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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, DC 20549**

**Form 10-Q**

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| ☒ | **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** |

**For the quarterly period ended September 30, 2019**

**OR**

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| ☐ | **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)

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|  |  | **Massachusetts** |  | **04-2456637** | | | | |
| (State or other jurisdiction of incorporation) | | | | (I.R.S. Employer Identification No.) | | | | |
|  | **One Lincoln Street** | | |  | | | | |
|  | **Boston,** | **Massachusetts** | **02111** |  |  | **(617)** | **786-3000** | |
| (Address of principal executive offices, and Zip Code) | | | | (Registrant’s telephone number, including area code) | | | | |

Securities registered pursuant to section 12(b) of the Act:

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| **Title of each class** |  | **Trading Symbol(s)** |  | **Name of each exchange on which registered** |
| Common stock, $1 par value per share |  | STT |  | New York Stock Exchange |
| Depositary Shares, each representing a 1/4,000th ownership interest in a share of |  | STT.PRC |  | New York Stock Exchange |
| Non-Cumulative Perpetual Preferred Stock, Series C, without par value per share |  |  |
|  |  |  |  |  |
| Depositary Shares, each representing a 1/4,000th ownership interest in a share of |  | STT.PRD |  | New York Stock Exchange |
| Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series D, without par value per share |  |  |
|  |  |  |  |  |
| Depositary Shares, each representing a 1/4,000th ownership interest in a share of |  | STT.PRE |  | New York Stock Exchange |
| Non-Cumulative Perpetual Preferred Stock, Series E, without par value per share |  |  |
|  |  |  |  |  |
| Depositary Shares, each representing a 1/4,000th ownership interest in a share of |  | STT.PRG |  | New York Stock Exchange |
| Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series G, without par value per share |  |  |

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

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

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

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| Large accelerated filer | ☒ |  | Accelerated filer | ☐ |  | Non-accelerated filer | ☐ |  | Smaller reporting company | ☐ |
| Emerging growth company | ☐ |  |  |  |  |  | | | |  |

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  Yes  ☐  No  ☒

The number of shares of the registrant’s common stock outstanding as of October 23, 2019 was 363,623,285.

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**STATE STREET CORPORATION**

**QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTERLY PERIOD ENDED**

**September 30, 2019**

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| **STATE STREET CORPORATION** | |
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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 following the consolidated financial statements in this Form 10-Q.

State Street Corporation | 3

**MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION**

**AND RESULTS OF OPERATIONS**

**GENERAL**

State Street Corporation, referred to as the Parent Company, is a financial holding company organized in 1969 under the laws of the Commonwealth of Massachusetts. Our executive offices are located at One Lincoln Street, Boston, Massachusetts 02111 (telephone (617) 786-3000). For purposes of this Quarterly Report on Form 10-Q for the quarter ended September 30, 2019 (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 and Trust Company, referred to as State Street Bank, we provide a broad range of financial products and services to institutional investors worldwide, with $32.90 trillion of AUC/A and $2.95 trillion of AUM as of September 30, 2019.

As of September 30, 2019, we had consolidated total assets of $244.61 billion, consolidated total deposits of $170.89 billion, consolidated total shareholders' equity of $25.21 billion and 39,407 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 18 to the consolidated financial statements in this Form 10-Q.

This Management's Discussion and Analysis is part of the Form 10-Q and updates the Management's Discussion and Analysis in our 2018 Annual Report on Form 10-K for the year ended December 31, 2018 previously filed with the SEC (2018 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 2018 Form 10-K and in Exhibit 99.2 to our Form 8-K dated May 2, 2019 (the 2018 Annual Financial Statements). 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:

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| • | accounting for fair value measurements; |

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| • | impairment of goodwill and other intangible assets; and |

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| • | 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 116, “Significant Accounting Estimates” included under Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, in our 2018 Form 10-K. We did not change these significant accounting policies in the first nine months of 2019.

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 FTE NII, a non-GAAP measure, which reports non-taxable revenue, such as interest income associated with tax-exempt investment securities, on a FTE 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

State Street Corporation | 4

**MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION**

**AND RESULTS OF OPERATIONS**

supplemental qualitative and quantitative information with respect to regulatory capital (including market risk associated with our trading activities) and the LCR, 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” section of our corporate website at *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 our 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,” “seek,” “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 U.S. 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:

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| • | 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 or securities lending agent; |

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| • | 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; |

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| • | the volatility of servicing fee, management fee, trading fee and securities finance revenues due to, among other factors, the value of equity and fixed-income markets, market interest and FX rates, the volume of client transaction activity, competitive pressures in the investment servicing and asset management industries, and the timing of revenue recognition with respect to processing fees and other revenues; |

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| • | 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; |

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| • | the level, volatility and uncertainty of interest rates; the expected discontinuation of Interbank Offered Rates including London Interbank Offered Rate (LIBOR); the valuation of the U.S. dollar relative to other currencies in which we record revenue or accrue expenses; 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; |

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| • | 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 OTTI of such securities and the recognition of an impairment loss in our consolidated statement of income; |

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| • | our ability to attract deposits and other low-cost, |

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**MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION**

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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;

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| • | the manner and timing with which the Federal Reserve and other U.S. and non-U.S. 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 and implementation of international standards applicable to financial institutions, such as those proposed by the Basel Committee and European legislation (such as Undertakings for Collective Investments in Transferable Securities (UCITS) V, the Money Market Fund Regulation and the Markets in Financial Instruments Directive (MiFID II)/Markets in Financial Instruments Regulation (MiFIR)); among other consequences, these regulatory changes impact the levels of regulatory capital, long-term debt 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 heightened standards and changes in regulatory expectations for global systemically important financial institutions applicable to, among other things, risk management, liquidity and capital planning, resolution planning and compliance programs, as well as changes in governmental enforcement approaches to perceived failures to comply with regulatory or legal obligations; |

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| • | 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; |

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| • | 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 repurchases, without which our growth plans, distributions to shareholders, share repurchase programs or other capital or corporate initiatives may be restricted;

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| • | 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, without limitation, 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; |

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| • | 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 exit from the European Union or actual or potential changes in trade policy, such as tariffs or bilateral and multilateral trade agreements; |

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| • | 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; |

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| • | 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, reputational and other consequences of our failure to meet such expectations; |

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| • | the impact on our compliance and controls enhancement programs associated with the appointment of a monitor under the deferred prosecution agreement with the DOJ and compliance consultant appointed under a settlement with the SEC, including the potential for such monitor and compliance consultant to require changes to our programs or to identify other issues that require substantial expenditures, changes in our operations, payments to clients or reporting to U.S. authorities; |

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|  |  |
| • | 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 or penalties |

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**MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION**

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imposed by governmental authorities;

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| • | our ability to expand our use of technology to enhance the efficiency, accuracy and reliability of our operations and our dependencies on information technology; to replace and consolidate systems, particularly those relying upon older technology, and to adequately incorporate resiliency and business continuity into our systems management; to implement robust management processes into our technology development and maintenance programs; and to control risks related to use of technology, including cyber-crime and inadvertent data disclosures; |

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| • | our ability to identify and address threats to our information technology infrastructure and systems (including those of our third-party service providers); the effectiveness of our and our third party service providers' efforts to manage the resiliency of the systems on which we rely; controls regarding the access to, and integrity of, our and our clients' data; and complexities and costs of protecting the security of such systems and data; |

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

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| • | 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; |

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| • | 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 AUC/A 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 revenue in the event a client re-balances or changes its investment approach, re-directs assets to lower- or higher-fee asset classes or changes the mix of products or services that it receives from us; |

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

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

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

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

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

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| • | 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; |

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| • | changes or potential changes to the competitive environment, due to, among other things, regulatory and technological changes, the effects of industry consolidation and perceptions of us, as a suitable service provider or counterparty; |

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| • | our ability to complete acquisitions, joint ventures and divestitures, including, without limitation, our ability to obtain regulatory approvals, the ability to arrange financing as required and the ability to satisfy closing conditions; |

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| • | the risks that our acquired businesses, including, without limitation, our acquisition of Charles River Systems, Inc. (CRD), 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; |

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| • | our ability to integrate CRD's front office software solutions with our middle and back office capabilities to develop a front-to-middle-to-back office platform that is competitive, generates revenues in line with our expectations and meets our clients' requirements; |

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| • | 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; |

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| • | our ability to grow revenue, manage expenses, |

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**MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION**

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attract and retain highly skilled people and raise the capital necessary to achieve our business goals and comply with regulatory requirements and expectations;

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| • | changes in accounting standards and practices; and |

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| • | 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.

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*or on the “Investor Relations” section of our corporate website at *www.statestreet.com*.

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**MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION**

**AND RESULTS OF OPERATIONS**

**OVERVIEW OF FINANCIAL RESULTS**

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| **TABLE 1: OVERVIEW OF FINANCIAL RESULTS** | | | | | | | | | | | |
|  | | **Three Months Ended September 30,** | | | | | | |  |  | |
| **(Dollars in millions, except per share amounts)** | | **2019** | | |  | **2018** | | |  | **% Change** | |
| Total fee revenue(1) | | **$** | **2,259** |  |  | $ | 2,318 |  |  | (3 | )% |
| Net interest income | | **644** | |  |  | 672 | |  |  | (4 | ) |
| Gains (losses) related to investment securities, net | | **—** | |  |  | (1 | | ) |  | nm |  |
| Total revenue(1) | | **2,903** | |  |  | 2,989 | |  |  | (3 | ) |
| Provision for loan losses | | **2** | |  |  | 5 | |  |  | (60 | ) |
| Total expenses(1) | | **2,180** | |  |  | 2,091 | |  |  | 4 |  |
| Income before income tax expense | | **721** | |  |  | 893 | |  |  | (19 | ) |
| Income tax expense | | **138** | |  |  | 129 | |  |  | 7 |  |
| Net income | | **$** | **583** |  |  | $ | 764 |  |  | (24 | ) |
| Adjustments to net income: | |  | | |  |  | | |  |  | |
| Dividends on preferred stock(2) | | **$** | **(55** | **)** |  | $ | (55 | ) |  | — |  |
| Earnings allocated to participating securities(3) | | **—** | |  |  | (1 | | ) |  | (100 | ) |
| Net income available to common shareholders | | **$** | **528** |  |  | $ | 708 |  |  | (25 | ) |
| Earnings per common share: | |  | | |  |  | | |  |  | |
| Basic | | **$** | **1.44** |  |  | $ | 1.89 |  |  | (24 | ) |
| Diluted | | **1.42** | |  |  | 1.87 | |  |  | (24 | ) |
| Average common shares outstanding (in thousands): | |  | | |  |  | | |  |  | |
| Basic | | **366,732** | |  |  | 374,963 | |  |  | (2 | ) |
| Diluted | | **370,595** | |  |  | 379,383 | |  |  | (2 | ) |
| Cash dividends declared per common share | | **$** | **.52** |  |  | $ | .47 |  |  | 11 |  |
| Return on average common equity | | **9.7** | | **%** |  | 14.0 | | % |  | (430) bps |  |
| Pre-tax margin | | **24.8** | |  |  | 29.9 | |  |  | (510) |  |
|  | |  | | |  |  | | |  |  | |
|  | | **Nine Months Ended September 30,** | | | | | | |  |  | |
| **(Dollars in millions, except per share amounts)** | | **2019** | | |  | **2018** | | |  | **% Change** | |
| Total fee revenue(4) | | **$** | **6,779** |  |  | $ | 7,128 |  |  | (5 | )% |
| Net interest income | | **1,930** | |  |  | 1,974 | |  |  | (2 | ) |
| Gains (losses) related to investment securities, net | | **(1** | | **)** |  | 6 | |  |  | nm |  |
| Total revenue(4) | | **8,708** | |  |  | 9,108 | |  |  | (4 | ) |
| Provision for loan losses | | **7** | |  |  | 7 | |  |  | — |  |
| Total expenses(4) | | **6,627** | |  |  | 6,529 | |  |  | 2 |  |
| Income before income tax expense | | **2,074** | |  |  | 2,572 | |  |  | (19 | ) |
| Income tax expense | | **396** | |  |  | 416 | |  |  | (5 | ) |
| Net income | | **$** | **1,678** |  |  | $ | 2,156 |  |  | (22 | ) |
| Adjustments to net income: | |  | | |  |  | | |  |  | |
| Dividends on preferred stock(2) | | **$** | **(160** | **)** |  | $ | (146 | ) |  | 10 |  |
| Earnings allocated to participating securities(3) | | **(1** | | **)** |  | (2 | | ) |  | (50 | ) |
| Net income available to common shareholders | | **$** | **1,517** |  |  | $ | 2,008 |  |  | (24 | ) |
| Earnings per common share: | |  | | |  |  | | |  |  | |
| Basic | | **$** | **4.07** |  |  | $ | 5.44 |  |  | (25 | ) |
| Diluted | | **4.03** | |  |  | 5.37 | |  |  | (25 | ) |
| Average common shares outstanding (in thousands): | |  | | |  |  | | |  |  | |
| Basic | | **372,766** | |  |  | 369,368 | |  |  | 1 |  |
| Diluted | | **376,361** | |  |  | 374,064 | |  |  | 1 |  |
| Cash dividends declared per common share | | **$** | **1.46** |  |  | $ | 1.31 |  |  | 11 |  |
| Return on average common equity | | **9.5** | | **%** |  | 13.8 | | % |  | (430) bps |  |
| Pre-tax Margin | | **23.8** | |  |  | 28.2 | |  |  | (440) |  |
|  | | | | | | | | | | | |
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(1) CRD contributed approximately $81 million and $56 million in total revenue and total expenses, respectively, in the three months ended September 30, 2019. Revenue includes approximately $77 million in processing fees and other revenue and $4 million in brokerage and other trading services within foreign exchange trading services, and expenses include approximately $42 million in compensation and employee benefits and $14 million in other expense lines. In addition, CRD-related expenses in the three months ended September 30, 2019 include $17 million in amortization of other intangible assets.

