIES BY RISK FACTOR<sup>(1)</sup>

(In thousands)	As of March 31, 2018			As of March 31, 2017		
	Foreign Exchange Rate Risk	Interest Rate Risk	Volatility Risk	Foreign Exchange Rate Risk	Interest Rate Risk	Volatility Risk
By component:						
Global Markets	\$10,520	\$44,416	\$ 273	\$6,750	\$34,006	\$ 324
Global Treasury	126	7,173	—	78	7,489	—
Total Stressed VaR	\$10,421	\$43,371	\$ 273	\$6,770	\$35,574	\$ 324

<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.

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 75% 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 60-70% of the expected benefit is driven by U.S. rates.

TABLE 32: NII SENSITIVITY

(In millions)	March <del>December</del> 31,	
	2018	2017
Rate change:	Benefit (Exposure)	
+100 bps shock	\$524	\$ 435
-100 bps shock	(356 )	(294 )
+100 bps ramp	207	177
-100 bps ramp	(150 )	(122 )

State Street Corporation | 32

---

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

As of March 31, 2018, NII sensitivity remains positioned to benefit from rising interest rates. Compared to December 31, 2017, investment portfolio activity, including the sale of \$12 billion of non-HQLA assets in the first quarter of 2018, was the main driver of the increased benefit to the up 100 bps instantaneous shock and the increased exposure to the down 100 bps instantaneous shock. Gradual rate shocks are impacted by the same drivers as instantaneous shocks, but the changes are less pronounced due to the severity and timing of the rate shift.

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 33: EVE SENSITIVITY

(In millions)	March 31, 2018	December 31, 2017
Rate change:	Benefit (Exposure)	
+200 bps shock	\$(1,375)	\$ (1,507)
-200 bps shock	145	11

As of March 31, 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 investment portfolio activity partially offset by higher US interest rates. The change in the down 200 bps instantaneous shock was driven by higher US interest rates partially offset by investment portfolio activities.

**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 Planning 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 Planning 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 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

State Street Corporation | 33

---

Table of Contents

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

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 Basel III final rule. If we fail to exceed the 2% leverage buffer, it 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) TLAC requirements (i.e., combined eligible tier 1 regulatory capital and eligible LTD); (2) separate eligible LTD requirements; and (3) clean holding company requirements designed to make short-term unsecured debt (including deposits) and most other ineligible liabilities structurally senior to eligible LTD.

Among other things, the TLAC final rule requires us to comply with minimum requirements for external TLAC and external LTD, plus an external TLAC buffer. Specifically, we must hold (1) combined eligible tier 1 regulatory capital and eligible LTD in the amount equal to at least 21.5% of total risk-weighted assets (using an estimated G-SIB method 1 surcharge of 1%) and 9.5% of total leverage exposure, as defined by the SLR final rule, and (2) qualifying external LTD equal to the greater of 7.5% of risk-weighted assets (using an estimated G-SIB method 2 surcharge 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 \$1.5 billion at December 31, 2018 compared to debt outstanding at December 31, 2017. Our estimates regarding TLAC and LTD are subject to additional regulatory guidance and interpretation.

For additional information on our TLAC requirements, refer to page 9 under "Regulatory Capital Adequacy and Liquidity Standards" in "Total Loss-Absorbing Capacity (TLAC)" included under Item 1, Business, in our 2017 Form 10-K.

We must comply with the TLAC final rule starting on January 1, 2019.

State Street Corporation | 34

---

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 Basel III framework in the U.S. Provisions of the Basel III final rule that 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 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. RWA related to market risk continues to be calculated in conformity with the final market risk capital rule described below.

The final market risk capital rule requires us to use internal models to calculate daily measures of Value-at-Risk, referred to as 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 risk-weighted assets, 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 34: 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 based on relevant data from 2012-2014 and 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 (risk-weighted assets) were phased in, and as our risk-weighted assets 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 35: REGULATORY CAPITAL STRUCTURE AND RELATED REGULATORY CAPITAL RATIOS

(In millions)	State Street				State Street Bank			
	Basel III Advanced Approaches March 31, 2018 <sup>(1)</sup>	Basel III Standardized Approach March 31, 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 March 31, 2018 <sup>(1)</sup>	Basel III Standardized Approach March 31, 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	\$10,300	\$10,300	\$10,302	\$10,302	\$11,612	\$11,612	\$11,612	\$11,612
Retained earnings	19,311	19,311	18,856	18,856	12,442	12,442	12,312	12,312
Accumulated other comprehensive income (loss)	(1,040 )	(1,040 )	(972 )	(972 )	(898 )	(898 )	(809 )	(809 )
Treasury stock, at cost	(9,334 )	(9,334 )	(9,029 )	(9,029 )	—	—	—	—
Total	19,237	19,237	19,157	19,157	23,156	23,156	23,115	23,115
Regulatory capital adjustments:								
Goodwill and other intangible assets, net of associated deferred tax liabilities <sup>(3)</sup>	(7,169 )	(7,169 )	(6,877 )	(6,877 )	(6,859 )	(6,859 )	(6,579 )	(6,579 )
Other adjustments	(118 )	(118 )	(76 )	(76 )	(1 )	(1 )	(5 )	(5 )
CET1 capital	11,950	11,950	12,204	12,204	16,296	16,296	16,531	16,531
Preferred stock	3,196	3,196	3,196	3,196	—	—	—	—
Trust preferred capital securities subject to phase-out from tier 1 capital	—	—	—	—	—	—	—	—
Other adjustments	—	—	(18 )	(18 )	—	—	—	—
Tier 1 capital	15,146	15,146	15,382	15,382	16,296	16,296	16,531	16,531
Qualifying subordinated long-term debt	961	961	980	980	962	962	983	983
Trust preferred capital securities phased out of tier 1 capital	—	—	—	—	—	—	—	—
ALLL and other	—	72	4	72	—	72	—	72
Other adjustments	—	—	1	1	—	—	—	—
Total capital	\$16,107	\$16,179	\$16,367	\$16,435	\$17,258	\$17,330	\$17,514	\$17,586
Risk-weighted assets:								
Credit risk	\$48,843	\$108,946	\$49,976	\$101,349	\$46,164	\$106,132	\$47,448	\$98,433
Operational risk <sup>(4)</sup>	46,039	NA	45,822	NA	45,488	NA	45,295	NA
Market risk <sup>(5)</sup>	3,630	1,531	3,358	1,334	3,632	1,531	3,375	1,334
Total risk-weighted assets	\$98,512	\$110,477	\$99,156	\$102,683	\$95,284	\$107,663	\$96,118	\$99,767

