

STATE STREET CORP  
Form 10-Q  
May 03, 2018  
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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

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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.



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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"

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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

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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

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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).

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## OVERVIEW OF FINANCIAL RESULTS

TABLE 1: OVERVIEW OF FINANCIAL RESULTS

| (Dollars in millions, except per share amounts)               | Quarters Ended |         | %<br>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    |             |

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

<sup>(2)</sup> Represents the portion of net income available to common equity allocated to participating securities, composed of unvested and fully vested SERP shares and fully vested deferred director stock awards, which are equity-based awards that contain non-forfeitable rights to dividends, and are considered to participate with the common stock in undistributed earnings.

<sup>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.

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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.

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## 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<br>March 31, |         | %<br>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.

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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<br>Indices |       |          | Averages of Month-End Indices |       |          | Quarter-End Indices         |       |          |
|---|------------------------------|-------|----------|-------------------------------|-------|----------|-----------------------------|-------|----------|
|   | Quarters Ended March<br>31,  |       |          | Quarters Ended March 31,      |       |          | Quarters Ended March<br>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<br>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  | %<br>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.

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## 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,<br>2018 |                                 |        | 2017               |                                 |        |
|---|----------------------------------|---------------------------------|--------|--------------------|---------------------------------|--------|
|   | Average<br>Balance               | Interest<br>Revenue/<br>Expense | Rate   | Average<br>Balance | Interest<br>Revenue/<br>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

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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.

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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<br>Ended March<br>31, |          | %<br>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.

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

TABLE 7: RESTRUCTURING CHARGES

| (In millions)                        | Employee<br>Related<br>Costs | Real<br>Estate<br>Actions | Asset and<br>Other<br>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.

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TABLE 9: ASSETS UNDER CUSTODY AND ADMINISTRATION BY PRODUCT

| (In billions)                | March<br>31,<br>2018 | December<br>31, 2017 | March<br>31,<br>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<br>31,<br>2018 | December<br>31, 2017 | March<br>31,<br>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<br>31,<br>2018 | December<br>31, 2017 | March<br>31,<br>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.

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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.

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## 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<br>31,<br>2018 | December<br>31, 2017 | March<br>31,<br>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.

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ASSET CLASS<sup>(1)(2)</sup>

| (In billions)                          | March<br>31,<br>2018 | December<br>31, 2017 | March<br>31,<br>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<br>31,<br>2018 | December<br>31, 2017 | March<br>31,<br>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<br>Solutions | Alternative<br>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.

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## 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.

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## Investment Securities

TABLE 18: CARRYING VALUES OF INVESTMENT  
SECURITIES

| (In millions)                            | March<br>31,<br>2018 | December<br>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<br>31,<br>2018 | December<br>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<br>31,<br>2018 | December<br>31, 2017 |  |
|-------------------|----------------------|----------------------|--|
| US Treasuries     | 20 %                 | 17 %                 |  |
| US Agency MBS     | 31                   | 26                   |  |
| ABS               | 15                   | 22                   |  |
| Foreign Sovereign | 14                   | 12                   |  |
| Other Credit      | 20                   | 23                   |  |
|                   | 100 %                | 100 %                |  |



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## 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.

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## 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<br>Municipal<br>Securities | Credit and<br>Liquidity<br>Facilities <sup>(2)</sup> | Total    | % of Total Municipal<br>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<br>31,<br>2018 | December<br>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.

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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<br>Ended |      |
|--|-------------------|------|
| (In millions)                                      | March 31,<br>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<br>Securities and<br>Other Assets | Derivatives<br>and<br>Securities<br>on Loan | Total Cross-Border<br>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.



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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,

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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<br>31,<br>2018 | December<br>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

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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.

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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.

FundingDeposits

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.

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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.

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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

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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 VaR | Stressed VaR |
| (In thousands)     | Average                  | Maximum   | Minimum   | Average         | Maximum   | Minimum   |              |              |
| 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.

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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<br>Exchange<br>Risk | Interest<br>Rate<br>Risk | Volatility<br>Risk | Foreign<br>Exchange<br>Risk | Interest<br>Rate<br>Risk | Volatility<br>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<br>Exchange<br>Risk | Interest<br>Rate<br>Risk | Volatility<br>Risk | Foreign<br>Exchange<br>Risk | Interest<br>Rate<br>Risk | Volatility<br>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 2018         | December 31, 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 )            |

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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

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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.

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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.

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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.

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TABLE 35: REGULATORY CAPITAL STRUCTURE AND RELATED REGULATORY CAPITAL RATIOS

| (In millions)  | State Street  |   |  |  | State Street Bank   |   |  |  |
|--|---|---|--|--|---|---|--|--|
|  | Basel III<br>Advanced<br>Approaches<br>March 31,<br>2018 <sup>(1)</sup> | Basel III<br>Standardized<br>Approach<br>March 31,<br>2018 <sup>(2)</sup> | Basel III<br>Advanced<br>Approaches<br>December<br>31, 2017 <sup>(1)</sup> | Basel III<br>Standardized<br>Approach<br>December<br>31, 2017 <sup>(2)</sup> | Basel III<br>Advanced<br>Approaches<br>March 31,<br>2018 <sup>(1)</sup> | Basel III<br>Standardized<br>Approach<br>March 31,<br>2018 <sup>(2)</sup> | Basel III<br>Advanced<br>Approaches<br>December<br>31, 2017 <sup>(1)</sup> | Basel III<br>Standardized<br>Approach<br>December<br>31, 2017 <sup>(2)</sup> |
| Common shareholders'<br>equity:  |   |   |  |  |   |   |  |  |
| Common stock and<br>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<br>comprehensive income<br>(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<br>adjustments:   |   |   |  |  |   |   |  |  |
| Goodwill and other<br>intangible assets, net of<br>associated deferred tax<br>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<br>securities subject to<br>phase-out from tier 1<br>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<br>subordinated long-term<br>debt   | 961   | 961   | 980  | 980  | 962   | 962   | 983  | 983  |
| Trust preferred capital<br>securities phased out of<br>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<br>assets  | \$98,512  | \$110,477   | \$99,156   | \$102,683  | \$95,284  | \$107,663   | \$96,118   | \$99,767   |



Minimum Risk-Based Capital Ratios.

<sup>NA</sup> Not applicable

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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<br>Advanced<br>Approaches<br>March<br>31, 2018 | Basel III<br>Standardized<br>Approach<br>March 31,<br>2018 | Basel III<br>Advanced<br>Approaches<br>December<br>31, 2017 | Basel III<br>Standardized<br>Approach<br>December<br>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 |

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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 |
|---|-----------|-----------|

(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

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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,<br>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 %     |

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## 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<br>31, 2018        |                                      |
|--------------|--|--------------------------------------|
|              | Shares<br>Acquired<br>(In<br>millions) | Average<br>Cost per<br>Share<br>(\$) |
|              | Total<br>Acquired<br>(In<br>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,                      |   |
|--------------|---|---|
|              | Dividends<br>Declared<br>per<br>Share<br>2018 | Dividends<br>Declared<br>per<br>Share<br>2017 |
|              | Total<br>(In<br>millions)                     | Total<br>(In<br>millions)                     |
| Common Stock | \$0.42 \$ 154                                 | \$0.38 \$ 144                                 |



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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.

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**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<br>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.

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STATE STREET CORPORATION  
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
(UNAUDITED)

|  | Three<br>Months<br>Ended March<br>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.

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STATE STREET CORPORATION  
CONSOLIDATED STATEMENT OF CONDITION  
(UNAUDITED)

| (Dollars in millions, except per share amounts)  | March 31,<br>2018 | December 31,<br>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:<br>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.

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

| (Dollars in millions,<br>except per share amounts,<br>shares in thousands) | PREFERRED<br>STOCK | COMMON<br>STOCK |        | Surplus  | Retained<br>Earnings | Accumulated TREASURY<br>Other<br>Comprehensive<br>Income<br>(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.

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STATE STREET CORPORATION  
CONSOLIDATED STATEMENT OF CASH FLOWS  
(UNAUDITED)

| (In millions)   | Three Months<br>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.

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

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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.

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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.

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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.

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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.

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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.

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## STATE STREET CORPORATION

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

| (In millions)                            | Fair Value Measurements on a Recurring Basis<br>As of March 31, 2018 |   |   |  | Impact of<br>Netting <sup>(1)</sup> | Total Net<br>Carrying Value<br>in<br>Consolidated<br>Statement of<br>Condition |
|--|--|---|---|--|-------------------------------------|--|
|  | Quoted<br>Prices<br>in<br>Active<br>Markets<br>(Level 1)             | Pricing Methods<br>with Significant<br>Observable<br>Market Inputs<br>(Level 2) | Pricing Methods<br>with Significant<br>Unobservable<br>Market Inputs<br>(Level 3) |  |                                     |  |
| 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.

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## STATE STREET CORPORATION

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

| (In millions)                            | Fair Value Measurements on a Recurring Basis<br>As of December 31, 2017 |   |   |                                     | Total Net<br>Carrying Value<br>in<br>Consolidated<br>Statement of<br>Condition |
|--|---|---|---|-------------------------------------|--|
|  | Quoted<br>Prices in<br>Active<br>Markets<br>(Level 1)                   | Pricing Methods<br>with Significant<br>Observable<br>Market Inputs<br>(Level 2) | Pricing Methods<br>with Significant<br>Unobservable<br>Market Inputs<br>(Level 3) | Impact of<br>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.

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## 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.

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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.

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## STATE STREET CORPORATION

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

| (In millions)                                | Reported Amount | Estimated Fair Value | Fair Value Hierarchy                      |  |   |   |
|--|-----------------|----------------------|---|--|---|---|
|  |                 |                      | Quoted Prices in Active Markets (Level 1) | Market Pricing 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.



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## 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<br>Cost | Gross<br>Unrealized<br>Gains | Unrealized<br>Losses | Fair<br>Value | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Unrealized<br>Losses | Fair<br>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.

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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<br>(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 |

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| December 31, 2017<br>(In millions)       | Less than 12 months |                               | 12 months<br>or longer |                               | Total         |                               |
|--|---------------------|-------------------------------|------------------------|-------------------------------|---------------|-------------------------------|
|  | Fair<br>Value       | Gross<br>Unrealized<br>Losses | Fair<br>Value          | Gross<br>Unrealized<br>Losses | Fair<br>Value | Gross<br>Unrealized<br>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                        |

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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<br>(In millions)          | Under 1<br>Year | 1 to 5<br>Years | 6 to 10<br>Years | Over 10<br>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               | —               | 219             | 1,470            | 16,190           | 17,879    |
| Total U.S. Treasury and federal agencies | 2,939           | 14,117          | 1,483            | 16,243           | 34,782    |
| Asset-backed securities:                 |                 |                 |                  |                  |           |
| Student loans                            | 25              | 262             | 249              | 2,437            | 2,973     |
| Credit cards                             | 173             | 536             | —                | —                | 709       |
| Other                                    | —               | —               | —                | 1                | 1         |
| Total asset-backed securities            | 198             | 798             | 249              | 2,438            | 3,683     |
| Non-U.S. debt securities:                |                 |                 |                  |                  |           |
| Mortgage-backed securities               | 63              | 172             | 42               | 514              | 791       |
| Asset-backed securities                  | 13              | 246             | —                | —                | 259       |
| Government securities                    | 287             | 124             | —                | —                | 411       |
| Other                                    | —               | 49              | —                | —                | 49        |
| Total non-U.S. debt securities           | 363             | 591             | 42               | 514              | 1,510     |
| Collateralized mortgage obligations      | 4               | 138             | 343              | 698              | 1,183     |
| Total                                    | \$ 3,504        | \$ 15,644       | \$ 2,117         | \$ 19,893        | \$ 41,158 |



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

| (In millions)                                   | Three<br>Months<br>Ended<br>March 31,<br>2018 | 2017  |
|---|---|-------|
| Balance, beginning of period                    | \$64  | \$ 66 |
| Additions:                                      |   |       |
| Losses for which OTTI was previously recognized | 1   | —     |
| Balance, end of period                          | \$65  | \$ 66 |

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

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

**Impairment**

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

We recorded approximately \$1 million of OTTI in the three months ended March 31, 2018 and less than \$1 million of OTTI in the three months ended March 31, 2017, which resulted from adverse changes in the timing of expected future cash flows from the securities.