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

(3)Represents the portion of net income available to common equity allocated to participating securities, composed of unvested and fully vested SERP (Supplemental executive retirement plans) 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.

(4) CRD contributed approximately $264 million and $143 million in total revenue and total expenses, respectively, in the nine months ended September 30, 2019. Revenue includes approximately $251 million in processing fees and other revenue and $13 million in brokerage and other trading services within foreign exchange trading services, and expenses include approximately $107 million in compensation and employee benefits and $36 million in other expense lines. In addition, CRD-related expenses in the nine months ended September 30, 2019 include $49 million in amortization of other intangible assets.

nm Not meaningful

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**MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION**

**AND RESULTS OF OPERATIONS**

The following “Financial Results and Highlights” section provides information related to significant events, as well as highlights of our consolidated financial results in the third quarter of 2019 presented in Table 1: Overview of Financial Results. More detailed information about our consolidated financial results, including comparisons of our financial results for the three and nine months ended September 30, 2019 compared to the same periods in 2018, 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 in this Form 10-Q. In this Management’s Discussion and Analysis, where we describe the effects of changes in FX rates, those effects are determined by applying applicable weighted average FX rates from the relevant 2018 period to the relevant 2019 period results.

**Financial Results and Highlights**

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| • | EPS of $1.42 in the third quarter of 2019 decreased 24% compared to $1.87 in the same period in 2018. |

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| • | The impact of notable items in the third quarter of 2019 includes: |

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| ◦ | acquisition costs of approximately $27 million primarily due to the CRD acquisition; and |

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| ◦ | legal and related expenses of approximately $18 million. |

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| • | There were no notable items in the third quarter of 2018. |

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| • | We continue to execute against our previously announced expense savings program, which achieved $100 million in gross savings during the third quarter of 2019 through expense savings of approximately $57 million in resource discipline initiatives and $43 million in process re-engineering and automation benefits. |

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| ◦ | In the nine months ended September 30, 2019, we achieved a total of $275 million of gross savings under our previously announced 2019 expense savings program, including approximately $145 million in resource discipline initiatives and approximately$130 million in process re-engineering and automation benefits. We expect the expense savings program to generate a total of $400 million in gross savings in 2019. |

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| • | In the third quarter of 2019, return on equity of 9.7% decreased from 14.0% in the same period in 2018, primarily due to a decrease in net income available to common shareholders. Pre-tax margin of 24.8% in the third quarter of 2019 decreased from 29.9% in the same period in 2018, primarily due to a decrease in total revenue and an increase in total expenses. |

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| • | Operating leverage was (7.2)% in the third quarter of 2019. Operating leverage represents the difference between the percentage change in total revenue and the percentage change in total expenses, in each case relative to the prior year period. |

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| • | We repurchased $500 million of our common stock in the third quarter of 2019 under our common stock purchase program announced in June 2019. The 2019 common stock purchase program authorizes the purchase of up to a total of $2.0 billion of our common stock from July 1, 2019 through June 30, 2020 (the 2019 Program). |

***Revenue***

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| • | Total revenueand fee revenue bothdecreased 3% in the third quarter of 2019 compared to the same period in 2018, primarily driven by decreases in servicing fees, management fees, foreign exchange trading services and securities finance revenues and, in the case of total revenue, by NII. These decreases were partially offset by higher processing fees and other revenue in the third quarter of 2019, which includes revenue from CRD. |

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| ◦ | Total revenues contributed by CRD in the third quarter of 2019 were approximately $81 million, including $77 million in processing fees and other revenue and $4 million in brokerage and other trading services, within foreign exchange trading services. |

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| • | Servicing fee revenue decreased 5% in the third quarter of 2019 compared to the same period in 2018, primarily due to challenging industry conditions, including fee pressure. |

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| • | Management fee revenue decreased 6% in the third quarter of 2019 compared to the same period in 2018, primarily reflecting the run rate impact of late 2018 outflows and mix changes away from higher fee products, partially offset by higher U.S. average equity market levels. |

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| • | Foreign exchange trading services decreased 1% in the third quarter of 2019 compared to the same period in 2018 primarily due to lower market volatility. |

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**AND RESULTS OF OPERATIONS**

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| • | Securities finance revenue decreased 9% in the third quarter of 2019 compared to the same period in 2018, primarily driven by balance sheet optimization efforts in the second half of 2018. |

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| • | Processing fees and other revenue increased 49% in the third quarter of 2019 compared to the same period in 2018, primarily due to $77 million from CRD, which we acquired in October 2018. |

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| • | NII decreased 4% in the third quarter of 2019 compared to the same period in 2018, primarily due to lower long-end rates and MBS premium amortization, as well as mix shift away from non-interest-bearing deposits. |

***Expenses***

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| • | Total expensesincreased 4% in the third quarter of 2019 compared to the same period in 2018, primarily reflecting the impact of the CRD acquisition and notable items, partially offset by savings from our previously announced 2019 expense savings program. |

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| ◦ | Total expenses contributed by CRD in the third quarter of 2019 were approximately $56 million, including $42 million in compensation and employee benefits and $14 million in other expense lines. In addition, CRD-related expenses in the third quarter of 2019 included $17 million in amortization of other intangible assets. |

***AUC/A and AUM***

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| • | AUC/A decreased 3% as of September 30, 2019 compared to September 30, 2018, primarily due to a previously announced client transition, partially offset by higher end of period fixed income market levels. In the third quarter of 2019, newly announced asset servicing mandates totaled approximately $1.03 trillion, primarily driven by additional services for an existing large asset manager client. Servicing assets remaining to be installed in future periods totaled approximately $1.17 trillion as of September 30, 2019. |

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| • | AUM increased 5% as of September 30, 2019 compared to September 30, 2018, primarily due to higher end of period market levels and net inflows driven by institutional, cash and ETF inflows. |

***Capital***

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| • | In the third quarter of 2019, we returned a total of approximately $690 million to our shareholders in the form of common stock dividends and share purchases. |

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| ◦ | We declared aggregate common stock dividends of $0.52 per share, totaling $189 million in the third quarter of 2019, compared to $0.47 per share, totaling $179 million in the third quarter of 2018, representing an increase of approximately 11% on a per share basis. |

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| ◦ | In the third quarter of 2019, we acquired 9.4 million shares of common stock at an average per share cost of $53.15 and an aggregate cost of approximately $500 million under the 2019 Program. |

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| • | In June 2019, the Federal Reserve issued a non-objection to our capital plan included as part of our 2019 CCAR submission. Pursuant to that plan, our Board authorized a new common stock purchase program in June 2019 for the purchase of up to a total of $2.0 billion of our common stock from July 1, 2019 through June 30, 2020 (the 2019 Program) and we increased our quarterly common stock dividend to $0.52 per share in the third quarter of 2019. |

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|  |  |
| • | Our standardized CET1 capital ratio decreased to 11.3% as of September 30, 2019 compared to 11.7% as of December 31, 2018, and Tier 1 leverage ratio increased to 7.4% as of September 30, 2019 compared to 7.2% as of December 31, 2018. |

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**MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION**

**AND RESULTS OF OPERATIONS**

**CONSOLIDATED RESULTS OF OPERATIONS**

This section discusses our consolidated results of operations for the three and nine months ended September 30, 2019 compared to the same periods in 2018, and should be read in conjunction with the consolidated financial statements and accompanying condensed notes to the consolidated financial statements in this Form 10-Q.

**Total Revenue**

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
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| **TABLE 2: TOTAL REVENUE** | | | | | | | | | | | |
|  | **Three Months Ended September 30,** | | | | | | | |  |  | |
| **(Dollars in millions)** | **2019** | | | |  | **2018** | | |  | **% Change** | |
| Fee revenue: |  | | | |  |  | | |  |  | |
| Servicing fees | **$** | **1,272** | |  |  | $ | 1,333 |  |  | (5 | )% |
| Management fees | **445** | | |  |  | 474 | |  |  | (6 | ) |
| Foreign exchange trading services(1) | **284** | | |  |  | 288 | |  |  | (1 | ) |
| Securities finance | **116** | | |  |  | 128 | |  |  | (9 | ) |
| Processing fees and other(1) | **142** | | |  |  | 95 | |  |  | 49 |  |
| Total fee revenue(1) | **2,259** | | |  |  | 2,318 | |  |  | (3 | ) |
| Net interest income: |  | | | |  |  | | |  |  | |
| Interest income | **1,001** | | |  |  | 916 | |  |  | 9 |  |
| Interest expense | **357** | | |  |  | 244 | |  |  | 46 |  |
| Net interest income | **644** | | |  |  | 672 | |  |  | (4 | ) |
| Gains (losses) related to investment securities, net | **—** | | |  |  | (1 | | ) |  | nm |  |
| Total revenue(1) | **$** | **2,903** | |  |  | $ | 2,989 |  |  | (3 | ) |
|  |  | | | |  |  | | |  |  | |
|  | **Nine Months Ended September 30,** | | | | | | | |  |  | |
| **(Dollars in millions)** | **2019** | | | |  | **2018** | | |  | **% Change** | |
| Fee revenue: |  | | | |  |  | | |  |  | |
| Servicing fees | **$** | **3,775** | |  |  | $ | 4,135 |  |  | (9 | )% |
| Management fees | **1,306** | | |  |  | 1,411 | |  |  | (7 | ) |
| Foreign exchange trading services(2) | **837** | | |  |  | 907 | |  |  | (8 | ) |
| Securities finance | **360** | | |  |  | 423 | |  |  | (15 | ) |
| Processing fees and other(2) | **501** | | |  |  | 252 | |  |  | 99 |  |
| Total fee revenue(2) | **6,779** | | |  |  | 7,128 | |  |  | (5 | ) |
| Net interest income: |  | | | |  |  | | |  |  | |
| Interest income | **3,035** | | |  |  | 2,680 | |  |  | 13 |  |
| Interest expense | **1,105** | | |  |  | 706 | |  |  | 57 |  |
| Net interest income | **1,930** | | |  |  | 1,974 | |  |  | (2 | ) |
| Gains (losses) related to investment securities, net | **(1** | | | **)** |  | 6 | |  |  | nm |  |
| Total revenue(2) | **$** | **8,708** | |  |  | $ | 9,108 |  |  | (4 | ) |
|  | | | | | | | | | | | |
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(1)CRD contributed approximately $81 million in total revenue in the three months ended September 30, 2019, including approximately $77 million in processing fees and other revenue and $4 million in brokerage and other trading services within foreign exchange trading services.

(2)CRD contributed approximately $264 million in total revenue in the nine months ended September 30, 2019, including approximately $251 million in processing fees and other revenue and $13 million in brokerage and other trading services within foreign exchange trading services.

nm Not meaningful

***Fee Revenue***

Table 2: Total Revenue, provides the breakout of fee revenue in both the three and nine months ended September 30, 2019 and 2018. Servicing and management fees collectively made up approximately 76% and 75% of the total fee revenue in the three and nine months ended September 30, 2019, respectively, compared to approximately 78% in both the same periods in 2018, respectively.

*Servicing Fee Revenue*

Generally, our servicing fee revenues are affected by several factors including changes in market valuations, client activity and asset flows, net new business and the manner in which we price our services. We provide a range of services to our clients, including core custody services, accounting, reporting and administration and middle office services, and the nature and mix of services provided affects our servicing fees. The basis for fees will differ across regions and clients. On average and over time, approximately 55% of our servicing fee revenues have been variable due to changes in asset valuations including changes in daily average valuations of AUC/A; another 15% of our servicing fees are impacted by the volume of activity in the funds we serve; and the remaining 30% of our servicing fees tend not to be variable in nature nor impacted by market fluctuations or values.

*Changes in Market Valuations*

Our servicing fee revenue is impacted by both our levels and the geographic and product mix of our AUC/A. Increases or decreases in market valuations have a corresponding impact on the level of our AUC/A and servicing fee revenues, though the degree of impact will vary depending on asset types and classes and geography of assets held within our clients’ portfolios.

Over the five years ended December 31, 2018, we estimate that worldwide market valuations impacted our servicing fee revenues by approximately (2)% to 5% annually. See Table 3: Daily Averages, Month-End Averages and Quarter-End Equity 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 and of client portfolios can therefore differ from the performance of the indices presented. In addition, our asset classifications may differ from those industry classifications presented.