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Adjusted quarterly average assets	\$219,582	\$219,582	\$209,328	\$209,328	\$216,922	\$216,922	\$206,070	\$206,070		
Capital Ratios <sup>(1)</sup> :	2018	2017								
Minimum Requirements Including Capital Conservation Buffer and G-SIB Surcharge <sup>(6)</sup>	Minimum Requirements Including Capital Conservation Buffer and G-SIB Surcharge <sup>(7)</sup>									
CET1 capital	7.5 %	6.5 %	12.1 %	10.8 %	12.3 %	11.9 %	17.1 %	15.1 %	17.2 %	16.6 %
Tier 1 capital	9.0	8.0	15.4	13.7	15.5	15.0	17.1	15.1	17.2	16.6
Total capital	11.0	10.0	16.4	14.6	16.5	16.0	18.1	16.1	18.2	17.6
Tier 1 leverage	4.0	4.0	6.9	6.9	7.3	7.3	7.5	7.5	8.0	8.0

(1) CET1 capital, tier 1 capital and total capital ratios as of March 31, 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 March 31, 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 March 31, 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 March 31, 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 March 31, 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) 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 risk RWA under the advanced approaches depending on the severity of the loss event and its categorization among the seven Basel-defined UOMs.

(5) Market risk risk-weighted assets reported in conformity with the Basel III advanced approaches included a CVA which reflected the risk of potential fair value adjustments for credit risk reflected in our valuation of over-the-counter derivative contracts. The CVA was not provided for in the final market risk capital rule; however, it was required by the advanced approaches provisions of the Basel III final rule. We used a simple CVA approach in conformity with the Basel III advanced approaches.

(6) Minimum requirements will be phased in up to full implementation beginning on January 1, 2019; minimum requirements listed are as of March 31, 2018. See Table 34: Basel III Final Rules Transition Arrangements and Minimum Risk-Based Capital Ratios.

(7) 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 34: Basel III Final Rules Transition Arrangements and

Minimum Risk-Based Capital Ratios.

<sup>NA</sup> Not applicable

State Street Corporation | 37

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

Our CET1 capital decreased \$254 million as of March 31, 2018 compared to December 31, 2017 primarily due to capital distributions of \$559 million from common stock purchases and dividends, a \$297 million impact from the 2018 phase-in of the deduction of intangibles (100% in 2018 compared to 80% in 2017), and accumulated other comprehensive income of \$68 million. The decreases in CET1 capital were partially offset by net income of \$661 million in the quarter ended March 31, 2018.

In the same comparative period, our tier 1 capital decreased \$236 million and total capital decreased \$260 million under advanced approaches and decreased \$256 million under standardized approach due to the changes in the CET1 capital.

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

TABLE 36: CAPITAL ROLL-FORWARD

(In millions)	State Street			
	Basel III Advanced Approaches March 31, 2018	Basel III Standardized Approach March 31, 2018	Basel III Advanced Approaches December 31, 2017	Basel III Standardized Approach December 31, 2017
CET1 capital:				
CET1 capital balance, beginning of period	\$12,204	\$ 12,204	\$ 11,624	\$ 11,624
Net income	661	661	2,177	2,177
Changes in treasury stock, at cost	(305 )	(305 )	(1,347 )	(1,347 )
Dividends declared	(209 )	(209 )	(778 )	(778 )
Goodwill and other intangible assets, net of associated deferred tax liabilities	(292 )	(292 )	(529 )	(529 )
Effect of certain items in accumulated other comprehensive income (loss)	(68 )	(68 )	964	964
Other adjustments	(41 )	(41 )	93	93
Changes in CET1 capital	(254 )	(254 )	580	580
CET1 capital balance, end of period	11,950	11,950	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	(254 )	(254 )	580	580
Net issuance of preferred stock	—	—	—	—
Trust preferred capital securities phased out of tier 1 capital	—	—	—	—
Other adjustments	18	18	85	85
Changes in tier 1 capital	(236 )	(236 )	665	665
Tier 1 capital balance, end of period	15,146	15,146	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	(19 )	(19 )	(192 )	(192 )
Trust preferred capital securities phased into tier 2 capital	—	—	—	—
Changes in ALLL and other	(4 )	—	(15 )	(5 )
Change in other adjustments	(1 )	(1 )	—	—
Changes in tier 2 capital	(24 )	(20 )	(207 )	(197 )
Tier 2 capital balance, end of period	961	1,033	985	1,053
Total capital:				

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Total capital balance, beginning of period	16,367	16,435	15,909	15,967
Changes in tier 1 capital	(236 )	(236 )	665	665
Changes in tier 2 capital	(24 )	(20 )	(207 )	(197 )
Total capital balance, end of period	\$16,107	\$ 16,179	\$ 16,367	\$ 16,435

State Street Corporation | 38

---

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 risk-weighted assets for the quarter ended March 31, 2018 and for the year ended December 31, 2017.