After a review of the investment portfolio, taking into consideration current economic conditions, adverse situations that might affect our ability to fully collect principal and interest, the timing of future payments, the credit quality and performance of the collateral underlying MBS and ABS and other relevant factors, management considers the aggregate decline in fair value of the investment securities portfolio and

the resulting gross pre-tax unrealized losses of \$1.26 billion related to 1,338 securities as of March 31, 2018 to be temporary, and not the result of any material changes in the credit characteristics of the securities.

**Note 4. Loans and Leases**

We segregate our loans and leases into three segments: commercial and financial loans, commercial real estate loans and lease financing. We further classify commercial and financial loans as loans to investment funds, senior secured bank loans, loans to municipalities and other. These classifications reflect their risk characteristics, their initial measurement attributes and the methods we use to monitor and assess credit risk. For additional information on our loans and leases, including our internal risk-rating system used to assess our risk of credit loss for each loan or lease, refer to pages 147 to 149 in Note 4 to the consolidated financial statements included under Item 8, Financial Statements and Supplementary Data, in our 2017 Form 10-K.

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

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March 31, December 31,  
2018 2017

Domestic:

Commercial and financial:

|                           |           |           |
|---------------------------|-----------|-----------|
| Loans to investment funds | \$ 18,524 | \$ 13,618 |
| Senior secured bank loans | 3,065     | 2,923     |
| Loans to municipalities   | 1,946     | 2,105     |
| Other                     | 46        | 50        |
| Commercial real estate    | 257       | 98        |
| Lease financing           | 261       | 267       |
| Total domestic            | 24,099    | 19,061    |

Non-U.S.:

Commercial and financial:

|                           |        |        |
|---------------------------|--------|--------|
| Loans to investment funds | 4,289  | 3,213  |
| Senior secured bank loans | 791    | 624    |
| Lease financing           | 403    | 396    |
| Total non-U.S.            | 5,483  | 4,233  |
| Total loans and leases    | 29,582 | 23,294 |

Allowance for loan and lease losses (54 ) (54 )

Loans and leases, net of allowance \$ 29,528 \$ 23,240

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

Certain loans are pledged as collateral for access to the Federal Reserve's discount window. As of March 31, 2018 and December 31, 2017, the loans pledged as collateral totaled \$3.0 billion and \$1.9 billion, respectively.

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

| March 31, 2018<br>(In millions)    | Commercial<br>and<br>Financial | Commercial<br>Real Estate | Lease<br>Financing | Total<br>Loans and<br>Leases |
|------------------------------------|--------------------------------|---------------------------|--------------------|------------------------------|
| Investment grade <sup>(1)</sup>    | \$ 23,565                      | \$ 257                    | \$ 664             | \$ 24,486                    |
| Speculative <sup>(2)</sup>         | 5,096                          | —                         | —                  | 5,096                        |
| Total <sup>(4)</sup>               | \$ 28,661                      | \$ 257                    | \$ 664             | \$ 29,582                    |
| December 31, 2017<br>(In millions) | Commercial<br>and<br>Financial | Commercial<br>Real Estate | Lease<br>Financing | Total<br>Loans and<br>Leases |
| Investment grade <sup>(1)</sup>    | \$ 17,866                      | \$ 98                     | \$ 663             | \$ 18,627                    |
| Speculative <sup>(2)</sup>         | 4,638                          | —                         | —                  | 4,638                        |
| Special mention <sup>(3)</sup>     | 29                             | —                         | —                  | 29                           |
| Total <sup>(4)</sup>               | \$ 22,533                      | \$ 98                     | \$ 663             | \$ 23,294                    |

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

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

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

(4) For those portfolios where there are a small number of loans each with a large balance, we review each loan annually for indicators of impairment. For those loans where no such indicators are identified, the loans are collectively evaluated for impairment. As of March 31, 2018 and December 31, 2017, no loans were individually evaluated for impairment.

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

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

## Allowance for loan and lease losses

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

Total  
Loans  
and  
Leases  
Three  
Months  
Ended  
March 31,

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

<sup>(1)</sup> The provisions and charge-offs for loans and leases were attributable to exposure to senior secured loans to non-investment grade borrowers, purchased in connection with our participation in syndicated loans. Loans and leases are reviewed on a regular basis, and any provisions for loan and lease losses that are recorded reflect management's estimate of the amount necessary to maintain the allowance for loan and lease losses at a level considered appropriate to absorb estimated incurred losses in the loan and lease portfolio.

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## Note 5. Goodwill and Other Intangible Assets

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

| (In millions)                     | Investment<br>Servicing | Investment<br>Management | Total   |
|-----------------------------------|-------------------------|--------------------------|---------|
| Goodwill:                         |                         |                          |         |
| Ending balance December 31, 2016  | \$ 5,550                | \$ 264                   | \$5,814 |
| Acquisitions                      | 17                      | —                        | 17      |
| Divestitures and other reductions | (9 )                    | —                        | (9 )    |
| Foreign currency translation      | 194                     | 6                        | 200     |
| Ending balance December 31, 2017  | \$ 5,752                | \$ 270                   | \$6,022 |
| Foreign currency translation      | 45                      | 1                        | 46      |
| Ending balance March 31, 2018     | \$ 5,797                | \$ 271                   | \$6,068 |

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

| (In millions)                               | Investment<br>Servicing | Investment<br>Management | Total   |
|---|-------------------------|--------------------------|---------|
| Other intangible assets:                    |                         |                          |         |
| Ending balance December 31, 2016            | \$ 1,539                | \$ 211                   | \$1,750 |
| Acquisitions                                | 16                      | —                        | 16      |
| Divestitures                                | (11 )                   | —                        | (11 )   |
| Amortization                                | (183 )                  | (31 )                    | (214 )  |
| Foreign currency translation and other, net | 71                      | 1                        | 72      |
| Ending balance December 31, 2017            | \$ 1,432                | \$ 181                   | \$1,613 |
| Amortization                                | (43 )                   | (7 )                     | (50 )   |
| Foreign currency translation and other, net | 15                      | —                        | 15      |
| Ending balance March 31, 2018               | \$ 1,404                | \$ 174                   | \$1,578 |

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

| (In millions)            | March 31, 2018              |                             |                           | December 31, 2017           |                             |                           |
|--------------------------|-----------------------------|-----------------------------|---------------------------|-----------------------------|-----------------------------|---------------------------|
|                          | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Net<br>Carrying<br>Amount | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Net<br>Carrying<br>Amount |
| Other intangible assets: |                             |                             |                           |                             |                             |                           |
| Client relationships     | \$2,686                     | \$ (1,515 )                 | \$ 1,171                  | \$2,669                     | \$ (1,470 )                 | \$ 1,199                  |
| Core deposits            | 692                         | (332 )                      | 360                       | 686                         | (320 )                      | 366                       |
| Other                    | 142                         | (95 )                       | 47                        | 142                         | (94 )                       | 48                        |
| Total                    | \$3,520                     | \$ (1,942 )                 | \$ 1,578                  | \$3,497                     | \$ (1,884 )                 | \$ 1,613                  |

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## Note 6. Other Assets

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

| (In millions)  | March<br>31,<br>2018 | December<br>31, 2017 |
|--|----------------------|----------------------|
| Securities Financing pledged assets and collateral received <sup>(1)</sup>     | \$20,957             | \$ 19,404            |
| Derivative instruments, net  | 3,952                | 4,013                |
| Bank-owned life insurance  | 3,263                | 3,242                |
| Investments in joint ventures and other unconsolidated entities <sup>(2)</sup> | 2,718                | 2,259                |
| Collateral, net  | 929                  | 473                  |
| Accounts receivable  | 554                  | 348                  |
| Prepaid expenses   | 439                  | 364                  |
| Receivable for securities settlement   | 419                  | 188                  |
| Deposits with clearing organizations   | 129                  | 120                  |
| Deferred tax assets, net of valuation allowance <sup>(3)</sup>                 | 107                  | 113                  |
| Income taxes receivable  | 44                   | 97                   |
| Other <sup>(4)</sup>   | 484                  | 397                  |
| Total  | \$33,995             | \$ 31,018            |

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

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

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

<sup>(4)</sup> In 2017, includes amounts held in escrow accounts at third parties related to the negotiated settlements in the transition management legal matter presented in Note 10.

## Note 7. Derivative Financial Instruments

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

Derivative financial instruments are also subject to credit and counterparty risk, which we manage by performing credit reviews, maintaining individual counterparty limits, entering into netting arrangements and requiring the receipt of collateral. Cash collateral received from and provided to counterparties in connection with derivative financial instruments is recorded in accrued expenses and other liabilities and other assets, respectively, in our consolidated statement of condition. As of March 31, 2018 and

December 31, 2017, we had recorded approximately \$1.45 billion and \$2.55 billion, respectively, of cash collateral received from counterparties and approximately \$2.07 billion and \$869 million, respectively, of cash collateral provided to counterparties in connection with derivative financial instruments in our consolidated statement of condition.

Certain of our derivative assets and liabilities as of March 31, 2018 and December 31, 2017 are subject to master netting agreements with our derivative counterparties. Certain of these agreements contain credit risk-related

contingent features in which the counterparty has the right to declare us in default and accelerate cash settlement of our net derivative liabilities with the counterparty in the event that our credit rating falls below specified levels. The aggregate fair value of all derivative instruments with credit risk-related contingent features that were in a net liability position as of March 31, 2018 totaled approximately \$1.57 billion, against which we provided \$28 million in underlying collateral. If our credit rating were downgraded below levels specified in the agreements, the maximum additional amount of payments related to termination events that could have been required pursuant to these contingent features, assuming no change in fair value, as of March 31, 2018 was approximately \$1.54 billion. Such accelerated settlement would be at fair value and therefore not affect our consolidated results of operations.

#### Derivatives Not Designated as Hedging Instruments

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

#### Derivatives Designated as Hedging Instruments

In connection with our asset and liability management activities, we use derivative financial instruments to manage our interest rate risk and foreign currency risk. Interest rate risk, defined as the

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

**Fair Value Hedges**

We have entered into interest rate swap agreements to modify our interest income from certain AFS investment securities from a fixed rate to a floating rate. The hedged AFS investment securities included hedged trusts that had a weighted-average life of approximately 3.9 years as of March 31, 2018, compared to 4.6 years as of December 31, 2017.