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**MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION**

**AND RESULTS OF OPERATIONS**

We estimate, using relevant information as of September 30, 2019 and assuming that all other factors remain constant, that:

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

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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| **TABLE 3: DAILY AVERAGES, MONTH-END AVERAGES AND QUARTER-END EQUITY INDICES(1)** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  | **Daily Averages of Indices** | | | | | | | | | | | |  | | **Month-End Averages of Indices** | | | | | | | | | | | | | |  | | **Quarter-End Indices** | | | | | | | | | | | | |
|  | **Three Months Ended September 30,** | | | | | | | | | | | |  | | **Three Months Ended September 30,** | | | | | | | | | | | | | |  | | **As of September 30,** | | | | | | | | | | | | |
|  | **2019** | | |  | **2018** | | | | |  | **% Change** | |  | | **2019** | | | |  | **2018** | | | | |  | **% Change** | | |  | | **2019** | | |  | **2018** | | | | |  | **% Change** | | |
| S&P 500® | **2,958** | |  |  | 2,850 | | |  | |  | 4 | % |  | | **2,961** | | |  |  | 2,877 | | | |  |  | 3 | % | |  | | **2,977** | |  |  | 2,914 | | | |  |  | 2 | % | |
| MSCI EAFE® | **1,882** | |  |  | 1,964 | | |  | |  | (4 | ) |  | | **1,876** | | |  |  | 1,981 | | | |  |  | (5 | ) | |  | | **1,889** | |  |  | 1,974 | | | |  |  | (4 | ) | |
| MSCI® Emerging Markets | **1,014** | |  |  | 1,054 | | |  | |  | (4 | ) |  | | **1,007** | | |  |  | 1,064 | | | |  |  | (5 | ) | |  | | **1,001** | |  |  | 1,048 | | | |  |  | (4 | ) | |
|  | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  | |  | | | |  |  | |  | | | | |  | |  |  | | | |  |  |  | | | | |  | |  | |  | | | |  |  |  | | | | |  |
|  | | **Daily Averages of Indices** | | | | | | | | | | | | | | | | | | | |  | **Month-End Averages of Indices** | | | | | | | | | | | | | | | | | | | | |
|  | | **Nine Months Ended September 30,** | | | | | | | | | | | | | | | | | | | |  | **Nine Months Ended September 30,** | | | | | | | | | | | | | | | | | | | | |
|  | | **2019** | | | | |  | | **2018** | | | | | | |  | **% Change** | | | | |  | **2019** | | | | | | |  | | **2018** | | | | |  | **% Change** | | | | | |
| S&P 500® | | **2,856** | | | |  |  | | 2,762 | | | | |  | |  | 3 | | | | % |  | **2,872** | | | | |  | |  | | 2,765 | | | |  |  | 4 | | | | | % |
| MSCI EAFE® | | **1,868** | | | |  |  | | 2,018 | | | | |  | |  | (7 | | | | ) |  | **1,874** | | | | |  | |  | | 2,016 | | | |  |  | (7 | | | | | ) |
| MSCI® Emerging Markets | | **1,030** | | | |  |  | | 1,132 | | | | |  | |  | (9 | | | | ) |  | **1,035** | | | | |  | |  | | 1,130 | | | |  |  | (8 | | | | | ) |

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

NA Not applicable

*Client Activity and Asset Flows*

Client activity and asset flows are impacted by the number of transactions we execute on behalf of our clients, including FX settlements, equity and derivative trades, and wire transfer activity, as well as actions by our clients to change the asset class in which their assets are invested. Our servicing fee revenues are impacted by a number of factors, including transaction volumes, asset levels and asset classes in which funds are invested, as well as industry trends associated with these client-related activities.

Our clients may change the asset classes in which their assets are invested, based on their market outlook, risk acceptance tolerance or other considerations. Over the five years ended December 31, 2018, we estimate that client activity and asset flows, together, impacted our servicing fee revenues by approximately (1)% to 2% annually. See Table 4: Industry Asset Flows for selected asset flow information. While the asset flows presented are indicative of general market trends, the asset types and classes relevant to individual client portfolios can and do differ, and our flows may differ from those market trends. In addition, our asset classifications may differ from those industry classifications presented.

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**MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION**

**AND RESULTS OF OPERATIONS**

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| **TABLE 4: INDUSTRY ASSET FLOWS** | | | | | | | | | |
|  | | **Three Months Ended September 30,** | | | | | | | |
| **(In billions)** | | **2019** | | |  | **2018** | | | |
| **North America - ICI Market Data(1)(2)(3)** | | | | |  |  | | | |
| Long-Term Funds(4) | | **$** | **(52.2** | **)** |  | $ | (50.4 | | ) |
| Money Market | | **224.5** | |  |  | 35.8 | | |  |
| Exchange-Traded Fund | | **90.6** | |  |  | 87.2 | | |  |
| **Total ICI Flows** | | **$** | **262.9** |  |  | $ | 72.6 | |  |
|  | |  | | |  |  | | | |
| **Europe - Broadridge Market Data(1)(5)(6)** | |  | | |  |  | | | |
| Long-Term Funds(4) | | **$** | **53.6** |  |  | $ | (16.2 | | ) |
| Money Market | | **78.1** | |  |  | (21.9 | | | ) |
| **Total Broadridge Flows** | | **$** | **131.7** |  |  | $ | (38.1 | | ) |
|  | | | | | | | | | |
|  |  | | | | | | |  | |
|  |  | | | | | | |  | |

(1)Industry data is provided for illustrative purposes only and is not intended to reflect our activity or its clients' activity.

(2)Source: Investment Company Institute. Investment Company Institute (ICI) data includes funds not registered under the Investment Company Act of 1940. Mutual fund data represents estimates of net new cash flow, which is new sales minus redemptions combined with net exchanges, while ETF data represents net issuance, which is gross issuance less gross redemptions. Data for mutual funds that invest primarily in other mutual funds and ETFs that invest primarily in other ETFs were excluded from the series. ICI classifies mutual funds and ETFs based on language in the fund prospectus.

(3) The third quarter of 2019 data includes ICI actuals for July and August 2019 and ICI estimates for September 2019.

(4)The long-term fund flows reported by ICI are composed of North America Market flows mainly in Equities, Hybrids and Fixed-Income Asset Classes. The long-term fund flows reported by Broadridge are composed of the European, Middle-Eastern, and African market flows mainly in Equities, Fixed-Income and Multi Asset Classes.

(5)Source: © Copyright 2019, Broadridge Financial Solutions, Inc. Funds of funds have been excluded from Broadridge data (to avoid double counting). Therefore, a market total is the sum of all the investment categories excluding the three funds of funds categories (in-house, ex-house and hedge). ETFs are included in Broadridge’s database on mutual funds, but this excludes exchange-traded commodity products that are not mutual funds.

(6)The third quarter of 2019 data is on a rolling three month basis which includes June, July and August 2019 for EMEA (Copyright 2019 Broadridge Financial Solutions, Inc.).

*Pricing*

The industry in which we operate has historically faced pricing pressure, and our servicing fee revenues are also affected by such pressures today. Consequently, no assumption should be drawn as to future revenue run rate from announced servicing wins, as the amount of revenue associated with AUC/A can vary materially. On average, over the five years ended December 31, 2018, we estimate that pricing pressure with respect to existing clients has impacted our servicing fees by approximately (2)% annually, with the impact ranging from (1)% to (4)% in any given year. Pricing concessions can be a part of a contract renegotiation with a client including terms that may benefit us, such as extending the terms of our relationship with the client, expanding the scope of services that we provide or reducing our dependency on manual processes through the standardization of the services we provide. The timing of the impact of additional revenue generated by anticipated additional services, and the amount of revenue generated, may differ from the impact of pricing concessions on existing services due to the necessary time required to onboard those new services, the nature of those services and client investment practices. These same market pressures also impact the fees we negotiate when we win business from new clients.

*Net New Business*

Over the five years ended December 31, 2018, net new business, which includes business both won and lost, has affected our servicing fee revenues by approximately 2% on average with a range of 1% to 3% annually.

New business can include: custody; product and participant level accounting; daily valuation and administration; record-keeping; cash management; FX, brokerage and other trading services; securities finance; and other services. Revenues associated with new servicing mandates may vary based on the breadth of services provided, the time required to install the assets, and the types of assets installed.

*Management Fee Revenue*

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

Asset-based management fees for actively managed products are generally charged at a higher percentage of AUM than for passive products. Actively managed products may also include performance fee arrangements which are recorded when the fee is

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**MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION**

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earned, based on predetermined benchmarks associated with the applicable account's performance.

In light of the above, we estimate, using relevant information as of September 30, 2019 and assuming that all other factors remain constant, including the impact of business won and lost and client flows, that:

|  |  |
| --- | --- |
|  |  |
| • | A 10% increase or decrease in worldwide equity valuations, on a weighted average basis, over the relevant periods for which our management fees are calculated, would result in a corresponding change in our total management fee revenues, on average and over time, of approximately 5%; and |

|  |  |
| --- | --- |
|  |  |
| • | A 10% increase or decrease in worldwide fixed-income valuations, on a weighted average basis, over the relevant periods for which our management fees are calculated, would result in a corresponding change in our total management fee revenues, on average and over time, of approximately 4%. |

Daily averages, month-end averages and quarter-end indices demonstrate worldwide changes in equity and debt markets that affect our management fee revenue. Quarter-end indices affect the values of AUM as of those dates. See Table 3: Daily Averages, Month-End Averages and Quarter-End Equity Indices for selected indices.

Additional information about fee revenue is provided under "Line of Business Information" included in this Management's Discussion and Analysis.

***Net Interest Income***

See Table 2: Total Revenue, for the breakout of interest income and interest expense in the three and nine months ended September 30, 2019 compared to the same periods in 2018. NII was $644 million and $1,930 million in the three and nine months ended September 30, 2019, respectively, compared to $672 million and $1,974 million in the same periods in 2018, 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, resale agreements, loans and leases and other liquid assets, are financed primarily by client deposits, short-term borrowings and long-term debt.

Interest income related to debt securities is recognized in our consolidated statement of income using the effective interest method. The rate of return considers any non-refundable fees or costs, as well as purchase premiums or discounts, resulting in amortization or accretion, accordingly. The amortization of premiums and accretion of discounts are adjusted for prepayments when they occur, such that the level rate of return remains constant throughout the contractual life of the security.

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

NII on a FTE basis decreased in both the three and nine months ended September 30, 2019, compared to the same periods in 2018, primarily due to higher MBS premium amortization, lower long-end U.S. market rates and lower average non-interest bearing deposit balances, partially offset by FICC expansion, higher core loan and investment securities balances and episodic market-related benefits. Investment securities net premium amortization, which is included in interest income, was $116 million and $318 million in the three and nine months ended September 30, 2019, respectively, compared to $96 million and $304 million in the same periods in 2018, respectively. The increase in investment securities net premium amortization in the three months ended September 30, 2019 compared to the same period in 2018 is primarily related to MBS premium amortization.

The following table presents the investment securities amortizable purchase premium net of discount accretion for the periods indicated:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
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| **TABLE 5: INVESTMENT SECURITIES NET PREMIUM AMORTIZATION** | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  | **Three Months Ended** | | | | | | | | | | |  | **Three Months Ended** | | | | | | | | | | | | | | |
| **(Dollars in millions)** | **September 30, 2019** | | |  | **June 30, 2019** | | |  | **March 31, 2019** | | |  | **December 31, 2018** | | |  | **September 30, 2018** | | |  | **June 30, 2018** | | |  | **March 31, 2018** | | |
| Unamortized premiums, net of discounts at period end | **$** | **1,506** |  |  | $ | 1,539 |  |  | $ | 1,629 |  |  | $ | 1,575 |  |  | $ | 1,827 |  |  | $ | 1,822 |  |  | $ | 1,991 |  |
| Net premium amortization | **116** | |  |  | 113 | |  |  | 89 | |  |  | 87 | |  |  | 96 | |  |  | 97 | |  |  | 111 | |  |
| Investment securities duration (years) | **2.6** | |  |  | 2.6 | |  |  | 2.8 | |  |  | 3.1 | |  |  | 3.3 | |  |  | 3.2 | |  |  | 3.0 | |  |

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**MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION**