TABLE 37: ADVANCED APPROACHES RWA ROLL-FORWARD

(In millions)	State Street	
	March 31, 2018	December 31, 2017
Total risk-weighted assets, beginning of period	\$99,156	\$99,301
Changes in credit risk-weighted assets:		
Net increase (decrease) in investment securities-wholesale	321	2,914
Net increase (decrease) in loans and leases	811	30
Net increase (decrease) in securitization exposures	(2,328 )	(683 )
Net increase (decrease) in repo-style transaction exposures	(367 )	440
Net increase (decrease) in OTC derivatives exposures	(364 )	(1,082 )
Net increase (decrease) in all other <sup>(1)</sup>	794	(2,543 )
Net increase (decrease) in credit risk-weighted assets	(1,133 )	(924 )
Net increase (decrease) in credit valuation adjustment	74	(47 )
Net increase (decrease) in market risk-weighted assets	198	(417 )
Net increase (decrease) in operational risk-weighted assets	217	1,243
Total risk-weighted assets, end of period	\$98,512	\$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 March 31, 2018, total advanced approaches risk-weighted assets decreased \$644 million compared to December 31, 2017, primarily due to lower credit risk, partially offset by increases in operational risk and market risk. The decrease in credit risk was primarily due to the sale of non-HQLA assets within the investment portfolio in the first quarter of 2018, and a counterparty mix shift from banks to corporates in the FX derivative portfolio. Operational risk increased approximately \$217 million due to changes in the average five-year internal loss frequency. Market risk increased \$198 million due to higher interest rate risk at the end of each business day over the first quarter, leading to higher average VaR measures.

The following table presents a roll-forward of the Basel III standardized approach risk-weighted assets for the quarter ended March 31, 2018 and year ended December 31, 2017.

TABLE 38: STANDARDIZED APPROACH RWA ROLL-FORWARD

(In millions)	State Street	
	March 31, 2018	December 31, 2017
Total estimated risk-weighted assets, beginning of period <sup>(1)</sup>	\$102,683	\$99,876
Changes in credit risk-weighted assets:		
Net increase (decrease) in investment securities-wholesale	(874 )	1,729
Net increase (decrease) in loans and leases	6,653	2,589
Net increase (decrease) in securitization exposures	(2,328 )	(690 )
Net increase (decrease) in repo-style transaction exposures	1,046	2,058
Net increase (decrease) in OTC derivatives exposures	1,971	(1,709 )
Net increase (decrease) in all other <sup>(2)</sup>	1,129	(753 )
Net increase (decrease) in credit risk-weighted assets	7,597	3,224
Net increase (decrease) in market risk-weighted assets	197	(417 )

Total risk-weighted assets, end of period	\$110,477	\$102,683
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(1) Standardized approach risk-weighted assets 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.

(2) 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 March 31, 2018, total standardized approach risk-weighted assets increased \$7.79 billion compared to December 31, 2017, primarily the result of an increase in credit risk. The main drivers of the credit risk change were an increase in loans due to a temporary increase in overdrafts of \$6.0 billion, an increase in the FX portfolio due to a mix shift from banks to corporates which have a higher prescribed risk weight under the standardized approach and an increase in equities within the securities finance portfolio, which require a higher haircut under the Basel rule. These increases were partially offset by the sale of non-HQLA assets within the investment portfolio in the first quarter of 2018.

The regulatory capital ratios as of March 31, 2018, presented in Table 35: 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 (actual and estimated pro forma) reflect calculations and determinations with respect to our capital and related matters as of March 31, 2018, based on State Street and external data, quantitative formulae, statistical models, historical correlations and assumptions, collectively referred to as “advanced systems,” in effect and used by us for

State Street Corporation | 39

---

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

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 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 risk-weighted assets 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. Models implemented under the Basel III final rule, particularly those implementing the advanced approaches, remain subject to regulatory review and approval. The full effects of the Basel III final rule on State Street and State Street Bank are therefore subject to further evaluation and also to further regulatory guidance, action or rule-making.

## Supplementary Leverage Ratio

In 2014, U.S. banking regulators issued final rules implementing an SLR, for certain bank holding companies, like State Street, and their insured depository institution subsidiaries, like State Street Bank, which we refer to as the SLR final rule. Upon implementation, 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 39: SUPPLEMENTARY LEVERAGE RATIO

(In millions)	March 31, 2018
State Street:	
Tier 1 capital	\$15,146
On-and off-balance sheet leverage exposure	259,650
Less: regulatory deductions	(7,288 )
Total assets for SLR	\$252,362
Supplementary leverage ratio	6.0 %
State Street Bank:	
Tier 1 capital	\$16,296

On-and off-balance sheet leverage exposure	256,593
Less: regulatory deductions	(6,860 )
Total assets for SLR	\$249,733
Supplementary leverage ratio	6.5 %

State Street Corporation | 40

---

Table of Contents

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

## Capital Actions

## Preferred Stock

The following table summarizes selected terms of each of the series of the preferred stock issued and outstanding as of March 31, 2018:

TABLE 40: PREFERRED STOCK ISSUED AND OUTSTANDING

	Issuance Date	Depository Shares Issued	Ownership Interest Per Depository Share	Liquidation Preference Per Share	Liquidation Preference Per Depository 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

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

<sup>(2)</sup> The preferred stock and corresponding depository 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 depository share plus any declared and unpaid dividends, without accumulation of any undeclared dividends.

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

TABLE 41: PREFERRED STOCK DIVIDENDS

	Quarters Ended March 31, 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

(1) Dividends were paid in March 2018.