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

March 31, 2018

Maturity Fixed Interest Rate Paid

**Senior Notes**

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

**Subordinated Notes**

|      |      |
|------|------|
| 2023 | 3.10 |
|------|------|

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

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

**Cash Flow Hedges**

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

We have entered into an interest rate swap agreement to hedge the forecasted cash flows associated with LIBOR-indexed floating-rate loans. The interest rate swaps synthetically convert the loan interest receipts from a variable-rate to a fixed-rate, thereby mitigating the risk attributable to changes in the LIBOR benchmark rate. As of March 31, 2018, the maximum maturity date of the underlying loans is approximately 4.2 years.

#### Net Investment Hedges

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

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The following table presents the aggregate contractual, or notional, amounts of derivative financial instruments entered into in connection with our trading and asset-and-liability management activities as of the dates indicated:

| (In millions)                                      | March 31, 2018 | December 31, 2017 |
|--|----------------|-------------------|
| Derivatives not designated as hedging instruments: |                |                   |
| Interest-rate contracts:                           |                |                   |
| Futures  | \$ 1,942       | \$ 2,392          |
| Foreign exchange contracts:                        |                |                   |
| Forward, swap and spot                             | 2,219,600      | 1,679,976         |
| Options purchased                                  | 778            | 350               |
| Options written                                    | 553            | 302               |
| Futures  | 2              | 50                |
| Commodity and equity contracts:                    |                |                   |
| Commodity <sup>(1)</sup>                           | 13             | 16                |
| Equity <sup>(1)</sup>                              | 33             | 50                |
| Other:   |                |                   |
| Stable value contracts                             | 25,881         | 26,653            |
| Deferred value awards <sup>(2)</sup>               | 619            | 473               |
| Derivatives designated as hedging instruments:     |                |                   |
| Interest-rate contracts:                           |                |                   |
| Swap agreements                                    | 11,025         | 11,047            |
| Foreign exchange contracts:                        |                |                   |
| Forward and swap                                   | 10,231         | 28,913            |

<sup>(1)</sup> Primarily composed of positions held by a consolidated sponsored investment fund, more fully described in Note 11.

<sup>(2)</sup> Represents grants of deferred value awards to employees; refer to refer to pages 154 to 155 in Note 10 to the consolidated financial statements included under Item 8, Financial Statements and Supplementary Data, in our 2017 Form 10-K

In connection with our asset and liability management activities, we have entered into interest-rate contracts designated as fair value and cash flow hedges to manage our interest rate risk. The following tables present the aggregate notional amounts of these interest rate contracts and the related assets or liabilities being hedged as of the dates indicated:

| (In millions)                            | March 31, 2018    |                  |           |
|--|-------------------|------------------|-----------|
|  | Fair Value Hedges | Cash Flow Hedges | Total     |
| Investment securities available-for-sale | \$ 1,232          | \$ —             | \$ 1,232  |
| Long-term debt <sup>(1)</sup>            | 8,493             | —                | 8,493     |
| Floating-rate loans                      | —                 | 1,300            | 1,300     |
| Total                                    | \$ 9,725          | \$ 1,300         | \$ 11,025 |
|  | December 31, 2017 |                  |           |

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

<sup>(1)</sup> As of March 31, 2018, these fair value hedges decreased the carrying value of LTD presented in our consolidated statement of condition by \$251 million. As of December 31, 2017, these fair value hedges decreased the carrying value of long-term debt presented in our consolidated statement of condition by \$87 million.

The following table presents the contractual and weighted average interest rates for long-term debt, which include the effects of the fair value hedges presented in the table above, for the periods indicated:

|                | Three Months Ended March 31, |                  |             |                  |
|----------------|------------------------------|------------------|-------------|------------------|
|                | 2018                         |                  | 2017        |                  |
|                | Contractual                  | Rate             | Contractual | Rate             |
|                | Rates                        | Including        | Rates       | Including        |
|                |                              | Impact of Hedges |             | Impact of Hedges |
| Long-term debt | 3.69%                        | 3.37%            | 3.40%       | 2.56%            |

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The following tables present the fair value of derivative financial instruments, excluding the impact of master netting agreements, recorded in our consolidated statement of condition as of the dates indicated. The impact of master netting agreements is provided in Note 8 to the consolidated financial statements in this Form 10-Q.

| (In millions)                                      | Derivative<br>Assets <sup>(1)</sup><br>Fair Value |           |
|--|---|-----------|
|  | March 31  | December  |
|  | 2018  | 31, 2017  |
| Derivatives not designated as hedging instruments: |   |           |
| Foreign exchange contracts                         | \$ 11,013   | \$ 11,477 |
| Other derivative contracts                         | 1   | 1         |
| Total  | \$ 11,014   | \$ 11,478 |
| Derivatives designated as hedging instruments:     |   |           |
| Foreign exchange contracts                         | \$ 36   | \$ 120    |
| Interest-rate contracts                            | 4   | 8         |
| Total  | \$ 40   | \$ 128    |

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

| (In millions)                                      | Derivative<br>Liabilities <sup>(1)</sup><br>Fair Value |           |
|--|--|-----------|
|  | March 31   | December  |
|  | 2018   | 31, 2017  |
| Derivatives not designated as hedging instruments: |  |           |
| Foreign exchange contracts                         | \$ 11,014  | \$ 11,361 |
| Other derivative contracts                         | 288  | 284       |
| Total  | \$ 11,302  | \$ 11,645 |
| Derivatives designated as hedging instruments:     |  |           |
| Foreign exchange contracts                         | \$ 159   | \$ 107    |
| Interest-rate contracts                            | 96   | 100       |
| Total  | \$ 255   | \$ 207    |

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

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

Location of Gain (Loss) on  
Derivative in Consolidated  
Statement of Income

Amount of Gain (Loss) on  
Derivative Recognized  
in Consolidated Statement  
of Income



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| (In millions)                                      |  | Three Months Ended<br>March 31,   |           |   |      |   |  |      |      |
|--|--|---|-----------|---|------|---|--|------|------|
|  |  |   |           | 2018  | 2017 |   |  |      |      |
| Derivatives not designated as hedging instruments: |  |   |           |   |      |   |  |      |      |
| Foreign exchange contracts                         |  | Trading services revenue  |           | \$ 184  |      | \$ 163  |  |      |      |
| Foreign exchange contracts                         |  | Processing fees and other revenue   |           | (15 )   |      | —   |  |      |      |
| Interest-rate contracts                            |  | Trading services revenue  |           | (2 )  |      | 1   |  |      |      |
| Other derivative contracts                         |  | Trading services revenue  |           | 1   |      | —   |  |      |      |
| Other derivative contracts                         |  | Compensation and employee benefits  |           | (65 )   |      | (66 )   |  |      |      |
| Total  |  |   |           | \$ 103  |      | \$ 98   |  |      |      |
|  |  | Amount of Gain (Loss) on<br>Derivative<br>Recognized in<br>Other<br>Comprehensive<br>Income |           | Amount of Gain (Loss) Reclassified<br>from OCI to<br>Consolidated<br>Statement of<br>Income |      | Amount of Gain (Loss)<br>Derivatives<br>Recognized in<br>Consolidated<br>Statement of<br>Income |  |      |      |
|  |  | Three Months<br>Ended March 31,   |           | Three Months<br>Ended March 31,   |      | Three Months<br>Ended March<br>31,  |  |      |      |
| (In millions)                                      |  | 2018  | 2017      | 2018  | 2017 | 2018  | 2017   |      |      |
| Derivatives designated as cash flow hedges:        |  |   |           |   |      |   |  |      |      |
| Interest-rate contracts                            |  | \$ (21 )  | \$ —      | Net interest income   | \$ — | \$ —  | Net interest income  | \$ 1 | \$ — |
| Foreign exchange contracts                         |  | (95 )   | (106 )    | Net interest income   | —    | —   | Net interest income  | 7    | 6    |
| Derivatives designated as net investment hedges:   |  |   |           |   |      |   |  |      |      |
| Foreign exchange contracts                         |  | (36 )   | (14 )     | Gains (Losses)<br>related to investment<br>securities, net                                  | —    | —   | Gains (Losses)<br>related to investment<br>securities, net | —    | —    |
| Total  |  | \$ (152 )   | \$ (120 ) | Total   | \$ — | \$ —  | Total  | \$ 8 | \$ 6 |

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Differences between the gains (losses) on foreign exchange contracts and the gains (losses) on the hedged item, excluding any accrued interest, represent hedge ineffectiveness. Similarly, differences between the gains (losses) on interest rate contracts and the gains (losses) on the hedged item represent hedge ineffectiveness.

| (In millions)                                | Location of Gain (Loss) on Derivative in Consolidated Statement of Income | Amount of Gain (Loss) on Derivative Recognized in Consolidated Statement of Income |         | Hedged Item in Fair Value Hedging Relationship | Location of Gain (Loss) on Hedged Item in Consolidated Statement of Income | Amount of Gain (Loss) on Hedged Item Recognized in Consolidated Statement of Income |           |
|--|---|--|---------|--|--|---|-----------|
|  |   | Three Months Ended March 31,   |         |  |  | Three Months Ended March 31,  |           |
|  |   | 2018   | 2017    |  |  | 2018  | 2017      |
| Derivatives designated as fair value hedges: |   |  |         |  |  |   |           |
| Foreign exchange contracts                   | Processing fees and other revenue   | \$ (13 )   | \$ (2 ) | Investment securities                          | Processing fees and other revenue  | \$ 13   | \$ 2      |
| Foreign exchange contracts                   | Processing fees and other revenue   | 248  | 979     | FX deposit                                     | Processing fees and other revenue  | (248 )  | (980 )    |
| Interest-rate contracts <sup>(1)</sup>       | Net interest income   | 21   | —       | Available-for-sale securities                  | Net interest income  | (21 )   | —         |
| Interest-rate contracts <sup>(1)</sup>       | Net interest income   | (167 )   | —       | Long-term debt                                 | Net interest income  | 156   | —         |
| Interest-rate contracts <sup>(1)</sup>       | Processing fees and other revenue   | —  | 12      | Available-for-sale securities                  | Processing fees and other revenue <sup>(2)</sup>                           | —   | (11 )     |
| Interest-rate contracts <sup>(1)</sup>       | Processing fees and other revenue   | —  | (20 )   | Long-term debt                                 | Processing fees and other revenue  | —   | 19        |
| Total  |   | \$ 89  | \$ 969  |  |  | \$ (100 )   | \$ (970 ) |

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

<sup>(2)</sup> In the three months ended March 31, 2018 and 2017, \$4 million and \$6 million, respectively, of net unrealized (losses) gains on AFS investment securities designated in fair value hedges were recognized in OCI.

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## Note 8. Offsetting Arrangements

We manage credit and counterparty risk by entering into enforceable netting agreements and other collateral arrangements with counterparties to derivative contracts and secured financing transactions, including resale and repurchase agreements, and principal securities borrowing and lending agreements. These netting agreements mitigate our counterparty credit risk by providing for a single net settlement with a counterparty of all financial transactions covered by the agreement in an event of default as defined under such agreement. In limited cases, a netting agreement may also provide for the periodic netting of settlement payments with respect to

multiple different transaction types in the normal course of business. For additional information on offsetting arrangements, refer to pages 160 to 163 in Note 11 to the consolidated financial statements included under Item 8, Financial Statements and Supplementary Data, in our 2017 Form 10-K.