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See Table 6: Average Balances and Interest Rates - Fully Taxable-Equivalent Basis, for the breakout of NII on a FTE basis in the three and nine months ended September 30, 2019 compared to the same periods in 2018.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
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| **TABLE 6: AVERAGE BALANCES AND INTEREST RATES - FULLY TAXABLE-EQUIVALENT BASIS(1)** | | | | | | | | | | | | | | | | | | | | | | |
|  | | **Three Months Ended September 30,** | | | | | | | | | | | | | | | | | | | | |
|  | | **2019** | | | | | | | | | |  | **2018** | | | | | | | | | |
| **(Dollars in millions; fully taxable-equivalent basis)** | | **Average**  **Balance** | | |  | **Interest**  **Revenue/Expense** | | |  | **Average**  **Rate** | |  | **Average**  **Balance** | | |  | **Interest**  **Revenue/Expense** | | |  | **Average**  **Rate** | |
| Interest-bearing deposits with banks | | **$** | **45,791** |  |  | **$** | **98** |  |  | **.85** | **%** |  | $ | 56,513 |  |  | $ | 94 |  |  | .67 | % |
| Securities purchased under resale agreements(2) | | **3,149** | |  |  | **101** | |  |  | **12.75** |  |  | 2,932 | |  |  | 87 | |  |  | 11.77 |  |
| Trading account assets | | **880** | |  |  | **—** | |  |  | **—** |  |  | 1,019 | |  |  | — | |  |  | — |  |
| Investment securities | | **93,588** | |  |  | **504** | |  |  | **2.16** |  |  | 85,623 | |  |  | 474 | |  |  | 2.21 |  |
| Loans and leases | | **23,926** | |  |  | **195** | |  |  | **3.24** |  |  | 22,511 | |  |  | 176 | |  |  | 3.11 |  |
| Other interest-earning assets | | **13,990** | |  |  | **107** | |  |  | **3.02** |  |  | 14,702 | |  |  | 97 | |  |  | 2.59 |  |
| Average total interest-earning assets | | **$** | **181,324** |  |  | **$** | **1,005** |  |  | **2.20** |  |  | $ | 183,300 |  |  | $ | 928 |  |  | 2.01 |  |
| Interest-bearing deposits: | |  | | |  |  | | |  |  | |  |  | | |  |  | | |  |  | |
| U.S. | | **$** | **67,170** |  |  | **$** | **141** |  |  | **.83** | **%** |  | $ | 57,558 |  |  | $ | 74 |  |  | .51 | % |
| Non-U.S.(3) | | **61,355** | |  |  | **32** | |  |  | **.21** |  |  | 67,741 | |  |  | 10 | |  |  | .06 |  |
| Total interest-bearing deposits(3) | | **128,525** | |  |  | **173** | |  |  | **.53** |  |  | 125,299 | |  |  | 84 | |  |  | .27 |  |
| Securities sold under repurchase agreements | | **1,998** | |  |  | **7** | |  |  | **1.45** |  |  | 1,835 | |  |  | 4 | |  |  | .79 |  |
| Federal funds purchased | | **—** | |  |  | **—** | |  |  | **—** |  |  | 1 | |  |  | — | |  |  | — |  |
| Other short-term borrowings | | **1,788** | |  |  | **8** | |  |  | **1.68** |  |  | 1,248 | |  |  | 4 | |  |  | 1.38 |  |
| Long-term debt | | **11,415** | |  |  | **99** | |  |  | **3.48** |  |  | 10,375 | |  |  | 100 | |  |  | 3.84 |  |
| Other interest-bearing liabilities | | **3,691** | |  |  | **70** | |  |  | **7.62** |  |  | 5,306 | |  |  | 52 | |  |  | 3.88 |  |
| Average total interest-bearing liabilities | | **$** | **147,417** |  |  | **$** | **357** |  |  | **.96** |  |  | $ | 144,064 |  |  | $ | 244 |  |  | .67 |  |
| Interest rate spread | |  | | |  |  | | |  | **1.24** | **%** |  |  | | |  |  | | |  | 1.34 | % |
| Net interest income, fully taxable-equivalent basis | |  | | |  | **$** | **648** |  |  |  | |  |  | | |  | $ | 684 |  |  |  | |
| Net interest margin, fully taxable-equivalent basis | |  | | |  |  | | |  | **1.42** | **%** |  |  | | |  |  | | |  | 1.48 | % |
| Tax-equivalent adjustment | |  | | |  | **(4** | | **)** |  |  | |  |  | | |  | (12 | | ) |  |  | |
| Net interest income, GAAP-basis | |  | | |  | **$** | **644** |  |  |  | |  |  | | |  | $ | 672 |  |  |  | |
|  | |  | | |  |  | | |  |  | |  |  | | |  |  | | |  |  | |
|  | | **Nine Months Ended September 30,** | | | | | | | | | | | | | | | | | | | | |
|  | | **2019** | | | | | | | | | |  | **2018** | | | | | | | | | |
| **(Dollars in millions; fully taxable-equivalent basis)** | | **Average**  **Balance** | | |  | **Interest**  **Revenue/Expense** | | |  | **Average Rates** | |  | **Average**  **Balance** | | |  | **Interest**  **Revenue/Expense** | | |  | **Average Rates** | |
| Interest-bearing deposits with banks | | **$** | **47,562** |  |  | **$** | **326** |  |  | **.92** | **%** |  | $ | 54,414 |  |  | $ | 267 |  |  | .66 | % |
| Securities purchased under resale agreements(2) | | **2,634** | |  |  | **289** | |  |  | **14.69** |  |  | 2,759 | |  |  | 246 | |  |  | 11.90 |  |
| Trading account assets | | **880** | |  |  | **—** | |  |  | **—** |  |  | 1,098 | |  |  | — | |  |  | — |  |
| Investment securities | | **90,617** | |  |  | **1,513** | |  |  | **2.23** |  |  | 89,080 | |  |  | 1,435 | |  |  | 2.15 |  |
| Loans and leases | | **23,605** | |  |  | **591** | |  |  | **3.35** |  |  | 23,359 | |  |  | 507 | |  |  | 2.90 |  |
| Other interest-earning assets | | **14,790** | |  |  | **330** | |  |  | **2.98** |  |  | 16,599 | |  |  | 275 | |  |  | 2.22 |  |
| Average total interest-earning assets | | **$** | **180,088** |  |  | **$** | **3,049** |  |  | **2.26** |  |  | $ | 187,309 |  |  | $ | 2,730 |  |  | 1.95 |  |
| Interest-bearing deposits: | |  | | |  |  | | |  |  | |  |  | | |  |  | | |  |  | |
| U.S. | | **$** | **66,077** |  |  | **$** | **423** |  |  | **.86** | **%** |  | $ | 52,190 |  |  | $ | 154 |  |  | .39 | % |
| Non-U.S.(3) | | **60,817** | |  |  | **130** | |  |  | **.29** |  |  | 74,170 | |  |  | 82 | |  |  | .15 |  |
| Total interest-bearing deposits(3)(4) | | **126,894** | |  |  | **553** | |  |  | **.58** |  |  | 126,360 | |  |  | 236 | |  |  | .25 |  |
| Securities sold under repurchase agreements | | **1,754** | |  |  | **27** | |  |  | **2.06** |  |  | 2,361 | |  |  | 11 | |  |  | .61 |  |
| Other short-term borrowings | | **1,664** | |  |  | **18** | |  |  | **1.41** |  |  | 1,274 | |  |  | 12 | |  |  | 1.24 |  |
| Long-term debt | | **11,201** | |  |  | **312** | |  |  | **3.71** |  |  | 10,808 | |  |  | 293 | |  |  | 3.62 |  |
| Other interest-bearing liabilities | | **4,101** | |  |  | **195** | |  |  | **6.39** |  |  | 5,187 | |  |  | 154 | |  |  | 3.97 |  |
| Average total interest-bearing liabilities | | **$** | **145,614** |  |  | **$** | **1,105** |  |  | **1.01** |  |  | $ | 145,990 |  |  | $ | 706 |  |  | .65 |  |
| Interest rate spread | |  | | |  |  | | |  | **1.25** | **%** |  |  | | |  |  | | |  | 1.30 | % |
| Net interest income, fully taxable-equivalent basis | |  | | |  | **$** | **1,944** |  |  |  | |  |  | | |  | $ | 2,024 |  |  |  | |
| Net interest margin, fully taxable-equivalent basis | |  | | |  |  | | |  | **1.44** | **%** |  |  | | |  |  | | |  | 1.45 | % |
| Tax-equivalent adjustment | |  | | |  | **(14** | | **)** |  |  | |  |  | | |  | (50 | | ) |  |  | |
| Net interest income, GAAP basis | |  | | |  | **$** | **1,930** |  |  |  | |  |  | | |  | $ | 1,974 |  |  |  | |
|  | | | | | | | | | | | | | | | | | | | | | | |
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(1) Rates earned/paid on interest-earning assets and interest-bearing liabilities include the impact of hedge activities associated with our asset and liability management activities where applicable.

(2) Reflects the impact of balance sheet netting under enforceable netting agreements of approximately $117.94 billion and $84.20 billion in the three and nine months ended September 30, 2019, respectively, compared to $35.10 billion and $32.75 billion in the same periods in 2018, respectively. Excluding the impact of netting, the average interest rates would be approximately 0.33% and 0.45% in the three and nine months ended September 30, 2019, respectively, compared to 0.91% and 0.92% in the same periods in 2018, respectively.

(3) Average rate includes the impact of FX swap costs of approximately $37 million and $135 million in the three and nine months ended September 30, 2019, respectively, compared to $6 million and $82 million in the same periods in 2018, respectively. Average rates for total interest-bearing deposits excluding the impact of FX swap costs were 0.42% and 0.44% in the three and nine months ended September 30, 2019, respectively, compared to 0.25% and 0.16% in the same periods in 2018, respectively.

(4) Total deposits averaged $157.23 billion and $156.39 billion in the three and nine months ended September 30, 2019, respectively, compared to $159.58 billion and $162.44 billion in the same periods in 2018, respectively.

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 in this Form 10-Q.

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**MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION**

**AND RESULTS OF OPERATIONS**

Average total interest-earning assets were $181.32 billion and $180.09 billion in the three and nine months ended September 30, 2019, respectively, compared to $183.30 billion and $187.31 billion in the same periods in 2018, respectively. The decrease is primarily driven by lower average total client deposits.

Interest-bearing deposits with banks averaged $45.79 billion and $47.56 billion in the three and nine months ended September 30, 2019, respectively, compared to $56.51 billion and $54.41 billion in the same periods in 2018, respectively. These deposits primarily reflect our maintenance of cash balances at the Federal Reserve, the European Central Bank (ECB) and other non-U.S. central banks. The lower levels of average cash balances with central banks reflect lower levels of client deposits and an increase in the investment portfolio.

Securities purchased under resale agreements averaged $3.15 billion and $2.63 billion in the three and nine months ended September 30, 2019, respectively, compared to $2.93 billion and $2.76 billion in the same periods in 2018, respectively. While the on-balance sheet amount has remained relatively stable, the impact of balance sheet netting has increased to $117.94 billion and $84.20 billion on average in the three and nine months ended September 30, 2019, respectively, compared to $35.10 billion and $32.75 billion in the same periods in 2018, respectively. We maintain an agreement with Fixed Income Clearing Corporation (FICC), 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. The increase in average balance sheet netting, in the three and nine months ended September 30, 2019, compared to the same periods in 2018, is primarily due to the expansion of our FICC program and new client activity.

We have been a netting and sponsoring member within FICC since 2005. FICC expanded the service in 2017, and since then, we have increased our participation. We enter into repurchase and resale transactions in eligible securities with sponsored clients and with other FICC members and, pursuant to FICC Government Securities Division rules, submit, novate and net the transactions. We may sponsor clients to clear their eligible repurchase transactions with FICC, backed by our guarantee to FICC of the prompt and full payment and performance of our sponsored member clients’ respective obligations. We obtain a security interest from our sponsored clients in the high quality securities collateral that they receive, which is designed to mitigate our potential exposure to FICC.

Average investment securities increased to $93.59 billion and $90.62 billion in the three and nine months ended September 30, 2019, respectively, from

$85.62 billion and $89.08 billion in the same periods in 2018, respectively, primarily driven by increased investment in MBS.

Loans and leases averaged $23.93 billion and $23.61 billion in the three and nine months ended September 30, 2019, respectively, compared to $22.51 billion and $23.36 billion in the same periods in 2018, respectively.

Average other interest-earning assets, largely associated with our enhanced custody business, decreased to $13.99 billion and $14.79 billion in the three and nine months ended September 30, 2019, respectively, from $14.70 billion and $16.60 billion in same periods in 2018, respectively, primarily driven by a reduction in the level of cash collateral posted. Enhanced custody 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.

Aggregate average total interest-bearing deposits increased to $128.53 billion and $126.89 billion in the three and nine months ended September 30, 2019, respectively, from $125.30 billion and 126.36 billion in the same periods in 2018. Average U.S. interest-bearing deposits increased as a result of a gradual shift from non-interest bearing deposits. Future deposit levels will be influenced by the underlying asset servicing business, client deposit behavior and market conditions, including the general levels of U.S. and non-U.S. interest rates.

Average other short-term borrowings, typically associated with our tax-exempt investment program, increased to $1.79 billion and $1.66 billion in the three and nine months ended September 30, 2019, respectively, from $1.25 billion and $1.27 billion in the same periods in 2018, respectively.

Average long-term debt was $11.42 billion and $11.20 billion in the three and nine months ended September 30, 2019, respectively, compared to $10.38 billion and $10.81 billion in the same periods in 2018, respectively. These amounts reflect issuances and maturities of senior debt during the respective periods.

On October 21, 2019, we announced the commencement of a cash tender offer by our principal banking subsidiary, State Street Bank, for any and all of our $800 million aggregate principal amount of outstanding floating rate junior subordinated debentures due 2047.  We also announced that we will redeem $50.1 million of our $150 million aggregate principal amount outstanding of floating rate junior subordinated deferrable interest debentures, Series A, due May 15, 2028, at a redemption price equal to the outstanding principal amount of the 2028 debentures to be redeemed, plus accrued and unpaid interest.

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**MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION**

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Average other interest-bearing liabilities were $3.69 billion and $4.10 billion in the three and nine months ended September 30, 2019, respectively, compared to $5.31 billion and $5.19 billion in the same periods in 2018, respectively. Other interest-bearing liabilities primarily reflect our level of cash collateral received from clients in connection with our enhanced custody business, which is presented on a net basis where we have enforceable netting agreements.