Common Stock

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). The table below presents the activity under the 2017 Program during the period indicated:

TABLE 42: SHARES

REPURCHASED

	Quarter Ended March 31, 2018	
	Shares Acquired (In millions)	Average Cost per Share (\$)
	Total Acquired (In millions)	
2017 Program	3.3	\$ 105.31
	\$ 350	

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

TABLE 43: COMMON STOCK DIVIDENDS

	Quarters Ended March 31,		Quarters Ended March 31,	
	Dividends Declared per Share	Total (In millions)	Dividends Declared per Share	Total (In millions)
	2018		2017	
Common Stock	\$0.42	\$ 154	\$0.38	\$ 144



Table of Contents

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

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 State Street's capital positions, its financial performance and investment opportunities. The common stock purchase program does not have specific price targets and may be suspended at any time.

**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 \$399.06 billion as of March 31, 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 \$416.86 billion and \$400.83 billion as collateral for indemnified securities on loan as of March 31, 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 \$416.86 billion and \$400.83 billion, referenced above, \$59.78 billion and \$61.27 billion was invested in indemnified repurchase agreements as of March 31, 2018 and December 31, 2017, respectively. We or our agents held \$63.85 billion and \$65.27 billion as collateral for indemnified investments in repurchase agreements as of March 31, 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 March 31, 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 March 31, 2018.

We have established and maintain internal controls 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 enhances 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 March 31, 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 March 31,	
	2018	2017
Fee revenue:		
Servicing fees	\$1,421	\$1,296
Management fees	472	382
Trading services	304	275
Securities finance	141	133
Processing fees and other	25	112
Total fee revenue	2,363	2,198
Net interest income:		
Interest income	857	650
Interest expense	199	140
Net interest income	658	510
Gains (losses) related to investment securities, net:		
Gains (losses) from sales of available-for-sale securities, net	(1 )	(40 )
Losses from other-than-temporary impairment	(1 )	—
Gains (losses) related to investment securities, net	(2 )	(40 )
Total revenue	3,019	2,668
Provision for loan losses	—	(2 )
Expenses:		
Compensation and employee benefits	1,249	1,166
Information systems and communications	315	287
Transaction processing services	242	197
Occupancy	120	110
Acquisition and restructuring costs	—	29
Professional services	79	94
Amortization of other intangible assets	50	52
Other	201	151
Total expenses	2,256	2,086
Income before income tax expense (benefit)	763	584
Income tax expense (benefit)	102	82
Net income	\$661	\$502
Net income available to common shareholders	\$605	\$446
Earnings per common share:		
Basic	\$1.65	\$1.17
Diluted	1.62	1.15
Average common shares outstanding (in thousands):		
Basic	367,439	381,224
Diluted	372,619	386,417
Cash dividends declared per common share	\$.42	\$.38

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

State Street Corporation | 44

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STATE STREET CORPORATION  
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
(UNAUDITED)

	Three Months Ended March 31,	
(In millions)	2018	2017
Net income	\$661	\$502
Other comprehensive income (loss), net of related taxes:		
Foreign currency translation, net of related taxes of \$52 and \$123, respectively	151	91
Net unrealized gains (losses) on available-for-sale securities, net of reclassification adjustment and net of related taxes of \$(116) and \$131, respectively	(135 )	201
Net unrealized gains (losses) on available-for-sale securities designated in fair value hedges, net of related taxes of \$21 and \$5, respectively	4	6
Other-than-temporary impairment on held-to-maturity securities related to factors other than credit, net of related taxes of \$2 and \$1, respectively	—	1
Net unrealized gains (losses) on cash flow hedges, net of related taxes of \$(19) and (\$51), respectively	(97 )	(70 )
Net unrealized gains (losses) on retirement plans, net of related taxes of \$3 and \$3, respectively	12	6
Other comprehensive income (loss)	(65 )	235
Total comprehensive income	\$596	\$737

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

State Street Corporation | 45

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STATE STREET CORPORATION  
CONSOLIDATED STATEMENT OF CONDITION  
(UNAUDITED)

(Dollars in millions, except per share amounts)	March 31, 2018	December 31, 2017
Assets:	(Unaudited)	
Cash and due from banks	\$ 2,546	\$ 2,107
Interest-bearing deposits with banks	79,418	67,227
Securities purchased under resale agreements	5,136	3,241
Trading account assets	1,178	1,093
Investment securities available-for-sale	44,304	57,121
Investment securities held-to-maturity (fair value of \$40,483 and \$40,255)	41,158	40,458
Loans and leases (less allowance for losses of \$54 and \$54)	29,528	23,240
Premises and equipment (net of accumulated depreciation of \$4,005 and \$3,881)	2,194	2,186
Accrued interest and fees receivable	3,183	3,099
Goodwill	6,068	6,022
Other intangible assets	1,578	1,613
Other assets	33,995	31,018
Total assets	\$ 250,286	\$ 238,425
Liabilities:		
Deposits:		
Non-interest-bearing	\$ 57,025	\$ 47,175
Interest-bearing—U.S.	55,094	50,139
Interest-bearing—non-U.S.	79,398	87,582
Total deposits	191,517	184,896
Securities sold under repurchase agreements	2,020	2,842
Other short-term borrowings	1,066	1,144
Accrued expenses and other liabilities	22,340	15,606
Long-term debt	10,944	11,620
Total liabilities	227,887	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
Common stock, \$1 par, 750,000,000 shares authorized: 503,879,642 and 503,879,642 shares issued	504	504
Surplus	9,796	9,799
Retained earnings	19,311	18,856
Accumulated other comprehensive income (loss)	(1,074)	(1,009)
Treasury stock, at cost (138,472,445 and 136,229,784 shares)	(9,334)	(9,029)
Total shareholders' equity	22,399	22,317
Total liabilities and shareholders' equity	\$ 250,286	\$ 238,425