As of March 31, 2018 and December 31, 2017, the value of securities received as collateral from third parties where we are permitted to transfer or re-pledge the securities totaled \$4.82 billion and \$2.47 billion, respectively, and the fair value of the portion that had been transferred or re-pledged as of the same dates was \$0 million and \$15 million, respectively.

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

| Assets:   | March 31, 2018  |   |  | Gross Amounts Not<br>Offset in Statement of<br>Condition |                              |
|---|---|---|--|--|------------------------------|
| (In millions)   | Gross<br>Amounts<br>of<br>Recognized<br>Assets <sup>(1)</sup> | Gross<br>Amounts<br>Offset in<br>Statement of<br>Condition <sup>(3)</sup> | Net<br>Amounts<br>of Assets<br>Presented<br>in<br>Statement<br>of<br>Condition | Cash and<br>Securities<br>Received <sup>(4)</sup>        | Net<br>Amount <sup>(5)</sup> |
| <b>Derivatives:</b>                                       |   |   |  |  |                              |
| Foreign exchange contracts                                | \$ 11,049   | \$ (6,325)  | \$ 4,725   |  | \$ 4,725                     |
| Interest-rate contracts <sup>(6)</sup>                    | 4   | —   | 4  |  | 4                            |
| Other derivative contracts                                | 1   | —   | —  |  | —                            |
| Cash collateral and securities netting                    | NA  | (777)   | (777)  | \$(259)  | (1,036)                      |
| Total derivatives   | 11,054  | (7,102)   | 3,952  | (259)  | 3,693                        |
| <b>Other financial instruments:</b>                       |   |   |  |  |                              |
| Resale agreements and securities borrowing <sup>(7)</sup> | 62,561  | (36,468)  | 26,093   | (26,093)   | —                            |
| Total derivatives and other financial instruments         | \$73,615  | \$ (43,570)   | \$ 30,045  | \$(26,352)   | \$ 3,693                     |
| Assets:   | December 31, 2017   |   |  | Gross Amounts Not<br>Offset in Statement of<br>Condition |                              |
| (In millions)   | Gross<br>Amounts<br>of<br>Recognized<br>Assets                | Gross<br>Amounts<br>Offset in<br>Statement of<br>Condition                | Net<br>Amounts<br>of Assets<br>Presented                                       | Cash and<br>Securities<br>Received <sup>(4)</sup>        | Net<br>Amount <sup>(5)</sup> |

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

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

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

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

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

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

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

(7) Included in the \$26,093 million as of March 31, 2018 were \$5,136 million of resale agreements and \$20,957 million of collateral provided related to securities borrowing. Included in the \$22,645 million as of December 31, 2017 were \$3,241 million of resale agreements and \$19,404 million of collateral provided related to securities borrowing. Resale agreements and collateral provided related to securities borrowing were recorded in securities purchased under resale agreements and other assets, respectively, in our consolidated statement of condition. Refer to Note 9 for additional information with respect to principal securities finance transactions.

NA Not applicable

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

|   |  | March 31, 2018                |                          |             | Gross Amounts Not<br>Offset in Statement of<br>Condition |                       |
|---|--|-------------------------------|--------------------------|-------------|--|-----------------------|
|   |  | Gross                         | Gross                    | Net         | Cash and   | Net                   |
|   |  | Amounts                       | Amounts                  | Amounts     | Securities   | Amount <sup>(5)</sup> |
|   |  | of                            | Offset in                | of          | Provided <sup>(4)</sup>                                  |                       |
|   |  | Recognized                    | Statement of             | Liabilities |  |                       |
|   |  | Liabilities <sup>(1)(2)</sup> | Condition <sup>(3)</sup> | Presented   |  |                       |
|   |  |                               |                          | in          |  |                       |
|   |  |                               |                          | Statement   |  |                       |
|   |  |                               |                          | of          |  |                       |
|   |  |                               |                          | Condition   |  |                       |
| (In millions)   |  |                               |                          |             |  |                       |
| Derivatives:  |  |                               |                          |             |  |                       |
| Foreign exchange contracts                                  |  | \$ 11,173                     | \$ (6,325 )              | \$ 4,848    |  | \$ 4,848              |
| Interest-rate contracts <sup>(6)</sup>                      |  | 96                            | —                        | 96          |  | 96                    |
| Other derivative contracts                                  |  | 288                           | —                        | 288         |  | 288                   |
| Cash collateral and securities netting                      |  | NA                            | (1,315 )                 | (1,315 )    | \$(105 )   | (1,420 )              |
| Total derivatives   |  | 11,557                        | (7,640 )                 | 3,917       | (105 )   | 3,812                 |
| Other financial instruments:                                |  |                               |                          |             |  |                       |
| Repurchase agreements and securities lending <sup>(7)</sup> |  | 50,051                        | (36,468 )                | 13,583      | (13,052 )  | 531                   |
| Total derivatives and other financial instruments           |  | \$61,608                      | \$ (44,108 )             | \$ 17,500   | \$(13,157)   | \$ 4,343              |
| Liabilities:  |  | December 31, 2017             |                          |             | Gross Amounts Not<br>Offset in Statement<br>of Condition |                       |
|   |  | Gross                         | Gross                    | Net         | Cash   | Net                   |
|   |  | Amounts                       | Amounts                  | Amounts     | and  | Amount <sup>(5)</sup> |
|   |  | of                            | Offset in                | of          | Securities   |                       |
|   |  | Recognized                    | Statement of             | Liabilities | Provided <sup>(4)</sup>                                  |                       |
|   |  | Liabilities <sup>(1)(2)</sup> | Condition <sup>(3)</sup> | Presented   |  |                       |
|   |  |                               |                          | in          |  |                       |
|   |  |                               |                          | Statement   |  |                       |
|   |  |                               |                          | of          |  |                       |
|   |  |                               |                          | Condition   |  |                       |
| (In millions)   |  |                               |                          |             |  |                       |
| Derivatives:  |  |                               |                          |             |  |                       |
| Foreign exchange contracts                                  |  | \$ 11,467                     | \$ (5,548 )              | \$ 5,919    |  | \$ 5,919              |
| Interest-rate contracts <sup>(6)</sup>                      |  | 100                           | —                        | 100         |  | 100                   |
| Other derivative contracts                                  |  | 285                           | —                        | 285         |  | 285                   |
| Cash collateral and securities netting                      |  | NA                            | (422 )                   | (422 )      | \$(450 )   | (872 )                |
| Total derivatives   |  | 11,852                        | (5,970 )                 | 5,882       | (450 )   | 5,432                 |
| Other financial instruments:                                |  |                               |                          |             |  |                       |
| Repurchase agreements and securities lending <sup>(7)</sup> |  | 54,127                        | (47,434 )                | 6,693       | (4,299 )   | 2,394                 |
| Total derivatives and other financial instruments           |  | \$65,979                      | \$ (53,404 )             | \$ 12,575   | \$(4,749)  | \$ 7,826              |

- (1) Amounts include all transactions regardless of whether or not they are subject to an enforceable netting arrangement.
- (2) Derivative amounts are carried at fair value and securities financing amounts are carried at amortized cost, except for securities collateral which is also carried at fair value. For additional information about the measurement basis of these instruments, refer to pages 127 to 138 in Notes 1 and 2 to the consolidated financial statements included under Item 8, Financial Statements and Supplementary Data, in our 2017 Form 10-K.
- (3) Amounts subject to netting arrangements which have been determined to be legally enforceable and eligible for netting in the consolidated statement of condition.
- (4) Includes securities provided in connection with our securities lending transactions.
- (5) Includes amounts secured by collateral not determined to be subject to enforceable netting arrangements.
- (6) Variation margin payments presented as settlements rather than collateral.
- (7) Included in the \$13,583 million as of March 31, 2018 were \$2,020 million of repurchase agreements and \$11,563 million of collateral received related to securities lending transactions. Included in the \$6,693 million as of December 31, 2017 were \$2,842 million of repurchase agreements and \$3,851 million of collateral received related to securities lending transactions. Repurchase agreements and collateral received related to securities lending were recorded in securities sold under repurchase agreements and accrued expenses and other liabilities, respectively, in our consolidated statement of condition. Refer to Note 9 for additional information with respect to principal securities finance transactions.

<sup>NA</sup> Not applicable

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

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

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

| (In millions)   | Remaining Contractual Maturity of the Agreements <sup>(1)</sup> |                         |
|---|---|-------------------------|
|   | As of March 31, 2018  | As of December 31, 2017 |
| Repurchase agreements:  |   |                         |
| U.S. Treasury and agency securities   | \$33,442  | \$ 43,072               |
| Total   | 33,442  | 43,072                  |
| Securities lending transactions:  |   |                         |
| US Treasury and agency securities   | 640   | —                       |
| Corporate debt securities   | 103   | 35                      |
| Equity securities   | 10,116  | 11,020                  |
| Others  | 5,750   | —                       |
| Total   | 16,609  | 11,055                  |
| Gross amount of recognized liabilities for repurchase agreements and securities lending | \$50,051  | \$ 54,127               |

<sup>(1)</sup> All balances as of March 31, 2018 and December 31, 2017 reflect overnight and continuous maturities.

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## Note 9. Commitments and Guarantees

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

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

| (In millions)                    | March<br>31, 2018 | December<br>31, 2017 |
|----------------------------------|-------------------|----------------------|
| Commitments:                     |                   |                      |
| Unfunded credit facilities       | \$26,830          | \$26,488             |
| Guarantees <sup>(1)</sup> :      |                   |                      |
| Indemnified securities financing | \$399,064         | \$381,817            |
| Stable value protection          | 25,881            | 26,653               |
| Standby letters of credit        | 2,957             | 3,158                |

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

## Unfunded Credit Facilities

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

As of March 31, 2018, approximately 73% of our unfunded commitments to extend credit expire within one year. Since many of these commitments are expected to expire or renew without being drawn upon, the gross contractual amounts do not necessarily represent our future cash requirements.

## Indemnified Securities Financing

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

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

| (In millions)   | March<br>31, 2018 | December<br>31, 2017 |
|---|-------------------|----------------------|
| Fair value of indemnified securities financing  | \$399,064         | \$381,817            |
| Fair value of cash and securities held by us, as agent, as collateral for indemnified securities financing                    | 416,860           | 400,828              |
| Fair value of collateral for indemnified securities financing invested in indemnified repurchase agreements                   | 59,784            | 61,270               |
| Fair value of cash and securities held by us or our agents as collateral for investments in indemnified repurchase agreements | 63,848            | 65,272               |

In certain cases, we participate in securities finance transactions as a principal. As a principal, we borrow securities from the lending client and then lend such securities to the subsequent borrower, either our client or a broker/dealer. Our right to receive and obligation to return collateral in connection with our securities lending transactions are recorded in other assets and other liabilities, respectively, in our consolidated statement of condition. As of March 31, 2018 and December 31, 2017, we had approximately \$20.96 billion and \$19.40 billion, respectively, of collateral



provided and approximately \$11.56 billion and \$3.85 billion, respectively, of collateral received from clients in connection with our participation in principal securities finance transactions.