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

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

**Expenses**

Table 7: Expenses, provides the breakout of expenses in the three and nine months ended September 30, 2019, compared to the same periods in 2018.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
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| **TABLE 7: EXPENSES** | | | | | | | | | | | | | | | | | | | | | |
|  | | **Three Months Ended September 30,** | | | | | | | | | | | | | |  | | **% Change** | | | |
| **(Dollars in millions)** | | **2019** | | | | | |  | | **2018** | | | | | |  | |
| Compensation and employee benefits(1) | | **$** | | **1,083** | |  | |  | | $ | | 1,103 | |  | |  | | (2 | | )% | |
| Information systems and communications | | **376** | | | |  | |  | | 332 | | | |  | |  | | 13 | | % | |
| Transaction processing services | | **254** | | | |  | |  | | 248 | | | |  | |  | | 2 | | % | |
| Occupancy | | **113** | | | |  | |  | | 110 | | | |  | |  | | 3 | | % | |
| Acquisition costs | | **27** | | | |  | |  | | 1 | | | |  | |  | | nm | |  | |
| Restructuring charges, net | | **—** | | | |  | |  | | (1 | | | | ) | |  | | nm | |  | |
| Amortization of other intangible assets(1) | | **59** | | | |  | |  | | 47 | | | |  | |  | | 26 | | % | |
| Other: | |  | | | | | |  | |  | | | | | |  | |  | |  | |
| Professional services | | **70** | | | |  | |  | | 79 | | | |  | |  | | (11 | | )% | |
| Regulatory fees and assessments | | **18** | | | |  | |  | | 14 | | | |  | |  | | 29 | | % | |
| Other | | **180** | | | |  | |  | | 158 | | | |  | |  | | 14 | | % | |
| Total other | | **268** | | | |  | |  | | 251 | | | |  | |  | | 7 | | % | |
| Total expenses(1) | | **$** | | **2,180** | |  | |  | | $ | | 2,091 | |  | |  | | 4 | | % | |
| Number of employees at quarter-end | | **39,407** | | | |  | |  | | 39,020 | | | |  | |  | | 1 | | % | |
|  | | | | | | | | | | | | | | | | | | | | |
|  |  | |  | |  | |  | |  | |  | |  | |  | |  | |  | |
|  | | | | | | | | | | | | | | | | | | | | |
|  | **Nine Months Ended September 30,** | | | | | | | | | | | | | |  | | **% Change** | | | |
| **(Dollars in millions)** | **2019** | | | | | |  | | **2018** | | | | | |  | |
| Compensation and employee benefits(2) | **$** | | **3,396** | |  | |  | | $ | | 3,477 | |  | |  | | (2 | | )% | |
| Information systems and communications | **1,103** | | | |  | |  | | 968 | | | |  | |  | | 14 | | % | |
| Transaction processing services | **741** | | | |  | |  | | 759 | | | |  | |  | | (2 | | )% | |
| Occupancy | **344** | | | |  | |  | | 354 | | | |  | |  | | (3 | | )% | |
| Acquisition costs | **50** | | | |  | |  | | **1** | | | |  | |  | | nm | |  | |
| Restructuring charges, net | **(2** | | | | **)** | |  | | **(1** | | | | **)** | |  | | nm | |  | |
| Amortization of other intangible assets(2) | **178** | | | |  | |  | | 145 | | | |  | |  | | 23 | |  | |
| Other: |  | | | | | |  | |  | | | | | |  | |  | | | |
| Professional services | **235** | | | |  | |  | | 247 | | | |  | |  | | (5 | | )% | |
| Regulatory fees and assessments | **54** | | | |  | |  | | 73 | | | |  | |  | | (26 | | )% | |
| Other | **528** | | | |  | |  | | 506 | | | |  | |  | | 4 | | % | |
| Total other | **817** | | | |  | |  | | 826 | | | |  | |  | | (1 | | )% | |
| Total expenses(2) | **$** | | **6,627** | |  | |  | | $ | | 6,529 | |  | |  | | 2 | | % | |

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(1)CRD contributed approximately $56 million in total expenses in the three months ended September 30, 2019, including approximately $42 million in compensation and employee benefits, and $14 million in other expense lines. In addition, CRD-related expenses in the three months ended September 30, 2019 include $17 million in amortization of other intangible assets.

(2) CRD contributed approximately $143 million in total expenses in the nine months ended September 30, 2019, including approximately $107 million in compensation and employee benefits, and $36 million in other expense lines. In addition, CRD-related expenses in the nine months ended September 30, 2019, include $49 million in amortization of other intangible assets.

nmNot meaningful

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**MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION**

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Compensation and employee benefits expenses decreased 2% in both the three and nine months ended September 30, 2019, compared to the same periods in 2018, primarily driven by savings from the process re-engineering and resource discipline savings initiatives under our expense savings program, partially offset by $42 million of CRD compensation and employee benefits expenses in the third quarter of 2019 and annual merit increases.

Total headcount decreased by approximately 2% as of September 30, 2019 compared to December 31, 2018, primarily driven by a reduction in headcount in higher-cost locations.

Information systems and communications expenses increased 13% and 14% in the three and nine months ended September 30, 2019, respectively, compared to the same periods in 2018. The increase was primarily related to technology infrastructure investments.

Transaction processing services expenses increased 2% in the three months ended September 30, 2019 compared to the same period in 2018, due to higher brokerage volumes and sub-custodian costs. Transaction processing services expenses decreased 2% in the nine months ended September 30, 2019 compared to the same period in 2018, primarily due to lower sub-custodian costs.

Occupancy expenses increased 3% in the three months ended September 30, 2019 compared to the same period in 2018, primarily reflecting the expansion of lower-cost locations and the CRD acquisition. Occupancy expenses decreased 3% in the nine months ended September 30, 2019 compared to the same period in 2018, primarily driven by the absence of prior year repositioning costs and the advancement of our global footprint strategy.

Amortization of other intangible assets increased 26% and 23% in the three and nine months ended September 30, 2019, respectively, compared to the same periods in 2018, primarily due to the CRD acquisition.

Other expenses increased 7% in the three months ended September 30, 2019 compared to the same period in 2018, primarily reflecting higher legal and related expenses. Other expenses decreased 1% in the nine months ended September 30, 2019 compared to the same period in 2018.

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, technology and systems, as

well as significant additional implementation and related costs to enhance our regulatory compliance programs. Regulatory compliance requirements are anticipated to remain at least at the elevated levels we have experienced over the past several years.

***Acquisition Costs***

We recorded approximately $27 million and $50 million of acquisition costs in the three and nine months ended September 30, 2019, respectively, related to our acquisition of CRD. As we integrate CRD into our business, we expect to incur a total of approximately $200 million of acquisition costs, including merger and integration costs, through 2021, out of which $81 million has been incurred as of September 30, 2019, since the acquisition.

***Restructuring and Repositioning Charges***

*Repositioning Charges*

In 2018, we initiated a new expense program to accelerate efforts to become a higher-performing organization and help navigate challenging market and industry conditions, with an initial goal to realize $350 million in gross expense savings in 2019. The expense plan is now expected to generate gross savings of $400 million in 2019. In the third quarter of 2019, we achieved approximately $100 million of gross expense savings, including approximately $57 million in resource discipline initiatives and $43 million in process re-engineering and automation benefits. In the nine months ended September 30, 2019, we achieved approximately $275 million of gross expense savings, including approximately $145 million in resource discipline initiatives and $130 million in process re-engineering and automation benefits. Resource discipline initiatives include reducing senior management headcount, rigorous performance management, vendor management and optimization of real estate. Process re-engineering and automation benefits can include high-cost location workforce reductions, reducing manual/bespoke and redundant activities, streamlining operational centers and moving to common platforms/retiring legacy applications. In both the third quarters of 2019 and 2018, we did not record any repositioning charges.

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**MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION**

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The following table presents aggregate activity for repositioning charges and activity related to previous Beacon restructuring charges for the periods indicated:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **TABLE 8: RESTRUCTURING AND REPOSITIONING CHARGES** | | | | | | | | | | | | | | | |
| **(In millions)** | **Employee Related Costs** | | |  | **Real Estate Actions** | | |  | **Asset and Other Write-offs** | | |  | **Total** | | |
| **Accrual balance at December 31, 2017** | $ | 166 |  |  | $ | 32 |  |  | $ | 3 |  |  | $ | 201 |  |
| Payments and other adjustments | (22 | | ) |  | (4 | | ) |  | — | |  |  | (26 | | ) |
| **Accrual balance at March 31, 2018** | 144 | |  |  | 28 | |  |  | 3 | |  |  | 175 | |  |
| Accruals for repositioning charges | 61 | |  |  | 16 | |  |  | — | |  |  | 77 | |  |
| Payments and other adjustments | (36 | | ) |  | (3 | | ) |  | — | |  |  | (39 | | ) |
| **Accrual balance at June 30, 2018** | 169 | |  |  | 41 | |  |  | 3 | |  |  | 213 | |  |
| Accruals for Beacon | (1 | | ) |  | — | |  |  | — | |  |  | (1 | | ) |
| Payments and other adjustments | (18 | | ) |  | (4 | | ) |  | (1 | | ) |  | (23 | | ) |
| **Accrual balance at September 30, 2018** | $ | 150 |  |  | $ | 37 |  |  | $ | 2 |  |  | $ | 189 |  |
| **Accrual balance at December 31, 2018** | $ | 303 |  |  | $ | 37 |  |  | $ | 1 |  |  | $ | 341 |  |
| Accruals for Beacon | (4 | | ) |  | — | |  |  | — | |  |  | (4 | | ) |
| Payments and other adjustments | (53 | | ) |  | (25 | | ) |  | — | |  |  | (78 | | ) |
| **Accrual balance at March 31, 2019** | 246 | |  |  | 12 | |  |  | 1 | |  |  | 259 | |  |
| Accruals for Beacon | 2 | |  |  | — | |  |  | — | |  |  | 2 | |  |
| Payments and other adjustments | (51 | | ) |  | (1 | | ) |  | — | |  |  | (52 | | ) |
| **Accrual balance at June 30, 2019** | 197 | |  |  | 11 | |  |  | 1 | |  |  | 209 | |  |
| Payments and other adjustments | **(62** | | **)** |  | **(2** | | **)** |  | **—** | |  |  | **(64** | | **)** |
| **Accrual balance at September 30, 2019** | **$** | **135** |  |  | **$** | **9** |  |  | **$** | **1** |  |  | **$** | **145** |  |

**Income Tax Expense**

Income tax expense was $138 million and $396 million in the three and nine months ended September 30, 2019, respectively, compared to $129 million and $416 million in the same periods in 2018, respectively. Our effective tax rate was 19.2% and 19.1% in the three and nine months ended September 30, 2019, respectively, compared to 14.5% and 16.2% in the same periods in 2018, respectively. The effective tax rate for the three and nine months ended September 30, 2019 included lower deductions related to stock based compensation. The effective tax rate in 2018 included an additional deferred tax benefit of $32 million related to adjustments from the Tax Cuts and Jobs Act provisional estimate recorded in 2017.

**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; FX, 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. Products and services related to CRD include: portfolio modeling and construction; trade order management; investment risk and compliance; and wealth management solutions.

*Investment Management*, through State Street Global Advisors, provides a broad range of investment management strategies and products for our clients. Our investment management strategies and products span the risk/reward spectrum, including core and enhanced indexing, multi-asset strategies, active quantitative and fundamental active capabilities and alternative investment strategies. Our AUM is currently primarily weighted to indexed strategies. In addition, we provide a breadth of services and solutions, including environmental, social and governance investing, defined benefit and defined contribution and Global Fiduciary Solutions (formerly Outsourced Chief Investment Officer). State Street Global Advisors is also a provider of ETFs, including the SPDR®ETF brand. While management fees are primarily determined by the values of AUM and the investment strategies employed, management fees reflect other factors as well, including the benchmarks specified in the respective management agreements related to performance fees.

For information about our two lines of business, as well as the revenues, expenses and capital allocation methodologies associated with them, refer to Note 18 to the consolidated financial statements in this Form 10-Q.

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**Investment Servicing**

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| **TABLE 9: INVESTMENT SERVICING LINE OF BUSINESS RESULTS** | | | | | | | | | | | | | | | | | | | | | | | |
| **(Dollars in millions)** | | **Three Months Ended September 30,** | | | | | | |  |  | |  | **Nine Months Ended September 30,** | | | | | | |  |  | | |
| **2019** | | |  | **2018** | | |  | **% Change** | |  | **2019** | | |  | **2018** | | |  | **% Change** | | |
| Servicing fees | | **$** | **1,272** |  |  | $ | 1,333 |  |  | (5 | )% |  | **$** | **3,775** |  |  | $ | 4,135 |  |  | (9 | | )% |
| Foreign exchange trading services(1)(2) | | **249** | |  |  | 255 | |  |  | (2 | ) |  | **735** | |  |  | 810 | |  |  | (9 | | ) |
| Securities finance | | **114** | |  |  | 128 | |  |  | (11 | ) |  | **353** | |  |  | 423 | |  |  | (17 | | ) |
| Processing fees and other(1)(2) | | **140** | |  |  | 87 | |  |  | 61 |  |  | **483** | |  |  | 243 | |  |  | 99 | |  |
| Total fee revenue(1)(2) | | **1,775** | |  |  | 1,803 | |  |  | (2 | ) |  | **5,346** | |  |  | 5,611 | |  |  | (5 | | ) |
| Net interest income | | **649** | |  |  | 680 | |  |  | (5 | ) |  | **1,951** | |  |  | 1,991 | |  |  | (2 | | ) |
| Gains (losses) related to investment securities, net | | **—** | |  |  | (1 | | ) |  | nm |  |  | **(1** | | **)** |  | 6 | |  |  | nm | |  |
| **Total revenue(1)(2)** | | **2,424** | |  |  | 2,482 | |  |  | (2 | ) |  | **7,296** | |  |  | 7,608 | |  |  | (4 | | ) |
| Provision for loan losses | | **2** | |  |  | 5 | |  |  | nm |  |  | **7** | |  |  | 7 | |  |  | — | |  |
| **Total expenses(1)(2)** | | **1,762** | |  |  | 1,705 | |  |  | 3 |  |  | **5,391** | |  |  | 5,279 | |  |  | 2 | |  |
| **Income before income tax expense** | | **$** | **660** |  |  | $ | 772 |  |  | (15 | ) |  | **$** | **1,898** |  |  | $ | 2,322 |  |  | (18 | | ) |
| Pre-tax margin | | **27** | | **%** |  | 31 | | % |  |  | |  | **26** | | **%** |  | 31 | | % |  |  | | |
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(1) CRD contributed approximately $81 million and $56 million in total revenue and total expenses, respectively, in the three months ended September 30, 2019, including approximately $77 million in processing fees and other revenue and $4 million in brokerage and other trading services within foreign exchange trading services, and expenses contributed approximately $42 million in compensation and employee benefits and $14 million in other expense lines. In addition, CRD-related expenses in the three months ended September 30, 2019 include $17 million in amortization of other intangible assets.