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

State Street Corporation | 46

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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)	PREFERRED STOCK	COMMON STOCK		Surplus	Retained Earnings	Accumulated TREASURY Other Comprehensive Income (Loss)		Shares	Amount	Total
		Shares	Amount			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					502				502	
Other comprehensive income (loss)						235			235	
Cash dividends declared:										
Common stock - \$0.38 per share					(144 )				(144 )	
Preferred stock					(55 )				(55 )	
Common stock acquired							6,671	(523 )	(523 )	
Common stock awards vested				14			(1,091 )	46	60	
Other							(1 )		—	
Balance as of March 31, 2017	\$ 3,196	503,880	\$ 504	\$ 9,796	\$ 17,762	\$ (1,805 )	127,520	\$ (8,159)	\$ 21,294	
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					661				661	
Other comprehensive income						(65 )			(65 )	
Cash dividends declared:										
Common stock - \$0.42 per share					(154 )				(154 )	
Preferred stock					(55 )				(55 )	
Common stock acquired							3,324	(350 )	(350 )	
Common stock awards vested				(3 )			(1,075 )	45	42	
Other				—	3		(7 )	—	3	
Balance as of March 31, 2018	\$ 3,196	503,880	\$ 504	\$ 9,796	\$ 19,311	\$ (1,074 )	138,472	\$ (9,334)	\$ 22,399	

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

State Street Corporation | 47

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STATE STREET CORPORATION  
CONSOLIDATED STATEMENT OF CASH FLOWS  
(UNAUDITED)

(In millions)	Three Months Ended March 31,	
	2018	2017
Operating Activities:		
Net income	\$661	\$502
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Deferred income tax (benefit)	(35 )	(3 )
Amortization of other intangible assets	50	52
Other non-cash adjustments for depreciation, amortization and accretion, net	248	212
Losses related to investment securities, net	2	40
Change in trading account assets, net	(85 )	79
Change in accrued interest and fees receivable, net	(84 )	(46 )
Change in collateral deposits, net	6,011	(68 )
Change in unrealized losses on foreign exchange derivatives, net	(2,205 )	2,334
Change in other assets, net	(993 )	(1,606 )
Change in accrued expenses and other liabilities, net	1,091	1,908
Other, net	175	105
Net cash provided by operating activities	4,836	3,509
Investing Activities:		
Net (increase) decrease in interest-bearing deposits with banks	(12,191)	4,146
Net (increase) in securities purchased under resale agreements	(1,895 )	(225 )
Proceeds from sales of available-for-sale securities	11,720	2,165
Proceeds from maturities of available-for-sale securities	4,438	6,836
Purchases of available-for-sale securities	(3,922 )	(6,287 )
Proceeds from maturities of held-to-maturity securities	1,155	670
Purchases of held-to-maturity securities	(1,860 )	(1,311 )
Net (increase) in loans and leases	(6,280 )	(2,769 )
Purchases of equity investments and other long-term assets	(8 )	(18 )
Purchases of premises and equipment, net	(147 )	(164 )
Proceeds from sale of joint venture investment	—	172
Other, net	17	(5 )
Net cash (used in) provided by investing activities	(8,973 )	3,210
Financing Activities:		
Net (decrease) in time deposits	(1,789 )	(5,793 )
Net increase in all other deposits	8,410	2,095
Net (decrease) in other short-term borrowings	(900 )	(805 )
Payments for long-term debt and obligations under capital leases	(515 )	(11 )
Purchases of common stock	(350 )	(354 )
Repurchases of common stock for employee tax withholding	(70 )	(55 )
Payments for cash dividends	(210 )	(201 )
Net cash provided by (used in) financing activities	4,576	(5,124 )
Net increase	439	1,595
Cash and due from banks at beginning of period	2,107	1,314
Cash and due from banks at end of period	\$2,546	\$2,909

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

State Street Corporation | 48

---

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>50</u>
<u>Note 2. Fair Value</u>	<u>53</u>
<u>Note 3. Investment Securities</u>	<u>58</u>
<u>Note 4. Loans and Leases</u>	<u>63</u>
<u>Note 5. Goodwill and Other Intangible Assets</u>	<u>65</u>
<u>Note 6. Other Assets</u>	<u>66</u>
<u>Note 7. Derivative Financial Instruments</u>	<u>66</u>
<u>Note 8. Offsetting Arrangements</u>	<u>71</u>
<u>Note 9. Commitments and Guarantees</u>	<u>74</u>
<u>Note 10. Contingencies</u>	<u>75</u>
<u>Note 11. Variable Interest Entities</u>	<u>77</u>
<u>Note 12. Shareholders' Equity</u>	<u>78</u>
<u>Note 13. Regulatory Capital</u>	<u>80</u>
Note 14. Net Interest Income	<u>82</u>
Note 15. Expenses	<u>82</u>
Note 16. Earnings Per Common Share	<u>83</u>
Note 17. Line of Business Information	<u>84</u>
<u>Note 18. Revenues from Contracts with Customers</u>	<u>85</u>
<u>Note 19. Non-U.S. Activities</u>	<u>87</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 | 49

---

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.