**Stable Value Protection**

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

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

Standby Letters of Credit

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

Note 10. Contingencies

Legal and Regulatory Matters

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

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

amount (or range) of loss might not be reasonably estimated until the later stages of the proceeding due to many factors such as the presence of complex or novel legal theories, the discretion of governmental authorities in seeking sanctions or negotiating resolutions in civil and criminal matters, the pace and timing of discovery and other assessments of facts and the procedural posture of the matter (collectively, "factors influencing reasonable estimates"). As of March 31, 2018, our aggregate accruals for loss contingencies for legal and regulatory matters totaled approximately \$15 million. To the extent that we have established accruals in our consolidated statement of condition for probable loss contingencies, such accruals may not be sufficient to cover our ultimate financial exposure associated with any settlements or judgments. Any such ultimate financial exposure, or proceedings to which we may become subject in the future, could have a material adverse effect on our businesses, on our future consolidated financial statements or on our reputation. Except where otherwise noted below, we have not established significant accruals with respect to the claims discussed.

We have identified certain matters for which loss is reasonably possible (but not probable) in future periods, whether in excess of an accrued liability or where there is no accrued liability, and for which we are able to estimate a range of reasonably possible loss. As of March 31, 2018, our estimate of the range of reasonably possible loss for these matters is from zero to approximately \$30 million in the aggregate. Our estimate with respect to the aggregate range of reasonably possible loss is based upon currently available information and is subject to significant judgment and a variety of assumptions and known and unknown uncertainties. The matters underlying the estimated range will change from time to time, and actual results may vary significantly from the current estimate.

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

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

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

**Invoicing Matter**

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

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

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

significant percentage, or a multiple of, the portion of the overcharging serving as the basis of such a claim or of the full amount overcharged. The governmental and regulatory authorities have significant discretion in civil and criminal matters as to the fines and other penalties they may seek to impose. The severity of such fines or other penalties could take into account factors such as the amount and duration of our incorrect invoicing, the government's or regulator's assessment of the conduct of our employees, as well as prior conduct such as that which resulted in our January 2017 deferred prosecution agreement in connection with transition management services and our recent settlement of civil claims regarding our indirect foreign exchange business.

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

**Federal Reserve/Massachusetts Division of Banks Written Agreement**

On June 1, 2015, we entered into a written agreement with the Federal Reserve and the Massachusetts Division of Banks relating to deficiencies identified in our compliance programs with the requirements of the Bank Secrecy Act, AML regulations and U.S. economic sanctions regulations promulgated by OFAC. As part of this enforcement action, we have been required to, among other things, implement improvements to our compliance programs and to retain an independent firm to conduct a review of account and transaction activity to evaluate whether any suspicious activity was not previously reported. If we fail to comply with the terms of the written agreement, we may become subject to fines and other regulatory sanctions, which may have a material adverse effect on us.

**Shareholder Litigation**

A State Street shareholder has filed a purported class action complaint against the Company alleging that the Company's financial statements in its annual reports for the 2011-2014 period were misleading due to the inclusion of revenues associated with the invoicing matter referenced above and the facts surrounding our 2017 settlements with the U.S. government relating to our transition management business. In addition, a State Street shareholder has filed a derivative complaint against the Company's past and present officers and directors to recover alleged losses incurred by the Company relating to the invoicing matter and to our Ohio public retirement plans matter.

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Income Taxes

In determining our provision for income taxes, we make certain judgments and interpretations with respect to tax laws in jurisdictions in which we have business operations. Because of the complex nature of these laws, in the normal course of our business, we are subject to challenges from U.S. and non-U.S. income tax authorities regarding the amount of income taxes due. These challenges may result in adjustments to the timing or amount of taxable income or deductions or the allocation of taxable income among tax jurisdictions. We recognize a tax benefit when it is more likely than not that our position will result in a tax deduction or credit. Unrecognized tax benefits of approximately \$83 million as of March 31, 2018 decreased from \$94 million as of December 31, 2017.

We are presently under audit by a number of tax authorities, and the Internal Revenue Service is currently reviewing our U.S. income tax returns for the tax years 2014 and 2015. The earliest tax year open to examination in jurisdictions where we have material operations is 2011. Management believes that we have sufficiently accrued liabilities as of March 31, 2018 for tax exposures.

Note 11. Variable Interest Entities

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

Tax Exempt Investment Program

In the normal course of our business, we structure and sell certificated interests in pools of tax exempt investment grade assets, principally to our mutual fund clients. We structure these pools as partnership trusts, and the assets and liabilities of the trusts are recorded in our consolidated statement of condition as AFS investment securities and other short term borrowings. As of March 31, 2018 and December 31, 2017, we carried AFS investment securities, composed of securities related to state and political subdivisions, with a fair value of \$1.21 billion and \$1.25 billion, respectively, and other short term borrowings of \$1.06 billion and \$1.08 billion, respectively, in our consolidated statement of condition in connection with these trusts. The interest income and interest expense generated by the investments and certificated interests, respectively, are recorded as components of NII when earned or incurred. The trusts had a weighted average life of approximately 3.9 years as of March 31, 2018, compared to approximately 4.6 years as of December 31, 2017.

Interests in Investment Funds

As of March 31, 2018, the aggregate assets and liabilities of our consolidated sponsored investment funds totaled \$147 million and \$46 million, respectively. As of December 31, 2017, the aggregate assets and liabilities of our consolidated sponsored investment funds totaled \$149 million and \$50 million, respectively.

As of March 31, 2018, our potential maximum total exposure associated with the consolidated sponsored investment funds totaled \$100 million and represented the value of our economic ownership interest in the funds.

As of March 31, 2018 and December 31, 2017, we managed certain funds, considered VIEs, in which we held a variable interest but for which we were not deemed to be the primary beneficiary. Our potential maximum loss exposure related to these unconsolidated funds totaled \$75 million and \$72 million as of March 31, 2018 and December 31, 2017, respectively, and represented the carrying value of our investments, which are recorded in either AFS investment securities or other assets in our consolidated statement of condition. The amount of loss we may recognize during any period is limited to the carrying amount of our investments in the unconsolidated funds.

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## Note 12. Shareholders' Equity

## 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:

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

|                  | Three Months 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:

|              | Three Months Ended                     |   |
|--------------|--|---|
|              | March 31, 2018                         |   |
|              | Shares<br>Acquired<br>(In<br>millions) | Total<br>Average<br>Cost per<br>Share<br>(In<br>millions) |
| 2017 Program | 3.3                                    | \$ 105.31   |
|              |  | \$ 350  |

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

| Three Months Ended March 31,                                       |  |
|--|--|
| 2018   | 2017   |
| Dividends<br>Total<br>Declared<br>(In<br>per<br>Share<br>millions) | Dividends<br>Total<br>Declared<br>(In<br>per<br>Share<br>millions) |
| Common Stock \$0.42 \$ 154   | \$0.38 \$ 144  |

Accumulated Other Comprehensive Income (Loss)

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

| (In millions)   | March<br>31, 2018 | December<br>31, 2017 |
|---|-------------------|----------------------|
| Net unrealized gains (losses) on cash flow hedges   | \$(153 )          | \$(56 )              |
| Net unrealized gains (losses) on available-for-sale securities portfolio                            | 10                | 148                  |
| Net unrealized gains (losses) related to reclassified available-for-sale securities                 | 22                | 19                   |
| Net unrealized gains (losses) on available-for-sale securities                                      | 32                | 167                  |
| Net unrealized gains (losses) on available-for-sale securities designated in fair value hedges      | (60 )             | (64 )                |
| Net unrealized gains (losses) on hedges of net investments in non-U.S. subsidiaries                 | (101 )            | (65 )                |
| Other-than-temporary impairment on held-to-maturity securities related to factors other than credit | (6 )              | (6 )                 |
| Net unrealized gains (losses) on retirement plans   | (158 )            | (170 )               |
| Foreign currency translation  | (628 )            | (815 )               |
| Total   | \$(1,074)         | \$(1,009 )           |

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

| (In millions)  | Three Months Ended March 31, 2018                                      |  |  |  |  |                                    |           |
|--|--|--|--|--|--|------------------------------------|-----------|
|  | Net<br>Unrealized<br>Gains<br>(Losses)<br>on<br>Cash<br>Flow<br>Hedges | Net<br>Unrealized<br>Gains<br>(Losses)<br>on<br>Available-for-<br>Sale<br>Securities | Net<br>Unrealized<br>Gains<br>(Losses)<br>on<br>Hedges of<br>Net<br>Investment<br>in<br>Non-U.S.<br>Subsidiaries | Other-Than-<br>Temporary<br>Impairment<br>on<br>Held-to-Maturity<br>Securities | Net<br>Unrealized<br>Losses<br>on<br>Retirement<br>Plans | Foreign<br>Currency<br>Translation | Total     |
| Balance as of December 31, 2017                            | \$(56 )  | \$ 103   | \$(65 )  | \$(6 )   | \$(170 )   | \$(815 )                           | \$(1,009) |
| Other comprehensive income (loss) before reclassifications | (97 )  | (130 )   | (36 )  | 1  | 25   | 187                                | (50 )     |
| Amounts reclassified into (out of) earnings                | —  | (1 )   | —  | (1 )   | (13 )  | —                                  | (15 )     |
| Other comprehensive income (loss)                          | (97 )  | (131 )   | (36 )  | —  | 12   | 187                                | (65 )     |
| Balance as of March 31, 2018                               | \$(153)  | \$ (28 )   | \$(101 )   | \$(6 )   | \$(158 )   | \$(628 )                           | \$(1,074) |

Three Months Ended March 31, 2017

(In millions)

Total

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|   | Net<br>Unrealized<br>Gains<br>(Losses)<br>on<br>Cash<br>Flow<br>Hedges | Net<br>Unrealized<br>Gains<br>(Losses)<br>on<br>Available-for-<br>Sale<br>Securities | Net<br>Unrealized<br>Gains<br>(Losses)<br>on<br>Hedges<br>of Net<br>Investments<br>in<br>Non-U.S.<br>Subsidiaries | Other-Than-Temporary<br>Impairment<br>on<br>Held-to-Maturity<br>Securities | Temporary<br>Unrealized<br>Losses<br>on<br>Retirement<br>Plans | Foreign<br>Currency<br>Translation |            |
|---|--|--|---|--|--|------------------------------------|------------|
| Balance as of December 31, 2016                               | \$229  | \$ (286 )  | \$ 95   | \$ (9 )  | \$ (194 )  | \$ (1,875 )                        | \$ (2,040) |
| Other comprehensive income (loss)<br>before reclassifications | (70 )  | 231  | (14 )   | 1  | —  | 105                                | 253        |
| Amounts reclassified into (out of)<br>earnings                | —  | (24 )  | —   | —  | 6  | —                                  | (18 )      |
| Other comprehensive income (loss)                             | (70 )  | 207  | (14 )   | 1  | 6  | 105                                | 235        |
| Balance as of March 31, 2017                                  | \$159  | \$ (79 )   | \$ 81   | \$ (8 )  | \$ (188 )  | \$ (1,770 )                        | \$ (1,805) |