(2) CRD contributed approximately $264 million and $143 million in total revenue and total expenses, respectively, in the nine months ended September 30, 2019, including approximately $251 million in processing fees and other revenue and $13 million in brokerage and other trading services within foreign exchange trading services, and expenses contributed approximately $107 million in compensation and employee benefits and $36 million in other expense lines. In addition, CRD-related expenses in the nine months ended September 30, 2019 include $49 million in amortization of other intangible assets.

nm Not meaningful

***Servicing Fees***

Servicing fees decreased 5% and 9% in the three and nine months ended September 30, 2019, respectively, compared to the same periods in 2018, primarily due to challenging industry conditions, including fee pressure. FX rates negatively impacted servicing fees by 2% in both the three and nine months ended September 30, 2019 compared to the same periods in 2018.

Servicing fees generated outside the U.S. were approximately 47% of total servicing fees in both the three and nine months ended September 30, 2019 compared to approximately 48% and 47% in the three and nine months ended September 30, 2018, respectively.

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| **TABLE 10: ASSETS UNDER CUSTODY AND/OR ADMINISTRATION BY PRODUCT** | | | | | | | | | | | |
| **(In billions)** | **September 30, 2019** | | |  | **December 31, 2018** | | |  | **September 30, 2018** | | |
| Collective funds | **$** | **9,224** |  |  | $ | 8,999 |  |  | $ | 9,646 |  |
| Mutual funds | **8,687** | |  |  | 7,912 | |  |  | 8,717 | |  |
| Insurance and other products | **8,171** | |  |  | 8,220 | |  |  | 8,826 | |  |
| Pension products | **6,817** | |  |  | 6,489 | |  |  | 6,807 | |  |
| **Total** | **$** | **32,899** |  |  | $ | 31,620 |  |  | $ | 33,996 |  |
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| **TABLE 11: ASSETS UNDER CUSTODY AND/OR ADMINISTRATION BY ASSET CLASS** | | | | | | | | | | | |
| **(In billions)** | **September 30, 2019** | | |  | **December 31, 2018** | | |  | **September 30, 2018** | | |
| Equities | **$** | **18,243** |  |  | $ | 18,041 |  |  | $ | 20,070 |  |
| Fixed-income | **10,413** | |  |  | 9,758 | |  |  | 10,018 | |  |
| Short-term and other investments | **4,243** | |  |  | 3,821 | |  |  | 3,908 | |  |
| **Total** | **$** | **32,899** |  |  | $ | 31,620 |  |  | $ | 33,996 |  |

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| **TABLE 12: ASSETS UNDER CUSTODY AND/OR ADMINISTRATION BY GEOGRAPHY(1)** | | | | | | | | | | | | |
| **(In billions)** | | **September 30, 2019** | | |  | **December 31, 2018** | | |  | **September 30, 2018** | | |
| Americas | | **$** | **23,888** |  |  | $ | 23,203 |  |  | $ | 25,157 |  |
| Europe/Middle East/Africa | | **7,091** | |  |  | 6,699 | |  |  | 7,094 | |  |
| Asia/Pacific | | **1,920** | |  |  | 1,718 | |  |  | 1,745 | |  |
| **Total** | | **$** | **32,899** |  |  | $ | 31,620 |  |  | $ | 33,996 |  |
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(1)Geographic mix is generally based on the domicile of the entity servicing the funds and is not necessarily representative of the underlying asset mix.

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Asset servicing mandates newly announced in the third quarter of 2019 totaled approximately $1.03 trillion. Servicing assets remaining to be installed in future periods totaled approximately $1.17 trillion as of September 30, 2019, which will be reflected in AUC/A in future periods after installation and will generate servicing fee revenue in subsequent periods. The full revenue impact of such mandates will be realized over several quarters as the assets are installed and additional services are added over that period.

New asset servicing mandates may be subject to completion of definitive agreements, approval of applicable boards and shareholders and customary regulatory approvals. New asset servicing mandates and servicing assets remaining to be installed in future periods exclude certain new business which has been contracted, but for which the client has not yet provided permission to publicly disclose and the expected installation date extends beyond one quarter. These excluded assets, which from time to time may be significant, will be included in new asset servicing mandates and reflected in servicing assets remaining to be installed in the period in which the client provides its permission. Servicing mandates and servicing assets remaining to be installed in future periods are presented on a gross basis and therefore also do not include the impact of clients who have notified us during the period of their intent to terminate or reduce their relationship with us, which may from time to time be significant.

With respect to these new servicing mandates, once installed we may provide various services, including accounting, bank loan servicing, compliance reporting and monitoring, custody, depository banking services, FX, 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. The $1.17 trillion of servicing assets remaining to be installed in future periods includes $1.03 trillion of new asset servicing mandates announced for the third quarter of 2019 which primarily reflect additional services for an existing large asset manager client.

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

As a result of a decision to diversify providers, one of our large clients has moved a portion of its assets, largely common trust funds, to another service provider. We remain a significant service provider to this client.

The transition, which began in 2018 and is near completion, represented approximately $1 trillion in assets with respect to which we no longer derive revenue post-transition.

***Foreign Exchange Trading Services***

Foreign exchange trading services revenue, as presented in Table 9: Investment Servicing Line of Business Results, decreased 2% and 9% in the three and nine months ended September 30, 2019, respectively, compared to the same periods in 2018, primarily due to lower market volatility. Foreign exchange trading services is composed of revenue generated by FX trading, as well as revenue generated by brokerage and other trading services.

Table 13: Foreign Exchange Trading Services, presents the composition of our consolidated total foreign exchange trading services revenue split between FX trading and brokerage and other trading services in the three and nine months ended September 30, 2019, compared to the same periods in 2018.

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| **TABLE 13: FOREIGN EXCHANGE TRADING SERVICES** | | | | | | | | | | | |
|  | **Three Months Ended September 30,** | | | | |  | **Nine Months Ended September 30,** | | | | |
| **(In percentage)** | **2019** | |  | **2018** | |  | **2019** | |  | **2018** | |
| FX Trading | **56** | **%** |  | **59** | **%** |  | **57** | **%** |  | **60** | **%** |
| Brokerage and other trading services | **44** |  |  | **41** |  |  | **43** |  |  | **40** |  |
| **Total** | **100** | **%** |  | **100** | **%** |  | **100** | **%** |  | **100** | **%** |

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

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| *•* | *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. |

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| • | *Indirect FX trading*: Represents FX transactions with clients, for which we are the funds' custodian, or their investment managers, routed to our FX desk through our asset-servicing operation. We execute indirect FX trades as a principal at rates disclosed to our clients. |

Our FX trading revenue is influenced by multiple factors, including: the volume and type of client FX transactions and related spreads; currency volatility, reflecting market conditions; and our management of exchange rate, interest rate and other market risks associated with our FX 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

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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.

We also earn foreign exchange trading services revenue through "electronic FX services" and "other trading, transition management and brokerage revenue."

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| • | 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. |

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| • | 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, which are not limited to foreign exchange, generate revenue via commissions charged for trades transacted during the management of these portfolios. |

Our transition management revenue has been adversely affected by compliance issues in our U.K. business during 2010 and 2011, including settlements with the U.K. Financial Conduct Authority 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 continue to adversely affect our results in future periods.

***Securities Finance***

Our securities finance business consists of three components:

(1) an agency lending program for State Street Global Advisors managed investment funds with a broad range of investment objectives, which we refer to as the State Street Global Advisors lending funds;

(2) an agency lending program for third-party investment managers and asset owners, which we refer to as the agency lending funds; and

(3) security lending transactions which we enter into as principal, which we refer to as our enhanced custody business.

Securities finance revenue earned from our agency lending activities, which is composed of our split of both the spreads related to cash collateral and the fees related to non-cash collateral, is principally a function of the volume of securities on loan, the interest rate spreads and fees earned on the underlying collateral and our share of the fee split.

As principal, our enhanced custody business borrows securities from the lending client or other market participants and then lends such securities to the subsequent borrower, either our client or a broker/dealer. We act as principal when the lending client is unable to, or elects not to, transact directly with the market and execute the transaction and furnish the securities. In our role as principal, we provide support to the transaction through our credit rating. While we source a significant proportion of the securities furnished by us in our role as principal from third parties, we have the ability to source securities through assets under custody from clients who have designated us as an eligible borrower.

Securities finance revenue, as presented in Table 9: Investment Servicing Line of Business Results, decreased 11% and 17% in the three and nine months ended September 30, 2019, respectively, compared to the same periods in 2018, primarily driven by the ongoing impact of balance sheet optimization efforts implemented in the second half of 2018.

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

***Processing Fees and Other***

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

Processing fees and other revenue, presented in Table 9: Investment Servicing Line of Business Results, increased significantly in the three and nine months ended September 30, 2019, compared to the same periods in 2018, and reflects approximately $77 million from CRD in the third quarter of 2019 and $251 million from CRD in the nine months ended September 30, 2019. Revenue related to the front office solutions

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provided by CRD is primarily driven by the sale of term software licenses and software as service arrangements, including professional services such as consulting and implementation services, software support and maintenance. Revenue for a sale of software to be installed on premise is recognized at a point in time when the customer benefits from obtaining access to and use of the software license. Revenue for a SaaS related arrangement is recognized over time as services are provided.

***Expenses***

Total expenses for Investment Servicing increased 3% and 2% in the three and nine months ended September 30, 2019, respectively, compared to the same periods in 2018. The increases are primarily due

to the impact of the CRD acquisition, technology infrastructure investments and business volumes, partially offset by savings from resource discipline initiatives and process re-engineering benefits through our expense savings program. Total expenses contributed by CRD in the three and nine months ended September 30, 2019 were approximately $56 million and $143 million, respectively. In addition, CRD-related expenses in the three and nine months ended September 30, 2019 include $17 million and $49 million, respectively, in amortization of other intangible assets. Additional information about expenses is provided under "Expenses" in "Consolidated Results of Operations" included in this Management's Discussion and Analysis.

**Investment Management**

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| **TABLE 14: INVESTMENT MANAGEMENT LINE OF BUSINESS RESULTS** | | | | | | | | | | | | | | | | | | | | | | |
| **(Dollars in millions)** | | **Three Months Ended September 30,** | | | | | | |  |  | |  | **Nine Months Ended September 30,** | | | | | | |  | **% Change** | |
| **2019** | | |  | **2018** | | |  | **% Change** | |  | **2019** | | |  | **2018** | | |  |
| Management fees | | **$** | **445** |  |  | $ | 474 |  |  | (6 | )% |  | **$** | **1,306** |  |  | $ | 1,411 |  |  | (7 | )% |
| Foreign exchange trading services(1) | | **35** | |  |  | 33 | |  |  | 6 |  |  | **102** | |  |  | 97 | |  |  | 5 |  |
| Securities finance | | **2** | |  |  | — | |  |  | nm |  |  | **7** | |  |  | **—** | |  |  | nm |  |
| Processing fees and other | | **2** | |  |  | 8 | |  |  | (75 | ) |  | **18** | |  |  | 9 | |  |  | nm |  |
| Total fee revenue | | **484** | |  |  | 515 | |  |  | (6 | ) |  | **1,433** | |  |  | 1,517 | |  |  | (6 | ) |
| Net interest income | | **(5** | | **)** |  | (8 | | ) |  | (38 | ) |  | **(21** | | **)** |  | (17 | | ) |  | 24 |  |
| **Total revenue** | | **479** | |  |  | 507 | |  |  | (6 | ) |  | **1,412** | |  |  | 1,500 | |  |  | (6 | ) |
| **Total expenses** | | **373** | |  |  | 386 | |  |  | (3 | ) |  | **1,156** | |  |  | 1,173 | |  |  | (1 | ) |
| **Income before income tax expense** | | **$** | **106** |  |  | $ | 121 |  |  | (12 | ) |  | **$** | **256** |  |  | $ | 327 |  |  | (22 | ) |
| Pre-tax margin | | **22** | | **%** |  | 24 | | % |  |  | |  | **18** | | **%** |  | 22 | | % |  |  | |
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(1)Includes revenues from distributing and marketing activities for U.S. mutual funds and ETFs associated with State Street Global Advisors.

nm Not meaningful

***Management Fees***

Management fees decreased 6% and 7% in the three and nine months ended September 30, 2019, respectively, compared to the same periods in 2018, primarily reflecting the run rate impact of late 2018 outflows and mix changes away from higher fee products, partially offset by higher U.S. average equity market levels.

Management fees generated outside the U.S. were approximately 27% of total management fees in both the three and nine months ended September 30, 2019 compared to 26% and 27% in the three and nine months ended September 30, 2018, respectively.

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| **TABLE 15: ASSETS UNDER MANAGEMENT BY ASSET CLASS AND INVESTMENT APPROACH** | | | | | | | | | | | | |
| **(In billions)** | | **September 30, 2019** | | |  | **December 31, 2018** | | |  | **September 30, 2018** | | |
| Equity: | | | | | | | | | | | | |
| Active | | **$** | **84** |  |  | $ | 80 |  |  | $ | 96 |  |
| Passive | | **1,747** | |  |  | 1,464 | |  |  | 1,693 | |  |
| Total equity | | **1,831** | |  |  | 1,544 | |  |  | 1,789 | |  |
| Fixed-income: | | | | | | | | | | | | |
| Active | | **92** | |  |  | 81 | |  |  | 80 | |  |
| Passive | | **367** | |  |  | 341 | |  |  | 343 | |  |
| Total fixed-income | | **459** | |  |  | 422 | |  |  | 423 | |  |
| Cash(1) | | **336** | |  |  | 287 | |  |  | 317 | |  |
| Multi-asset-class solutions: | | | | | | | | | | | | |
| Active | | **23** | |  |  | 19 | |  |  | 20 | |  |
| Passive | | **134** | |  |  | 113 | |  |  | 125 | |  |
| Total multi-asset-class solutions | | **157** | |  |  | 132 | |  |  | 145 | |  |
| Alternative investments(2): | | | | | | | | | | | | |
| Active | | **22** | |  |  | 21 | |  |  | 22 | |  |
| Passive | | **148** | |  |  | 105 | |  |  | 114 | |  |
| Total alternative investments | | **170** | |  |  | 126 | |  |  | 136 | |  |
| **Total** | | **$** | **2,953** |  |  | $ | 2,511 |  |  | $ | 2,810 |  |
|  | | | | | | | | | | | | |
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(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 act as the marketing agent.