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)	<p>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.</p> <p>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 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.</p>	January 1, 2019	<p>We are currently assessing the impact of the standard on our consolidated financial statements, but we anticipate an increase in assets and liabilities due to the recognition of the required right-of-use asset and corresponding liability for all lease obligations that are currently classified as operating leases, primarily real estate leases for office space, as well as additional disclosure on all our lease obligations. We are currently assessing the impact of the standard on our consolidated financial statements, and a significant implementation project is in place to ensure that expected credit losses are calculated in accordance with the standard. 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. We have commenced the development of new or modified credit loss models and based on our analysis to date, we expect the timing of the allowance for credit losses to accelerate under the new standard. We are continuing to assess the extent of the impact on the allowance for credit losses.</p>
ASU 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments	<p>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</p>	January 1, 2020, early adoption permitted	<p>We are evaluating the impacts of early adoption, and will apply this standard prospectively upon adoption.</p>
ASU 2017-04, Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment	<p>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</p>	January 1, 2020, early adoption permitted	<p>We are evaluating the impacts of early adoption, and will apply this standard prospectively upon adoption.</p>



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.

ASU 2017-08,

Receivables -

Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium amortization on

Purchased Callable Debt Securities

The standard shortens the amortization period for certain purchased callable debt securities to the earliest call date.

January 1, 2019, early adoption permitted We are currently evaluating the impact of the new standard and the early adoption provisions.

ASU 2017-12,

Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities

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 the application of hedge accounting in certain situations.

January 1, 2019, early adoption permitted We are currently evaluating the impact of the new standard and the early adoption provisions.

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 resulting from the enactment of the Tax Cuts and Jobs Act of 2017, from accumulated other comprehensive income to retained earnings.

January 1, 2019, early adoption permitted We are currently evaluating the impact of the new standard and the early adoption provisions.

Table of Contents

STATE STREET CORPORATION

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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 period ended March 31, 2018, both revenues and expenses increased by approximately \$65 million, primarily due to the updated principal and agent guidance. The revenue impact was approximately \$45 million in management fees, \$15 million in trading services, and \$5 million across other revenue line items, and the expense impact was approximately \$15 million in transaction processing, \$45 million in other expenses, and \$5 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 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 March 31, 2018, were immaterial to the financial statements.

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 quarter ended March 31, 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 | 53

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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 March 31, 2018				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	399	141	—		540
Other	43	556	—		599
Total trading account assets	481	697	—		1,178
AFS investment securities:					
U.S. Treasury and federal agencies:					
Direct obligations	11	78	—		89
Mortgage-backed securities	—	10,290	—		10,290
Total U.S. Treasury and federal agencies	11	10,368	—		10,379
Asset-backed securities:					
Student loans	—	1,743	—		1,743
Credit cards	—	1,431	—		1,431
CLOs	—	—	826		826
Total asset-backed securities	—	3,174	826		4,000
Non-U.S. debt securities:					
Mortgage-backed securities	—	2,952	—		2,952
Asset-backed securities	—	1,361	272		1,633
Government securities	—	10,875	—		10,875
Other <sup>(2)</sup>	—	4,353	178		4,531
Total non-U.S. debt securities	—	19,541	450		19,991
State and political subdivisions	—	7,270	37		7,307
Collateralized mortgage obligations	—	347	—		347
Other U.S. debt securities	—	2,280	—		2,280
Total AFS investment securities	11	42,980	1,313		44,304
Other assets:					
Derivative instruments:					
Foreign exchange contracts	—	11,046	3	\$ (7,102 )	3,947
Interest-rate contracts	4	—	—	—	4
Other derivative contracts	1	—	—	—	1
Total derivative instruments	5	11,046	3	(7,102 )	3,952
Other	—	148	—	—	148
Total assets carried at fair value	\$ 497	\$ 54,871	\$ 1,316	\$ (7,102 )	\$ 49,582
Liabilities:					
Accrued expenses and other liabilities:					
Trading account liabilities:					
Other	\$ 41	\$ —	\$ —	\$ —	\$ 41

Derivative instruments:					
Foreign exchange contracts	—	11,171	2	(7,640 )	3,533
Interest-rate contracts	—	96	—	—	96
Other derivative contracts	—	288	—	—	288
Total derivative instruments	—	11,555	2	(7,640 )	3,917
Other	—	—	—	—	—
Total liabilities carried at fair value	\$41	\$ 11,555	\$ 2	\$(7,640 )	\$ 3,958

<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 \$777 million and \$1,315 million, respectively, for cash collateral received from and provided to derivative counterparties.

<sup>(2)</sup> As of March 31, 2018, the fair value of other non-U.S. debt securities was primarily composed of \$2,193 million of covered bonds and \$1,738 million of corporate bonds.

State Street Corporation | 54

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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 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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U.S. government securities	\$ 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 quarters ended March 31, 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 quarter ended March 31, 2018, transfers into level 3 were mainly related to certain ABS, including non-U.S. debt securities. During the quarters ended March 31, 2018 and 2017, transfers out of level 3 were mainly related to certain 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 March 31, 2018

(In millions)	Total Realized and Unrealized Gains (Losses)							Fair Value as of March 31, 2018 <sup>(1)</sup>	Change in Unrealized Gains (Losses) Related to Financial Instruments Held as of March 31, 2018	
	Fair Value as of December 31, 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:										
Asset-backed securities:										
CLOs	\$ 1,358	\$ 1	\$ (1)	\$ 318	\$(636)	\$ (5)	\$ —	\$(209)	\$ 826	
Total asset-backed securities	1,358	1	(1)	318	(636)	(5)	—	(209)	826	
Non-U.S. debt securities:										
Mortgage-backed securities	119	—	—	—	—	—	—	(119)	—	
Asset-backed securities	402	—	—	110	(310)	2	68	—	272	
Government securities	—	—	—	—	—	—	—	—	—	
Other	204	—	—	—	—	(26)	—	—	178	
Total non-U.S. debt securities	725	—	—	110	(310)	(24)	68	(119)	450	
State and political subdivisions	43	—	—	—	—	(1)	—	(5)	37	
Total AFS investment securities	2,126	1	(1)	428	(946)	(30)	68	(333)	1,313	
Other assets:										
Derivative instruments:										
Foreign exchange contracts	1	(2)	—	4	—	—	—	—	3	\$ (2)
Total derivative instruments	1	(2)	—	4	—	—	—	—	3	(2)



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Total assets carried at fair value \$2,127 \$ (1 ) \$ (1 ) \$ 432 \$(946) \$ (30 ) \$ 68 \$(333 ) \$ 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.