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The following table presents after-tax reclassifications into earnings for the periods indicated:

| (In millions)   | Three<br>Months<br>Ended<br>March 31,<br>2018 2017 | Amounts<br>Reclassified<br>into<br>(out of)<br>Earnings | Affected Line Item in Consolidated<br>Statement of Income      |
|---|--|---|--|
| Cash flow hedges:   |  |   |  |
| Available-for-sale securities:  |  |   |  |
| Net realized gains (losses) from sales of available-for-sale securities, net of related taxes of \$(1) and \$16, respectively | \$(1 )   | \$(24)  | Net gains (losses) from sales of available-for-sale securities |
| Held-to-maturity securities:  |  |   |  |
| Other-than-temporary impairment on held-to-maturity securities related to factors other than credit                           | (1 )   | —   | Losses reclassified (from) to other comprehensive income       |
| Retirement plans:   |  |   |  |
| Amortization of actuarial losses, net of related taxes of (\$28) and (\$3), respectively                                      | (13 )  | 6   | Compensation and employee benefits expenses                    |
| Total reclassifications (out of) into AOCI  | \$(15)   | \$(18)  |  |

## Note 13. Regulatory Capital

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

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

The methods for the calculation of our and State Street Bank's risk-based capital ratios will change as the provisions of the Basel III final rule related to the numerator (capital) and denominator (risk-weighted assets) are phased in, and as we begin calculating our risk-weighted assets using the advanced approaches. These ongoing methodological changes will result in differences in our reported capital ratios from one reporting period to the next that are independent of applicable changes to our capital base, our asset composition, our off-balance sheet exposures or our risk profile. As of March 31, 2018, State Street and State Street Bank exceeded all regulatory capital adequacy requirements to which they were subject. As of March 31, 2018, State Street Bank was categorized as "well capitalized" under the

applicable regulatory capital adequacy framework, and exceeded all “well capitalized” ratio guidelines to which it was subject. Management believes that no conditions or events have occurred since March 31, 2018 that have changed the capital categorization of State Street Bank.

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

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## STATE STREET CORPORATION

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

| (In millions)   | State Street  |   |  |  | State Street Bank   |   |  |  |
|---|---|---|--|--|---|---|--|--|
|   | Basel III<br>Advanced<br>Approaches<br>March 31,<br>2018 <sup>(1)</sup> | Basel III<br>Standardized<br>Approach<br>March 31,<br>2018 <sup>(2)</sup> | Basel III<br>Advanced<br>Approaches<br>December<br>31, 2017 <sup>(1)</sup> | Basel III<br>Standardized<br>Approach<br>December<br>31, 2017 <sup>(2)</sup> | Basel III<br>Advanced<br>Approaches<br>March 31,<br>2018 <sup>(1)</sup> | Basel III<br>Standardized<br>Approach<br>March 31,<br>2018 <sup>(2)</sup> | Basel III<br>Advanced<br>Approaches<br>December<br>31, 2017 <sup>(1)</sup> | Basel III<br>Standardized<br>Approach<br>December<br>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 )   |
| Common equity tier 1 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   |

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|                                   |           |           |           |           |           |           |           |           |  |
|-----------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|--|
| 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  |  |
| Adjusted quarterly average assets | \$219,582 | \$219,582 | \$209,328 | \$209,328 | \$216,922 | \$216,922 | \$206,070 | \$206,070 |  |

|                              |   |   |        |        |        |        |        |        |        |        |   |  |
|------------------------------|---|---|--------|--------|--------|--------|--------|--------|--------|--------|---|--|
|                              | 2018  | 2017  |        |        |        |        |        |        |        |        |   |  |
| Capital Ratios:              | Minimum Requirements Including Conservation Buffer and G-SIB Surcharge <sup>(6)</sup> | Minimum Requirements Including Conservation Buffer and G-SIB Surcharge <sup>(7)</sup> |        |        |        |        |        |        |        |        |   |  |
| Common equity tier 1 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.

(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.

<sup>NA</sup> Not applicable

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## STATE STREET CORPORATION

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

## Note 14. Net Interest Income

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

| (In millions)                                | Three<br>Months<br>Ended<br>March 31, |       |
|--|---------------------------------------|-------|
|  | 2018                                  | 2017  |
| Interest income:                             |                                       |       |
| Deposits with banks                          | \$82                                  | \$34  |
| Investment securities:                       |                                       |       |
| U.S. Treasury and federal agencies           | 255                                   | 212   |
| State and political subdivisions             | 52                                    | 59    |
| Other investments                            | 159                                   | 160   |
| Securities purchased under resale agreements | 77                                    | 46    |
| Loans and leases                             | 155                                   | 105   |
| Other interest-earning assets                | 77                                    | 34    |
| Total interest income                        | 857                                   | 650   |
| Interest expense:                            |                                       |       |
| Deposits                                     | 48                                    | 44    |
| Short-term borrowings                        | 3                                     | 2     |
| Long-term debt                               | 97                                    | 73    |
| Other interest-bearing liabilities           | 51                                    | 21    |
| Total interest expense                       | 199                                   | 140   |
| Net interest income                          | \$658                                 | \$510 |

## Note 15. Expenses

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

| (In millions)                   | Three<br>Months<br>Ended<br>March 31, |       |
|---------------------------------|---------------------------------------|-------|
|                                 | 2018                                  | 2017  |
| Insurance                       | \$32                                  | \$30  |
| Regulatory fees and assessments | 27                                    | 27    |
| Securities processing           | 11                                    | 8     |
| Other                           | 131                                   | 86    |
| Total other expenses            | \$201                                 | \$151 |

## Restructuring Charges

In the three months ended March 31, 2018 we recorded no restructuring charges, compared to \$17 million in the first quarter of 2017, related to Beacon.

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

| (In millions) | Employee Related | Real Estate | Asset and Other | Total |
|---------------|------------------|-------------|-----------------|-------|
|               | Costs            | Actions     | Write-offs      |       |



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|                                      |        |       |       |        |
|--------------------------------------|--------|-------|-------|--------|
| 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  |

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## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

## Note 16. Earnings Per Common Share

Basic EPS is calculated pursuant to the “two-class” method, by dividing net income available to common shareholders by the weighted-average common shares outstanding during the period. Diluted EPS is calculated pursuant to the two-class method, by dividing net income available to common shareholders by the total weighted-average number of common shares outstanding for the period plus the shares representing the dilutive effect of equity-based awards. The effect of equity-based awards is excluded from the calculation of diluted EPS in periods in which their effect would be anti-dilutive.

The two-class method requires the allocation of undistributed net income between common and participating shareholders. Net income available to common shareholders, presented separately in our consolidated statement of income, is the basis for the calculation of both basic and diluted EPS. Participating securities are composed of unvested and fully vested SERP shares and fully vested deferred director stock awards, which are equity-based awards that contain non-forfeitable rights to dividends, and are considered to participate with the common stock in undistributed earnings.

The following table presents the computation of basic and diluted earnings per common share for the periods indicated:

|   | Three Months<br>Ended March<br>31, |         |
|---|------------------------------------|---------|
| (Dollars in millions, except per share amounts)   | 2018                               | 2017    |
| Net income  | \$661                              | \$502   |
| Less:   |                                    |         |
| Preferred stock dividends   | (55)                               | (55)    |
| Dividends and undistributed earnings allocated to participating securities <sup>(1)</sup> | (1)                                | (1)     |
| Net income available to common shareholders   | \$605                              | \$446   |
| Average common shares outstanding (In thousands):   |                                    |         |
| Basic average common shares   | 367,439                            | 381,224 |
| Effect of dilutive securities: equity-based awards  | 5,180                              | 5,193   |
| Diluted average common shares   | 372,619                            | 386,417 |
| Anti-dilutive securities <sup>(2)</sup>   | —                                  | 580     |
| Earnings per Common Share:  |                                    |         |
| Basic   | \$1.65                             | \$1.17  |
| Diluted <sup>(3)</sup>  | 1.62                               | 1.15    |

<sup>(1)</sup> Represents the portion of net income available to common equity allocated to participating securities, composed of unvested and fully vested SERP shares and fully vested deferred director stock awards, which are equity-based awards that contain non-forfeitable rights to dividends, and are considered to participate with the common stock in undistributed earnings.

<sup>(2)</sup> Represents equity-based awards outstanding but not included in the computation of diluted average common shares, because their effect was anti-dilutive. For additional information about equity-based awards, refer to pages 173 to 175 in Note 18 to the consolidated financial statements included under Item 8, Financial Statements and Supplementary Data, in our 2017 Form 10-K.

<sup>(3)</sup> Calculations reflect allocation of earnings to participating securities using the two-class method, as this computation is more dilutive than the treasury stock method.



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## STATE STREET CORPORATION

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

## Note 17. Line of Business Information

Our operations are organized into two lines of business: Investment Servicing and Investment Management, which are defined based on products and services provided. The results of operations for these lines of business are not necessarily comparable with those of other companies, including companies in the financial services industry. For information about our two lines of business, as well as revenues, expenses and capital allocation methodologies associated with them, refer to pages 179 to 181 in Note 24 to the consolidated financial statements included under Item 8, Financial Statements and Supplementary Data, in our 2017 Form 10-K.

The following is a summary of our line-of-business results for the periods indicated. The "Other" column represents costs incurred that are not allocated to a specific line of business, including certain severance and restructuring costs, acquisition costs and certain provisions for legal contingencies.

|  | Three Months Ended March 31, |         |                       |      |         |         |         |   |
|--|------------------------------|---------|-----------------------|------|---------|---------|---------|---|
|  | Investment Servicing         |         | Investment Management |      | Other   | Total   |         |   |
|  | 2018                         | 2017    | 2018                  | 2017 |         | 2018    | 2017    |   |
| (Dollars in millions)                                |                              |         |                       |      |         |         |         |   |
| Servicing fees                                       | \$1,421                      | \$1,296 | \$—                   | \$—  | \$—     | \$1,421 | \$1,296 |   |
| Management fees                                      | —                            | —       | 472                   | 382  | —       | 472     | 382     |   |
| Trading services                                     | 274                          | 257     | 30                    | 18   | —       | 304     | 275     |   |
| Securities finance                                   | 141                          | 133     | —                     | —    | —       | 141     | 133     |   |
| Processing fees and other                            | 25                           | 106     | —                     | 6    | —       | 25      | 112     |   |
| Total fee revenue                                    | 1,861                        | 1,792   | 502                   | 406  | —       | 2,363   | 2,198   |   |
| Net interest income                                  | 663                          | 509     | (5 )                  | 1    | —       | 658     | 510     |   |
| Gains (losses) related to investment securities, net | (2 )                         | (40 )   | —                     | —    | —       | (2 )    | (40 )   |   |
| Total revenue  | 2,522                        | 2,261   | 497                   | 407  | —       | 3,019   | 2,668   |   |
| Provision for loan losses                            | —                            | (2 )    | —                     | —    | —       | —       | (2 )    |   |
| Total expenses                                       | 1,858                        | 1,728   | 398                   | 329  | —29     | 2,256   | 2,086   |   |
| Income before income tax expense                     | \$664                        | \$535   | \$99                  | \$78 | \$—(29) | \$763   | \$584   |   |
| Pre-tax margin                                       | 26                           | % 24    | % 20                  | % 19 | %       | 25      | % 22    | % |

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(UNAUDITED)

Note 18. Revenue from Contracts with Customers

We account for revenue from contracts with customers in accordance with Topic 606, which we adopted on January 1, 2018. See Note 1 for further discussion of our adoption, including the impact on our consolidated financial statements.