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| **TABLE 16: EXCHANGE-TRADED FUNDS BY ASSET CLASS(1)** | | | | | | | | | | | | |
| **(In billions)** | | **September 30, 2019** | | |  | **December 31, 2018** | | |  | **September 30, 2018** | | |
| Alternative Investments(2) | | **$** | **56** |  |  | $ | 43 |  |  | $ | 40 |  |
| Cash | | **9** | |  |  | 9 | |  |  | 4 | |  |
| Equity | | **553** | |  |  | 482 | |  |  | 566 | |  |
| Fixed-Income | | **80** | |  |  | 66 | |  |  | 69 | |  |
| **Total Exchange-Traded Funds** | | **$** | **698** |  |  | $ | 600 |  |  | $ | 679 |  |
|  | | | | | | | | | | | | |
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(1)ETFs are a component of AUM presented in the preceding table.

(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 act as the marketing agent.

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| **TABLE 17: GEOGRAPHIC MIX OF ASSETS UNDER MANAGEMENT(1)** | | | | | | | | | | | | |
| **(In billions)** | | **September 30, 2019** | | |  | **December 31, 2018** | | |  | **September 30, 2018** | | |
| North America | | **$** | **1,999** |  |  | $ | 1,731 |  |  | $ | 1,956 |  |
| Europe/Middle East/Africa | | **476** | |  |  | 421 | |  |  | 476 | |  |
| Asia/Pacific | | **478** | |  |  | 359 | |  |  | 378 | |  |
| **Total** | | **$** | **2,953** |  |  | $ | 2,511 |  |  | $ | 2,810 |  |
|  | | | | | | | | | | | | |
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(1)Geographic mix is based on client location or fund management location.

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**MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION**

**AND RESULTS OF OPERATIONS**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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| **TABLE 18: ACTIVITY IN ASSETS UNDER MANAGEMENT BY PRODUCT CATEGORY** | | | | | | | | | | | | | | | | | | | | | | | | |
| **(In billions)** | | **Equity** | | |  | **Fixed-Income** | | |  | **Cash(1)** | | |  | **Multi-Asset-Class Solutions** | | |  | **Alternative Investments(2)** | | |  | **Total** | | |
| **Balance as of December 31, 2017** | | $ | 1,745 |  |  | $ | 414 |  |  | $ | 330 |  |  | $ | 147 |  |  | $ | 146 |  |  | $ | 2,782 |  |
| Long-term institutional flows, net(3) | | (45 | | ) |  | 12 | |  |  | — | |  |  | (3 | | ) |  | (2 | | ) |  | (38 | | ) |
| Exchange-traded fund flows, net | | (3 | | ) |  | 7 | |  |  | 6 | |  |  | — | |  |  | (2 | | ) |  | 8 | |  |
| Cash fund flows, net | | — | |  |  | — | |  |  | (50 | | ) |  | — | |  |  | — | |  |  | (50 | | ) |
| Total flows, net | | (48 | | ) |  | 19 | |  |  | (44 | | ) |  | (3 | | ) |  | (4 | | ) |  | (80 | | ) |
| Market appreciation (depreciation) | | (142 | | ) |  | (7 | | ) |  | 3 | |  |  | (10 | | ) |  | (10 | | ) |  | (166 | | ) |
| Foreign exchange impact | | (11 | | ) |  | (4 | | ) |  | (2 | | ) |  | (2 | | ) |  | (6 | | ) |  | (25 | | ) |
| Total market/foreign exchange impact | | (153 | | ) |  | (11 | | ) |  | 1 | |  |  | (12 | | ) |  | (16 | | ) |  | (191 | | ) |
| **Balance as of December 31, 2018** | | $ | 1,544 |  |  | $ | 422 |  |  | $ | 287 |  |  | $ | 132 |  |  | $ | 126 |  |  | $ | 2,511 |  |
| Long-term institutional flows, net(3) | | **42** | |  |  | **(13** | | **)** |  | **2** | |  |  | **8** | |  |  | **15** | |  |  | **54** | |  |
| Exchange-traded fund flows, net | | **(8** | | **)** |  | **11** | |  |  | **—** | |  |  | **—** | |  |  | **7** | |  |  | **10** | |  |
| Cash fund flows, net | | **—** | |  |  | **—** | |  |  | **42** | |  |  | **—** | |  |  | **—** | |  |  | **42** | |  |
| Total flows, net | | **34** | |  |  | **(2** | | **)** |  | **44** | |  |  | **8** | |  |  | **22** | |  |  | **106** | |  |
| Market appreciation (depreciation) | | **260** | |  |  | **41** | |  |  | **6** | |  |  | **18** | |  |  | **24** | |  |  | **349** | |  |
| Foreign exchange impact | | **(7** | | **)** |  | **(2** | | **)** |  | **(1** | | **)** |  | **(1** | | **)** |  | **(2** | | **)** |  | **(13** | | **)** |
| Total market/foreign exchange impact | | **253** | |  |  | **39** | |  |  | **5** | |  |  | **17** | |  |  | **22** | |  |  | **336** | |  |
| **Balance as of September 30, 2019** | | **$** | **1,831** |  |  | **$** | **459** |  |  | **$** | **336** |  |  | **$** | **157** |  |  | **$** | **170** |  |  | **$** | **2,953** |  |
|  | | | | | | | | | | | | | | | | | | | | | | | | |
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(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 act as the marketing agent.

(3)Amounts represent long-term portfolios, excluding ETFs.

Total net inflows for the nine months ended September 30, 2019 were $106 billion. We had net inflows of $13 billion in the third quarter of 2019, driven primarily by cash and ETF inflows.

The preceding table does not include approximately $49 billion of new asset management business which was awarded but not installed as of September 30, 2019. New business will be reflected in AUM in future periods after installation, and will generate management fee revenue in subsequent periods. Total AUM as of September 30, 2019 included managed assets lost but not liquidated. Lost business occurs from time to time and it is difficult to predict the timing of client behavior in transitioning these assets as the timing can vary significantly.

***Expenses***

Total expenses for Investment Management decreased 3% and 1% in the three and nine months ended September 30, 2019, respectively, compared to the same periods in 2018, primarily due to savings from resource discipline initiatives and process re-engineering benefits through our expense savings program.

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

**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.

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**MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION**

**AND RESULTS OF OPERATIONS**

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **TABLE 19: AVERAGE STATEMENT OF CONDITION(1)** | | | | | | | | |
|  | |  |  |  |  |  |  |  |
|  | | **Nine Months Ended September 30,** | | | | | | |
| **(In millions)** | | **2019** | | |  | **2018** | | |
| **Assets:** | |  | | |  |  | | |
| Interest-bearing deposits with banks | | **$** | **47,562** |  |  | $ | 54,414 |  |
| Securities purchased under resale agreements | | **2,634** | |  |  | 2,759 | |  |
| Trading account assets | | **880** | |  |  | 1,098 | |  |
| U.S. Treasury and federal agencies: | |  | | |  |  | | |
| Direct obligations | | **14,327** | |  |  | 16,543 | |  |
| Mortgage-and asset-backed securities | | **41,845** | |  |  | 30,795 | |  |
| State and political subdivisions | | **1,887** | |  |  | 6,473 | |  |
| Other investments: | |  | | |  |  | | |
| Asset-backed securities | | **9,445** | |  |  | 14,394 | |  |
| Collateralized mortgage-backed securities and obligations | | **923** | |  |  | 1,663 | |  |
| Other debt investments and equity securities | | **22,190** | |  |  | 19,212 | |  |
| Total Investment securities | | **90,617** | |  |  | 89,080 | |  |
| Loans and leases | | **23,605** | |  |  | 23,359 | |  |
| Other interest-earning assets | | **14,790** | |  |  | 16,599 | |  |
| Average total interest-earning assets | | **180,088** | |  |  | 187,309 | |  |
| Cash and due from banks | | **3,401** | |  |  | 3,375 | |  |
| Other non-interest-earning assets | | **37,975** | |  |  | 33,386 | |  |
| **Average total assets** | | **$** | **221,464** |  |  | $ | 224,070 |  |
|  | |  | | |  |  | | |
| **Liabilities and shareholders’ equity:** | | | | |  |  | | |
| Interest-bearing deposits: | |  | | |  |  | | |
| U.S. | | **$** | **66,077** |  |  | $ | 52,190 |  |
| Non-U.S. | | **60,817** | |  |  | 74,170 | |  |
| Total interest-bearing deposits(2) | | **126,894** | |  |  | 126,360 | |  |
| Securities sold under repurchase agreements | | **1,754** | |  |  | 2,361 | |  |
| Other short-term borrowings | | **1,664** | |  |  | 1,274 | |  |
| Long-term debt | | **11,201** | |  |  | 10,808 | |  |
| Other interest-bearing liabilities | | **4,101** | |  |  | 5,187 | |  |
| Average total interest-bearing liabilities | | **145,614** | |  |  | 145,990 | |  |
| Non-interest-bearing deposits(2) | | **29,493** | |  |  | 36,081 | |  |
| Other non-interest-bearing liabilities | | **21,353** | |  |  | 19,330 | |  |
| Preferred shareholders’ equity | | **3,690** | |  |  | 3,204 | |  |
| Common shareholders’ equity | | **21,314** | |  |  | 19,465 | |  |
| **Average total liabilities and shareholders’ equity** | | **$** | **221,464** |  |  | $ | 224,070 |  |
|  | | | | | | | | | |
|  |  | | | | | | | | |
|  |  | | | | | | | | |

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

(2)Total deposits averaged $156.39 billion in the nine months ended September 30, 2019 compared to $162.44 billion in the same period in 2018.

**Investment Securities**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
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| **TABLE 20: CARRYING VALUES OF INVESTMENT SECURITIES** | | | | | | | | | |
| **(In millions)** | **September 30, 2019** | | | | |  | **December 31, 2018** | | |
| **Available-for-sale:** | | | | | | | | | |
| U.S. Treasury and federal agencies: | | | | | | | | | |
| Direct obligations | **$** | **2,039** | | |  |  | $ | 1,039 |  |
| Mortgage-backed securities | **22,379** | | | |  |  | 15,968 | |  |
| Total U.S. Treasury and federal agencies | **24,418** | | | |  |  | 17,007 | |  |
| Asset-backed securities: |  | | | | |  |  | | |
| Student loans(1) | **471** | | | |  |  | 541 | |  |
| Credit cards | **90** | | | |  |  | 583 | |  |
| Collateralized loan obligations | **1,446** | | | |  |  | 593 | |  |
| Total asset-backed securities | **2,007** | | | |  |  | 1,717 | |  |
| Non-U.S. debt securities: |  | | | | |  |  | | |
| Mortgage-backed securities | **1,917** | | | |  |  | 1,682 | |  |
| Asset-backed securities | **1,831** | | | |  |  | 1,574 | |  |
| Government securities | **13,189** | | | |  |  | 12,793 | |  |
| Other | **6,998** | | | |  |  | 6,602 | |  |
| Total non-U.S. debt securities | **23,935** | | | |  |  | 22,651 | |  |
| State and political subdivisions | **1,819** | | | |  |  | 1,918 | |  |
| Collateralized mortgage obligations | **113** | | | |  |  | 197 | |  |
| Other U.S. debt securities | **2,465** | | | |  |  | 1,658 | |  |
| Total | **$** | **54,757** | | |  |  | $ | 45,148 |  |
|  |  | | | | |  |  | | |
| **Held-to-maturity(2):** |  | | | | |  |  | | |
| U.S. Treasury and federal agencies: |  | | | | |  |  | | |
| Direct obligations | **$** | **11,781** | | |  |  | $ | 14,794 |  |
| Mortgage-backed securities | **21,966** | | | |  |  | 21,647 | |  |
| Total U.S. Treasury and federal agencies | **33,747** | | | |  |  | 36,441 | |  |
| Asset-backed securities: |  | | | | |  |  | | |
| Student loans(1) | **3,881** | | | |  |  | 3,191 | |  |
| Credit cards | **—** | | | |  |  | 193 | |  |
| Other | **—** | | | |  |  | 1 | |  |
| Total asset-backed securities | **3,881** | | | |  |  | 3,385 | |  |
| Non-U.S. debt securities: |  | | | | |  |  | | |
| Mortgage-backed securities | **471** | | | |  |  | 638 | |  |
| Asset-backed securities | **—** | | | |  |  | 223 | |  |
| Government securities | **294** | | | |  |  | 358 | |  |
| Other | **—** | | | |  |  | 46 | |  |
| Total non-U.S. debt securities | **765** | | | |  |  | 1,265 | |  |
| Collateralized mortgage obligations | **726** | | | |  |  | 823 | |  |
| Total | **$** | **39,119** | | |  |  | $ | 41,914 |  |
|  | | | | | | | | | |
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(1)Primarily comprised 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 in this Form 10-Q.

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**MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION**

**AND RESULTS OF OPERATIONS**

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

Average duration of our investment securities portfolio was 2.6 years and 3.1 years as of September 30, 2019 and December 31, 2018, respectively. The decrease in securities duration reflects reinvestment into MBS and lower long-end U.S. interest rates.