Fair Value Measurements Using Significant Unobservable Inputs  
Three Months Ended March 31, 2017

(In millions)	Total Realized and Unrealized Gains (Losses)						Fair Value as of March 31, 2017 <sup>(2)</sup>	Change in Unrealized Gains (Losses) Related to Financial Instruments Held as of March 31, 2017
	Fair Value as of December 31, 2016	Recorded in Revenue <sup>(1)</sup>	Recorded in Other Comprehensive Income <sup>(1)</sup>	Purchases	Sales	Settlements		
Assets:								
AFS Investment securities:								
Asset-backed securities:								
Student loans	\$97	\$ —	\$ 2	\$ —	\$ —	\$ —	\$ 99	
CLOs	905	1	—	155	—	(290 )	771	
Total asset-backed securities	1,002	1	2	155	—	(290 )	870	
Non-U.S. debt securities:								
Asset-backed securities	32	—	—	31	—	(4 )	59	
Other	248	—	—	5	—	3	256	
Total non-U.S. debt securities	280	—	—	36	—	(1 )	315	
State and political subdivisions	39	—	—	—	—	—	39	
Collateralized mortgage obligations	16	—	—	23	—	—	39	
Total AFS investment securities	1,337	1	2	214	—	(291 )	1,263	
Other assets:								
Derivative instruments:								
Foreign exchange contracts	8	(7 )	—	5	—	(4 )	2	\$ (3 )
Total derivative instruments	8	(7 )	—	5	—	(4 )	2	(3 )
Total assets carried at fair value	\$ 1,345	\$ (6 )	\$ 2	\$ 219	\$ —	\$ (295 )	\$ 1,265	\$ (3 )

(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.

(2) There were no transfers of assets into or out of level 3 during the three months ended March 31, 2017.

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 or 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 March 31, 2018	As of December 31, 2017	As of March 31, 2018			As of December 31, 2017	As of March 31, 2018	As of December 31, 2017
Significant unobservable inputs readily available to State Street:							
Assets:							
Derivative instruments, foreign exchange contracts	\$3	\$ 1	Option model	Volatility	<del>%</del>	7.2	%
Total	\$3	\$ 1					
Liabilities:							
Derivative instruments, foreign exchange contracts	\$2	\$ 1	Option model	Volatility	<del>%</del>	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 Methods with Significant Observable Inputs (Level 2)	Pricing Methods with Significant Unobservable Inputs (Level 3)	Pricing Methods with Significant Unobservable Inputs (Level 3)
March 31, 2018						
Financial Assets:						
Cash and due from banks	\$2,546	\$2,546	\$2,546	\$ —	\$	—
Interest-bearing deposits with banks	79,418	79,418	—	79,418	—	—
Securities purchased under resale agreements	5,136	5,136	—	5,136	—	—
Investment securities held-to-maturity	41,158	40,483	16,577	23,783	123	—
Net loans (excluding leases) <sup>(1)</sup>	28,864	28,859	—	28,813	46	—

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Other	5,750	5,750	—	5,750	—
Financial Liabilities:					
Deposits:					
Non-interest-bearing	\$ 57,025	\$ 57,025	\$—	\$ 57,025	\$ —
Interest-bearing - U.S.	55,094	55,094	—	55,094	—
Interest-bearing - non-U.S.	79,398	79,398	—	79,398	—
Securities sold under repurchase agreements	2,020	2,020	—	2,020	—
Other short-term borrowings	1,066	1,066	—	1,066	—
Long-term debt	10,944	11,170	—	10,909	261
Other	5,750	5,750	—	5,750	—

(1) Includes \$10 million of loans classified as held-for-sale that were measured at fair value on a non-recurring basis as of March 31, 2018.

Table of ContentsSTATE 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 with Significant Observable Market Inputs (Level 2)	Pricing Methods with Significant Unobservable Market Inputs (Level 3)	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.