The amount of revenue that we recognize is measured based on the consideration specified in contracts with our customers, and excludes taxes collected from customers subsequently remitted to governmental authorities. We recognize revenue when a performance obligation is satisfied over time as the services are performed or at a point in time depending on the nature of the services provided as further discussed below. Revenue recognition guidance related to contracts with customers excludes our NII, revenue earned on security lending transactions entered into as principal, realized gains/losses on securities, revenue earned on foreign exchange activity, loans and related fees, and gains/ losses on hedging and derivatives, to which we apply other applicable U.S. GAAP guidance.

For contracts with multiple performance obligations, or contracts that have been combined, we allocate the contracts' transaction price to each performance obligation using our best estimate of the standalone selling price. Our contractual fees are negotiated on a customer by customer basis and are representative of standalone selling price utilized for allocating revenue when there are multiple performance obligations.

Substantially all of our services are provided as a distinct series of daily performance obligations that the customer simultaneously benefits from as they are performed. Payments may be made to third party service providers and the expense is recognized gross when we control those services as we are deemed the principal.

Contract durations may vary from short to long term or may be open ended. Termination notice periods are in line with general market practice and typically do not include termination penalties. Therefore for substantially all of our revenues, the duration of the contract and the enforceable rights and obligations do not extend beyond the services that are performed daily or at the transaction level. In instances where we have substantive termination penalties, the duration of the contract may extend through the date of substantive termination penalties.

Investment Servicing

Revenue from contracts with customers related to servicing fees is recognized over time as our customers benefit from the custody, administration, accounting, transfer agency and other related asset services as they are performed. At contract inception no revenue is estimated as the fees are dependent on assets under custody and administration and/or actual transactions which are susceptible to market factors outside of our control. Therefore, revenue is recognized using a time-based output method as the customers benefit from the services over time and as the assets under custody or transactions are known or determinable during each reporting period based on contractual fee schedules. Payments made to third party service providers, such as sub-custodians, are generally recognized gross as State Street controls those services and is deemed to be a principal in such arrangements.

Trading services revenue includes revenue generated from providing access and use of electronic trading platforms and other trading, transition management and brokerage services. Electronic FX services are dependent on the volume of actual transactions initiated through our electronic exchange platforms. Revenue is recognized over time using a time-based measure as access to, and use of, the electronic exchange platforms is made available to the customer and the activity is determinable. Revenue related to other trading, transition management and brokerage services is recognized when the customer obtains the benefit of such services which may be over time or at a point in time upon trade execution.

Securities finance revenue is related to services for providing agency lending programs to SSGA-managed investment funds and third-party investment managers and asset owners. This securities finance revenue is recognized over time using a time-based measure as our customers benefit from these lending services over time.

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## STATE STREET CORPORATION

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

## Investment Management

Revenue from contracts with customers related to investment management, investment research and investment advisory services provided through SSGA is recognized over time as our customers benefit from the services as they are performed. Substantially all of our investment management fees are determined by the value of assets under management and the investment strategies employed. At contract inception, no revenue is estimated as the fees are dependent on assets under management which are susceptible to market factors outside of our control.

Therefore, substantially all of our Investment Management services revenue is recognized using a time-based output method as the customers benefit from the services over time and as the assets under management are known or determinable during each reporting period based on contractual fee schedules. Payments made to third party service providers, such as payments to others in unitary fee arrangements, are generally recognized on a gross basis when SSGA controls those services and is deemed to be a principal in such transactions.

## Revenue by category

In the following table, revenue is disaggregated by our two lines of business and by revenue stream for which the nature, amount, timing, and uncertainty of revenue and cash flows are affected by economic factors.

| (Dollars in millions)      | Three Months Ended March 31, 2018 |                         |         |                         |                         |       |         |
|----------------------------|-----------------------------------|-------------------------|---------|-------------------------|-------------------------|-------|---------|
|                            | Investment Servicing              |                         |         | Investment Management   |                         | Total |         |
|                            | Topic<br>606<br>revenue           | All<br>other<br>revenue | Total   | Topic<br>606<br>revenue | All<br>other<br>revenue | Total | 2018    |
| Servicing fees             | \$1,421                           | \$ —                    | \$1,421 | \$—                     | \$ —                    | \$—   | \$1,421 |
| Management fees            | —                                 | —                       | —       | 472                     | —                       | 472   | 472     |
| Trading services           | 95                                | 179                     | 274     | 30                      | —                       | 30    | 304     |
| Securities finance         | 77                                | 64                      | 141     | —                       | —                       | —     | 141     |
| Processing fees and other  | 19                                | 6                       | 25      | —                       | —                       | —     | 25      |
| Total fee revenue          | 1,612                             | 249                     | 1,861   | 502                     | —                       | 502   | 2,363   |
| Net interest income        | —                                 | 663                     | 663     | —                       | (5 )                    | (5 )  | 658     |
| Securities gains/ (losses) | —                                 | (2 )                    | (2 )    | —                       | —                       | —     | (2 )    |
| Total revenue              | \$1,612                           | \$ 910                  | \$2,522 | \$502                   | \$ (5 )                 | \$497 | \$3,019 |

## Contract balances and contract costs

As of December 31, 2017 and March 31, 2018, net receivables of \$2.6 billion and \$2.7 billion, respectively, are included in Accrued interest and fees receivable, representing amounts billed or currently billable to or due from our customers related to revenue from contracts with customers. As performance obligations are satisfied, we have an unconditional right to payment following which billing is generally performed monthly and therefore does not give rise to significant contract assets or liabilities.

No adjustments are made to the promised amount of consideration for the effects of a significant financing component as the period between when we transfer a promised service to a customer and when the customer pays for that service is expected to be one year or less.

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## STATE STREET CORPORATION

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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## Note 19. Non-U.S. Activities

We define our non-U.S. activities as those revenue-producing business activities that arise from clients which are generally serviced or managed outside the U.S. Due to the integrated nature of our business, precise segregation of our U.S. and non-U.S. activities is not possible.

Subjective estimates, assumptions and other judgments are applied to quantify the financial results and assets related to our non-U.S. activities, including our application of funds transfer pricing, our asset and liability management policies and our allocation of certain indirect corporate expenses. Management periodically reviews and updates its processes for quantifying the financial results and assets related to our non-U.S. activities.

The following table presents our U.S. and non-U.S. financial results for the periods indicated:

|                            | Quarters Ended March 31, |         |         |          |         |         |
|----------------------------|--------------------------|---------|---------|----------|---------|---------|
|                            | 2018                     |         | 2017    |          |         |         |
| (In millions)              | Non-U.S.                 | U.S.    | Total   | Non-U.S. | U.S.    | Total   |
| Total revenue              | \$1,321                  | \$1,698 | \$3,019 | \$1,096  | \$1,572 | \$2,668 |
| Income before income taxes | 395                      | 368     | 763     | 262      | 322     | 584     |

Non-U.S. assets were \$78.5 billion and \$71.6 billion as of March 31, 2018 and 2017, respectively.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Shareholders and Board of Directors of  
State Street Corporation  
Results of Review of Interim Financial Statements

We have reviewed the accompanying consolidated statement of condition of State Street Corporation (the "Corporation") as of March 31, 2018, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the three-month periods ended March 31, 2018 and 2017, and the related condensed notes (collectively referred to as the "condensed consolidated interim financial statements"). Based on our reviews, we are not aware of any material modifications that should be made to the condensed consolidated interim financial statements for them to be in conformity with U.S. generally accepted accounting principles. We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated statement of condition of the Corporation as of December 31, 2017, the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and the related notes (not presented herein); and in our report dated February 26, 2018, we expressed an unqualified audit opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated statement of condition as of December 31, 2017, is fairly stated, in all material respects, in relation to the consolidated statement of condition from which it has been derived.

Basis for Review Results

These financial statements are the responsibility of the Corporation's management. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Corporation in accordance with the U.S. federal securities laws and the applicable rules and regulations of the SEC and the PCAOB. We conducted our review in accordance with the standards of the PCAOB. A review of interim financial statements consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the PCAOB, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

/s/ Ernst & Young LLP  
Boston, Massachusetts  
May 3, 2018

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## ACRONYMS

|                     |  |                     |  |
|---------------------|--|---------------------|--|
| 2017 Form 10-K      | State Street Corporation Annual Report on Form 10-K for the year ended December 31, 2017 | OTC                 | Over-the-counter   |
| ABS                 | Asset-backed securities  | OTTI                | Other-than-temporary-impairment                                    |
| AFS                 | Available-for-sale   | Parent Company      | State Street Corporation   |
| AIFMD               | Alternative Investment Fund Managers Directive   | PCA                 | Prompt corrective action   |
| AIRB <sup>(1)</sup> | Advanced Internal Ratings-Based Approach   | P&L                 | Profit-and-loss  |
| ALLL                | Allowance for loan and lease losses  | RC                  | Risk Committee   |
| AMA                 | Advanced Measurement Approach  | ROE                 | Return on average common equity                                    |
| AML                 | Anti-money laundering  | RWA <sup>(1)</sup>  | Risk-weighted assets   |
| AOCI                | Accumulated other comprehensive income (loss)  | SEC                 | Securities and Exchange Commission                                 |
| ASU                 | Accounting Standards Update  | SERP                | Supplemental executive retirement plans                            |
| AUCA                | Assets under custody and administration  | SLR <sup>(1)</sup>  | Supplementary leverage ratio                                       |
| AUM                 | Assets under management  | SPOE Strategy       | Single Point of Entry Strategy                                     |
| BCBS Board          | Basel Committee on Banking Supervision Board of Directors                                | SSGA                | State Street Global Advisors                                       |
| bps                 | Basis points   | SSIF                | State Street Intermediate Funding, LLC                             |
| CCAR                | Comprehensive Capital Analysis and Review  | State Street Bank   | State Street Bank and Trust Company                                |
| CD                  | Certificates of deposit  | TLAC <sup>(1)</sup> | Total loss-absorbing capacity                                      |
| CET1 <sup>(1)</sup> | Common equity tier 1   | TMRC                | Trading and Markets Risk Committee                                 |
| CLO                 | Collateralized loan obligations  | UCITS               | Undertakings for Collective Investments in Transferable Securities |
| CMO                 | Collateralized mortgage obligations  | UOM                 | Unit of measure  |
| CRE                 | Commercial real estate   | VaR                 | Value-at-Risk  |
| CVA                 | Credit valuation adjustment  | VIE                 | Variable interest entity   |
| Dodd-Frank Act      | Dodd-Frank Wall Street Reform and Consumer Protection Act                                |                     |  |
| DOJ                 | Department of Justice  |                     |  |
| DOL                 | Department of Labor  |                     |  |
| ECB                 | European Central Bank  |                     |  |
| EPS                 | Earnings per share   |                     |  |
| ERISA               | Employee Retirement Income Security Act  |                     |  |
| ERM                 | Enterprise Risk Management   |                     |  |
| ETF                 | Exchange-Traded Fund   |                     |  |
| EVE                 | Economic value of equity   |                     |  |
| FCA                 | Financial Conduct Authority  |                     |  |
| FDIC                | Federal Deposit Insurance Corporation  |                     |  |
| Federal Reserve     | Board of Governors of the Federal Reserve System   |                     |  |
| FHLB                | Federal Home Loan Bank of Boston   |                     |  |
| Form 10-Q           |  |                     |  |