## 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.



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)	March 31, 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	\$88	\$1	\$ —	\$89	\$222	\$2	\$ 1	\$223
Mortgage-backed securities	10,521	13	244	10,290	10,975	26	129	10,872
Total U.S. Treasury and federal agencies	10,609	14	244	10,379	11,197	28	130	11,095
Asset-backed securities:								
Student loans <sup>(1)</sup>	1,719	26	2	1,743	3,325	37	4	3,358
Credit cards	1,461	1	31	1,431	1,565	2	25	1,542
CLOs	821	5	—	826	1,440	7	—	1,447
Total asset-backed securities	4,001	32	33	4,000	6,330	46	29	6,347
Non-U.S. debt securities:								
Mortgage-backed securities	2,940	13	1	2,952	6,664	36	5	6,695
Asset-backed securities	1,630	3	—	1,633	2,942	5	—	2,947
Government securities	10,876	31	32	10,875	10,754	16	49	10,721
Other <sup>(2)</sup>	4,525	21	15	4,531	6,076	38	6	6,108
Total non-U.S. debt securities	19,971	68	48	19,991	26,436	95	60	26,471
State and political subdivisions <sup>(3)</sup>	7,197	154	44	7,307	8,929	245	23	9,151
Collateralized mortgage obligations	352	—	5	347	1,060	3	9	1,054
Other U.S. debt securities	2,309	6	35	2,280	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	\$44,439	\$274	\$ 409	\$44,304	\$56,952	\$437	\$ 268	\$57,121
Held-to-maturity:								
U.S. Treasury and federal agencies:								
Direct obligations	\$16,903	\$—	\$ 259	\$16,644	\$17,028	\$—	\$ 143	\$16,885
Mortgage-backed securities	17,879	1	571	17,309	16,651	22	225	16,448
Total U.S. Treasury and federal agencies	34,782	1	830	33,953	33,679	22	368	33,333
Asset-backed securities:								
Student loans <sup>(1)</sup>	2,973	38	9	3,002	3,047	32	9	3,070
Credit cards	709	1	—	710	798	2	—	800
Other	1	—	—	1	1	—	—	1
Total asset-backed securities	3,683	39	9	3,713	3,846	34	9	3,871
Non-U.S. debt securities:								
Mortgage-backed securities	791	87	5	873	939	82	6	1,015
Asset-backed securities	259	1	—	260	263	1	—	264
Government securities	411	2	—	413	474	2	—	476
Other	49	—	—	49	48	—	—	48
Total non-U.S. debt securities	1,510	90	5	1,595	1,724	85	6	1,803
Collateralized mortgage obligations	1,183	46	7	1,222	1,209	45	6	1,248
Total	\$41,158	\$176	\$ 851	\$40,483	\$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 March 31, 2018 and December 31, 2017, the fair value of other non-U.S. debt securities was primarily composed of \$2,193 million and \$3,537 million, respectively, of covered bonds and \$1,738 million and \$1,885 million, respectively, of corporate bonds.
- (3) As of March 31, 2018 and December 31, 2017, the fair value of State and Political subdivisions includes securities in trusts of \$1,213 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 Contents

## STATE STREET CORPORATION

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## (UNAUDITED)

Aggregate investment securities with carrying values of approximately \$38 billion and \$48 billion as of March 31, 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 three months ended March 31, 2018, we sold approximately \$12 billion of AFS, primarily asset-backed securities, municipal bonds and covered bonds, resulting in a pre-tax loss of approximately \$1 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:

March 31, 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:						
Direct obligations	\$8	\$ —	\$18	\$ —	\$26	\$ —
Mortgage-backed securities	5,595	108	3,140	136	8,735	244
Total U.S. Treasury and federal agencies	5,603	108	3,158	136	8,761	244
Asset-backed securities:						
Student loans	315	—	251	2	566	2
Credit cards	1,280	31	—	—	1,280	31
CLOs	20	—	—	—	20	—
Total asset-backed securities	1,615	31	251	2	1,866	33
Non-U.S. debt securities:						
Mortgage-backed securities	379	1	161	—	540	1
Asset-backed securities	130	—	33	—	163	—
Government securities	6,392	31	69	1	6,461	32
Other	931	12	260	3	1,191	15
Total non-U.S. debt securities	7,832	44	523	4	8,355	48
State and political subdivisions	1,306	22	546	22	1,852	44
Collateralized mortgage obligations	237	3	75	2	312	5
Other U.S. debt securities	1,357	27	292	8	1,649	35
Total	\$17,950	\$ 235	\$4,845	\$ 174	\$22,795	\$ 409
Held-to-maturity:						
U.S. Treasury and federal agencies:						
Direct obligations	\$13,137	\$ 216	\$3,507	\$ 43	\$16,644	\$ 259
Mortgage-backed securities	11,370	252	5,820	319	17,190	571
Total U.S. Treasury and federal agencies	24,507	468	9,327	362	33,834	830
Asset-backed securities:						
Student loans	131	1	572	8	703	9
Other	—	—	1	—	1	—
Total asset-backed securities	131	1	573	8	704	9
Non-U.S. debt securities:						
Mortgage-backed securities	26	—	222	5	248	5
Asset-backed securities	—	—	13	—	13	—



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Government securities	242	—	—	—	242	—
Total non-U.S. debt securities	268	—	235	5	503	5
Collateralized mortgage obligations	6	—	264	7	270	7
Total	\$24,912	\$ 469	\$10,399	\$ 382	\$35,311	\$ 851

State Street Corporation | 60

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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 | 61

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

The following table presents contractual maturities of debt investment securities by carrying amount as of March 31, 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.

March 31, 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	\$—	\$—	\$78	\$89
Mortgage-backed securities	112	647	2,899	6,632	10,290
Total U.S. Treasury and federal agencies	123	647	2,899	6,710	10,379
Asset-backed securities:					
Student loans	216	395	374	758	1,743
Credit cards	—	1,280	151	—	1,431
CLOs	—	406	400	20	826
Total asset-backed securities	216	2,081	925	778	4,000
Non-U.S. debt securities:					
Mortgage-backed securities	302	2,054	194	402	2,952
Asset-backed securities	172	1,103	233	125	1,633
Government securities	2,296	3,115	4,556	908	10,875
Other	992	2,783	718	38	4,531
Total non-U.S. debt securities	3,762	9,055	5,701	1,473	19,991
State and political subdivisions	443	2,063	3,569	1,232	7,307
Collateralized mortgage obligations	2	22	—	323	347
Other U.S. debt securities	268	1,154	857	1	2,280
Total	\$ 4,814	\$ 15,022	\$ 13,951	\$ 10,517	\$ 44,304
Held-to-maturity:					
U.S. Treasury and federal agencies:					
Direct obligations	\$ 2,939	\$ 13,898	\$ 13	\$ 53	\$ 16,903
Mortgage-backed securities	—				