State Street Corporation Quarterly Report on  
Form 10-Q

|                     |   |
|---------------------|---|
| FRBB                | Federal Reserve Bank of Boston                |
| FSB                 | Financial Stability Board                     |
| FX                  | Foreign exchange                              |
| GAAP                | Generally accepted accounting principles      |
| GEAM                | General Electric Asset Management             |
| G-SIB               | Global systemically important bank            |
| HQLA <sup>(1)</sup> | High-quality liquid assets                    |
| HTM                 | Held-to-maturity                              |
| IDI                 | Insured depository institution                |
| LCR <sup>(1)</sup>  | Liquidity coverage ratio                      |
| LTD                 | Long term debt                                |
| MBS                 | Mortgage-backed securities                    |
| MiFID II            | Markets in Financial Instruments Directive II |
| MiFIR               | Markets in Financial Instruments Regulation   |
| MRAC                | Management Risk and Capital Committee         |
| NII                 | Net interest income                           |
| NIM                 | Net interest margin                           |
| NSFR <sup>(1)</sup> | Net stable funding ratio                      |
| OCI                 | Other comprehensive income (loss)             |
| OCIO                | Outsourced Chief Investment Officer           |
| OFAC                | Office of Foreign Assets Control              |

<sup>(1)</sup> As defined by the applicable U.S. regulations.

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GLOSSARY

**Asset-backed securities:** A financial security backed by collateralized assets, other than real estate or mortgage backed securities.

**Assets under custody and administration:** Assets that we hold directly or indirectly on behalf of clients under a safekeeping or custody arrangement or for which we provide administrative services for clients. To the extent that we provide more than one AUCA service for a client's assets, the value of the asset is only counted once in the total amount of AUCA.

**Assets under management:** The total market value of client assets for which we provide investment management strategy services, advisory services and/or distribution services generating management fees based on a percentage of the assets' market values. These client assets are not included on our balance sheet.

**Beacon:** A multi-year program, announced in October 2015, to create cost efficiencies through changes in our operational processes and to further digitize our processes and interfaces with our clients.

**Certificates of deposit:** A savings certificate with a fixed maturity date, specified fixed interest rate and can be issued in any denomination aside from minimum investment requirements. A CD restricts access to the funds until the maturity date of the investment.

**Collateralized loan obligations:** A security backed by a pool of debt, primarily senior secured leveraged loans. CLOs are similar to collateralized mortgage obligations, except for the different type of underlying loan. With a CLO, the investor receives scheduled debt payments from the underlying loans, assuming most of the risk in the event borrowers default, but is offered greater diversity and the potential for higher-than-average returns.

**Commercial real estate:** Property intended to generate profit from capital gains or rental income. Our CRE loans are primarily composed of loans acquired in 2008 pursuant to indemnified repurchase agreements with an affiliate of Lehman Brothers.

**Economic value of equity:** Long-term interest rate risk measure designed to estimate the fair value of assets, liabilities and off-balance sheet instruments based on a discounted cash flow model.

**Exchange-Traded Fund:** A type of exchange-traded investment product that offer investors a way to pool their money in a fund that makes investments in stocks, bonds, or other assets and, in return, to receive an

**Investment-grade:** Loans and leases that consist of counterparties with strong credit quality and low expected credit risk and probability of default. Ratings apply to counterparties with a strong capacity to support the timely repayment of any financial commitment.

**Liquidity coverage ratio:** A Basel III framework requirement for banks and bank holding companies to measure liquidity. It is designed to ensure that certain banking institutions, including us, maintain a minimum amount of unencumbered HQLA sufficient to withstand the net cash outflow under a hypothetical standardized acute liquidity stress scenario for a 30-day stress period. The ratio of our encumbered high-quality liquid assets divided by our total net cash outflows over a 30-day stress period.

**Net asset value:** The amount of net assets attributable to each share of capital stock (other than senior securities, such as, preferred stock) outstanding at the close of the period.

**Net stable funding ratio:** The ratio of the amount of available stable funding relative to the amount of required stable funding. This ratio should be equal to at least 100% on an ongoing basis.

**Other-than-temporary-impairment:** Impairment charge taken on a security whose fair value has fallen below its carrying value on balance sheet and its value is not expected to recover through the holding period of the security.

**Probability-of-default:** An internal risk rating that indicates the likelihood that a credit obligor will enter into default status.

interest in that investment pool. ETF shares are traded on a national stock exchange and at market prices that may or may not be the same as the asset value.

Global systemically important bank: A financial institution whose or disorderly failure, because of its size, complexity and systemic interconnectedness, would cause significant disruption to the wider financial system and economic activity, which will be subject to additional capital requirements.

Held-to-maturity investment securities: We classify investments in debt securities as held-to-maturity only if we have the positive intent and ability to hold those securities to maturity. Investments in debt securities classified as held-to-maturity are measured subsequently at amortized cost in the statement of financial position.

High-quality liquid assets: Cash or assets that can be converted into cash at little or no loss of value in private markets and are considered unencumbered.

Risk-weighted assets: A measurement used to quantify risk inherent in our on and off-balance sheet assets by adjusting the asset value for risk. RWA is used in the calculation of our risk-based capital ratios.

Special mention: Loans and leases that consist of counterparties with potential weaknesses that, if uncorrected, may result in deterioration of repayment prospects.

Speculative: Loans and leases that consist of counterparties that face ongoing uncertainties or exposure to business, financial, or economic downturns. However, these counterparties may have financial flexibility or access to financial alternatives, which allow for financial commitments to be met.

Substandard: Loans and leases that consist of counterparties with well-defined weakness that jeopardizes repayment with the possibility we will sustain some loss.

Supplementary leverage ratio: The ratio of our tier 1 capital to our total leverage exposure, which measures our capital adequacy relative to our on and off-balance sheet assets.

Total loss-absorbing capacity: The sum of our tier 1 regulatory capital plus eligible external long-term debt issued by us.

Value-at-Risk: Statistical model used to measure the potential loss in value of a portfolio that could occur in normal markets condition, over a defined holding period, within a certain confidence level.

Variable interest entity: An entity that: (1) lacks enough equity investment at risk to permit the entity to finance its activities without additional financial support from other parties; (2) has equity owners that lack the right to make significant decisions affecting the entity's operations; and/or (3) has equity owners that do not have an obligation to absorb or the right to receive the entity's losses or return.

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## PART II. OTHER INFORMATION

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(c) 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).

Stock purchases may be made using various types of mechanisms, including open market purchases, accelerated share repurchases or transactions off market, and may be made under Rule 10b5-1 trading programs. The timing of stock purchases, types of transactions and number of shares purchased will

depend on several factors, including market conditions and State Street's capital positions, financial performance and investment opportunities. Our common stock purchase programs do not have specific price targets and may be suspended at any time.

The following table presents purchases of our common stock under the 2017 Program and related information for each of the months in the quarter ended March 31, 2018. We may employ third-party broker/dealers to acquire shares on the open market in connection with our common stock purchase programs.

| (Dollars in millions, except per share amounts, shares in thousands) | Total<br>Number of<br>Shares<br>Purchased | Average<br>Price<br>Paid Per<br>Share | Total<br>Number of<br>Shares<br>Purchased<br>as Part of<br>Publicly<br>Announced<br>Program | Approximate<br>Dollar Value<br>of Shares<br>That May<br>Purchased<br>Under<br>Publicly<br>Announced<br>Program |
|--|---|---------------------------------------|---|--|
| Period:  |   |                                       |   |  |
| January 1 - January 31, 2018   | —   | \$—                                   | —   | \$ 700   |
| February 1 - February 28, 2018                                       | 477                                       | 108.04                                | 477   | 649  |
| March 1 - March 31, 2018   | 2,847                                     | 104.85                                | 2,847   | 350  |
| Total  | 3,324                                     | \$105.31                              | 3,324   | \$ 350   |

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ITEM 6. EXHIBITS

| Exhibit No.   | Exhibit Description  |
|---------------|--|
| <u>10.1</u> † | <u>Form of Employment Agreement entered into with each of Eric W. Aboaf, Andrew Erickson, Ronald P. O'Hanley, and Cyrus Taraporevala</u> |
| <u>10.2</u> † | <u>Employment Letter Agreements entered into with Andrew Erickson dated August 21, 2012, November 19, 2012, and May 25, 2016</u>         |
| <u>10.3</u> † | <u>Supplemental Cash Incentive Plan, as amended, First Amendment thereto, and form of award agreement thereunder</u>                     |
| <u>10.4</u> † | <u>State Street's 2017 Stock Incentive Plan, and forms of award agreements thereunder</u>  |
| <u>10.5</u> † | <u>Amended and Restated SSGA Long Term Incentive Plan, First Amendment thereto, and form of award agreement thereunder</u>               |
| <u>12</u>     | <u>Statement of Ratios of Earnings to Fixed Charges</u>  |
| <u>15</u>     | <u>Letter regarding unaudited interim financial information</u>  |
| <u>31.1</u>   | <u>Rule 13a-14(a)/15d-14(a) Certification of Chairman and Chief Executive Officer</u>  |
| <u>31.2</u>   | <u>Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer</u>   |
| <u>32</u>     | <u>Section 1350 Certifications</u>   |

\* 101.INS XBRL Instance Document

\* 101.SCH XBRL Taxonomy Extension Schema Document

\* 101.CAL XBRL Taxonomy Calculation Linkbase Document

\* 101.DEF XBRL Taxonomy Extension Definition Linkbase Document

\* 101.LAB XBRL Taxonomy Label Linkbase Document

\* 101.PRE XBRL Taxonomy Presentation Linkbase Document

† Denotes management contract or compensatory plan or arrangement

\* Submitted electronically herewith

Attached as Exhibit 101 to this report are the following formatted in XBRL (Extensible Business Reporting Language): (i) consolidated statement of income for the three months ended March 31, 2018 and 2017, (ii) consolidated statement of comprehensive income for the three months ended March 31, 2018 and 2017, (iii) consolidated statement of condition as of March 31, 2018 and December 31, 2017, (iv) consolidated statement of changes in shareholders' equity for the three months ended March 31, 2018 and 2017, (v) consolidated statement of cash flows for the three months ended March 31, 2018 and 2017, and (vi) notes to consolidated financial statements.





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SIGNATURES

Pursuant to the requirement of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

STATE STREET CORPORATION  
(Registrant)

Date: May 3, 2018 By: /s/ ERIC W. ABOAF  
Eric W. Aboaf,  
Executive Vice President and Chief Financial Officer (Principal Financial Officer)

Date: May 3, 2018 By: /s/ ELIZABETH M. SCHAEFER  
Elizabeth M. Schaefer,  
Senior Vice President, Deputy Controller and Chief Accounting Officer (Interim)  
(Principal Accounting Officer)

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