Approximately 90% of the carrying value of the portfolio was rated “AAA” or “AA” as of both September 30, 2019 and December 31, 2018.

|  |  |  |  |  |  |  |  |
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| **TABLE 21: INVESTMENT PORTFOLIO BY EXTERNAL CREDIT RATING** | | | | | | | |
|  | **September 30, 2019** | | |  | | **December 31, 2018** | |
| AAA(1) | **77** | | **%** |  | | 76 | % |
| AA | **13** | |  |  | | 14 |  |
| A | **5** | |  |  | | 5 |  |
| BBB | **5** | |  |  | | 5 |  |
| 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 and also includes Agency MBS securities which are not explicitly rated but which have an explicit or assumed guarantee from the U.S. government.

As of September 30, 2019 and December 31, 2018, the investment portfolio was diversified with respect to asset class composition. The following table presents the composition of these asset classes.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | | | | | |
|  |  |  |  |  |  |
| **TABLE 22: INVESTMENT PORTFOLIO BY ASSET CLASS** | | | | | |
|  | **September 30, 2019** | |  | **December 31, 2018** | |
| U.S. Agency  Mortgage-backed securities | **43** | **%** |  | 40 | % |
| Foreign sovereign | **19** |  |  | 19 |  |
| U.S. Treasuries | **15** |  |  | 18 |  |
| Asset-backed securities | **11** |  |  | 11 |  |
| Other credit | **12** |  |  | 12 |  |
|  | **100** | **%** |  | 100 | % |

***Non-U.S. Debt Securities***

Approximately 26% and 27% of the aggregate carrying value of our investment securities portfolio was non-U.S. debt securities as of September 30, 2019 and December 31, 2018, respectively.

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
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|  |  |  | |  |  |  |  |  |
| **TABLE 23: NON-U.S. DEBT SECURITIES** | | | | | | | | |
| **(In millions)** | **September 30, 2019** | | | |  | **December 31, 2018** | | |
| **Available-for-sale:** |  | | | |  |  | | |
| Canada | **$** | **2,647** | |  |  | $ | 2,185 |  |
| Australia | **2,506** | | |  |  | 2,847 | |  |
| United Kingdom | **2,344** | | |  |  | 2,580 | |  |
| France | **1,950** | | |  |  | 1,875 | |  |
| Germany | **1,708** | | |  |  | 1,547 | |  |
| European(1) | **1,482** | | |  |  | 1,087 | |  |
| Spain | **1,443** | | |  |  | 1,504 | |  |
| Japan | **1,376** | | |  |  | 1,352 | |  |
| Austria | **1,336** | | |  |  | 1,312 | |  |
| Netherlands | **1,335** | | |  |  | 1,116 | |  |
| Ireland | **1,203** | | |  |  | 1,301 | |  |
| Italy | **963** | | |  |  | 1,010 | |  |
| Belgium | **923** | | |  |  | 952 | |  |
| Finland | **739** | | |  |  | 789 | |  |
| Hong Kong | **660** | | |  |  | 458 | |  |
| Asian(1) | **532** | | |  |  | 338 | |  |
| Sweden | **148** | | |  |  | 186 | |  |
| Brazil | **89** | | |  |  | — | |  |
| Norway | **50** | | |  |  | 94 | |  |
| Other(2) | **501** | | |  |  | 118 | |  |
| Total | **$** | **23,935** | |  |  | $ | 22,651 |  |
| **Held-to-maturity:** |  | | | |  |  | | |
| Singapore | **$** | **184** | |  |  | $ | 242 |  |
| Australia | **131** | | |  |  | 158 | |  |
| United Kingdom | **130** | | |  |  | 363 | |  |
| Germany | **109** | | |  |  | 115 | |  |
| Spain | **84** | | |  |  | 92 | |  |
| Netherlands | **80** | | |  |  | 187 | |  |
| Other(3) | **47** | | |  |  | 108 | |  |
| Total | **$** | **765** | |  |  | $ | 1,265 |  |
|  | | | | | | | | | |
|  | | |  | | | | | | |
|  | | |  | | | | | | |

(1)Consists entirely of supranational bonds.

(2)Included approximately $379 million and $78 million as of September 30, 2019 and December 31, 2018, respectively, related to supranational bonds.

(3)Included approximately $47 million and $61 million as of September 30, 2019 and December 31, 2018, respectively, related to Italy and Portugal, all of which were related to MBS.

Approximately 74% of the aggregate carrying value of these non-U.S. debt securities was rated “AAA” or “AA” as of both September 30, 2019 and December 31, 2018. The majority of these securities comprised senior positions within the security structures; these positions have a level of protection provided through subordination and other forms of credit protection. As of September 30, 2019 and December 31, 2018, approximately 27% and 31%, respectively, of the aggregate carrying value of these non-U.S. debt securities was floating-rate.

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As of September 30, 2019, our non-U.S. debt securities had an average market-to-book ratio of 101.5%, and an aggregate pre-tax net unrealized gain of $377 million, composed of gross unrealized gains of $389 million and gross unrealized losses of $12 million. These unrealized amounts included:

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| • | a pre-tax net unrealized gain of $303 million, composed of gross unrealized gains of $308 million and gross unrealized losses of $5 million, associated with non-U.S. AFS debt securities; and |

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| • | a pre-tax net unrealized gain of $74 million, composed of gross unrealized gains of $81 million and gross unrealized losses of $7 million, associated with non-U.S. HTM debt securities. |

As of September 30, 2019, the underlying collateral for non-U.S. MBS and ABS primarily included U.K., Australian, Italian and Dutch mortgages as well as U.K., German and Spanish 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.

***Municipal Obligations***

We carried approximately $1.8 billion of municipal securities classified as state and political subdivisions in our investment securities portfolio as of September 30, 2019, as shown in Table 20: Carrying Values of Investment Securities, all of which were classified as AFS. As of September 30, 2019, we also provided approximately $9.3 billion of credit and liquidity facilities to municipal issuers.

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| **TABLE 24: STATE AND MUNICIPAL OBLIGORS(1)** | | | | | | | | | | | | | | | | | |
| **(Dollars in millions)** | **Total Municipal Securities** | | | | |  | **Credit and**  **Liquidity**  **Facilities(2)** | | | |  | **Total** | | |  | **% of Total Municipal**  **Exposure** | |
| **September 30, 2019** | | | | | |  |  | | | |  |  | | |  |  | |
| **State of Issuer:** | | | | | |  |  | | | |  |  | | |  |  | |
| Texas | **$** | | **283** | |  |  | **$** | **2,378** | |  |  | **$** | **2,661** |  |  | **24** | **%** |
| California | **116** | | | |  |  | **2,016** | | |  |  | **2,132** | |  |  | **19** |  |
| New York | **272** | | | |  |  | **1,511** | | |  |  | **1,783** | |  |  | **16** |  |
| Massachusetts | **431** | | | |  |  | **729** | | |  |  | **1,160** | |  |  | **10** |  |
| Tennessee | **4** | | | |  |  | **502** | | |  |  | **506** | |  |  | **5** |  |
| Total | **$** | | **1,106** | |  |  | **$** | **7,136** | |  |  | **$** | **8,242** |  |  |  | |
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| **December 31, 2018** | | | | | |  |  | | | |  |  | | |  |  | |
| **State of Issuer:** | | | | | |  |  | | | |  |  | | |  |  | |
| Texas | $ | | 315 | |  |  | $ | 2,467 | |  |  | $ | 2,782 |  |  | 25 | % |
| California | 108 | | | |  |  | 1,693 | | |  |  | 1,801 | |  |  | 16 |  |
| New York | 231 | | | |  |  | 1,518 | | |  |  | 1,749 | |  |  | 15 |  |
| Massachusetts | 467 | | | |  |  | 978 | | |  |  | 1,445 | |  |  | 13 |  |
| Total | $ | | 1,121 | |  |  | $ | 6,656 | |  |  | $ | 7,777 |  |  |  | |
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(1)Represented 5% or more of our aggregate municipal credit exposure of approximately $11.14 billion and $11.35 billion across our businesses as of September 30, 2019 and December 31, 2018, respectively.

(2)Includes municipal loans which are also presented within Table 25: U.S. and Non-U.S. Loans and Leases.

Our aggregate municipal securities exposure presented in Table 24: State and Municipal Obligors, was concentrated primarily with highly-rated counterparties, with approximately 82% of the obligors rated “AAA” or “AA” as of September 30, 2019. As of that date, approximately 20% and 79% 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.

Additional information with respect to our assessment of OTTI of our municipal securities is provided in Note 3to the consolidated financial statements in this Form 10-Q.

***Impairment***

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

We conduct periodic reviews of individual securities to assess whether OTTI exists. Our assessment of OTTI involves an evaluation of economic and security-specific factors. Such factors are based on estimates, derived by management, which contemplate current market conditions and security-specific performance. To the extent that market conditions are worse than management's expectations or due to idiosyncratic bond performance, OTTI could increase, in particular the credit-related component that would be recorded in our consolidated statement of income. Additional information with respect to OTTI, net impairment losses and gross unrealized losses is provided in Note 3 to the consolidated financial statements 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.

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**AND RESULTS OF OPERATIONS**

**Loans and Leases**

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| **TABLE 25: U.S. AND NON- U.S. LOANS AND LEASES** | | | | | | | | | | |
| **(In millions)** | | **September 30, 2019** | | | | |  | **December 31, 2018** | | |
| **Domestic(1):** | |  | | | | |  |  | | |
| Commercial and financial | | **$** | **17,682** | | |  |  | $ | 19,479 |  |
| Commercial real estate | | **1,346** | | | |  |  | 874 | |  |
| Total domestic | | **19,028** | | | |  |  | 20,353 | |  |
| **Foreign(1):** | |  | | | | |  |  | | |
| Commercial and financial | | **7,981** | | | |  |  | 5,436 | |  |
| Total foreign | | **7,981** | | | |  |  | 5,436 | |  |
| Total loans and leases(2) | | **$** | **27,009** | | |  |  | $ | 25,789 |  |
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(1) Domestic and foreign categorization is based on the borrower’s country of domicile.

(2)Includes $6.14 billion and $5.44 billion of overdrafts as of September 30, 2019 and December 31, 2018, respectively.

The decrease in domestic loans in the commercial and financial segment as of September 30, 2019 compared to December 31, 2018 was primarily driven by a decrease in loans to investment funds and senior secured loans. The increase in foreign loans in the same period was primarily driven by an increase in loans to investment funds.

As of September 30, 2019 and December 31, 2018, our investment in senior secured loans, otherwise known as leveraged loans, totaled approximately $4.26 billion and $4.42 billion, respectively. In addition, we had binding unfunded commitments as of September 30, 2019 and December 31, 2018 of $220 million and $238 million, respectively, to participate in such syndications. Additional information about these unfunded commitments is provided in Note 9 to the consolidated financial statements in this Form 10-Q.

These senior secured loans, which are primarily rated “speculative” under our internal risk-rating framework (refer to Note 4 to the consolidated financial statements in this Form 10-Q), are externally rated “BBB,” “BB” or “B,” with approximately 87% and 90% of the loans rated “BB” or “B” as of September 30, 2019 and December 31, 2018, respectively. 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 in our portfolio.

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 in this Form 10-Q.

No loans were modified in troubled debt restructurings as of both September 30, 2019 and December 31, 2018.

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| **TABLE 26: ALLOWANCE FOR LOAN AND LEASE LOSSES** | | | | | | | | | |
|  | **Nine Months Ended September 30,** | | | | | | | | |
| **(In millions)** | **2019** | | | | |  | **2018** | | |
| **Allowance for loan and lease losses:** | | | | | | | | | |
| Beginning balance | **$** | **67** | | |  |  | $ | 54 |  |
| Provision for loan and lease losses(1) | **7** | | | |  |  | 7 | |  |
| Charge-offs(2) | **(2** | | | | **)** |  | (1 | | ) |
| Other(3) | **(1** | | | | **)** |  | — | |  |
| Ending balance | **$** | **71** | | |  |  | $ | 60 |  |
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(1)The provision for loan and lease losses is primarily related to commercial and financial loans.

(2) The charge-offs are related to commercial and financial loans.

(3) Consists primarily of FX translation.

We recorded a provision for loan losses of $7 million in both the nine months ended September 30, 2019 and 2018.

As of September 30, 2019, approximately $61 million of our ALLL was related to senior secured loans included in the commercial and financial segment compared to $51 million as of September 30, 2018. As this portfolio grows and matures, our ALLL related to these loans may increase through additional provisions for credit losses. The remaining $10 million and $9 million as of September 30, 2019 and 2018, respectively, 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 FX 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, FX 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.

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The cross-border outstandings presented in Table 27: Cross-Border Outstandings, represented approximately 28% of our consolidated total assets as of both September 30, 2019 and December 31, 2018.

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| **TABLE 27: CROSS-BORDER OUTSTANDINGS(1)** | | | | | | | | | | | | | |
| **(In millions)** | **Investment Securities and Other Assets** | | |  | **Derivatives and Securities on Loan** | | | | |  | **Total Cross-Border Outstandings** | | |
| **September 30, 2019** |  | |  |  |  | | | | |  |  | | |
| Germany | **$** | **20,954** |  |  | **$** | | **340** | |  |  | **$** | **21,294** |  |
| United Kingdom | **14,291** | |  |  | **1,373** | | | |  |  | **15,664** | |  |
| Japan | **8,946** | |  |  | **1,632** | | | |  |  | **10,578** | |  |
| Australia | **3,664** | |  |  | **662** | | | |  |  | **4,326** | |  |
| Luxembourg | **2,440** | |  |  | **1,472** | | | |  |  | **3,912** | |  |
| Canada | **3,198** | |  |  | **503** | | | |  |  | **3,701** | |  |
| Ireland | **1,940** | |  |  | **1,110** | | | |  |  | **3,050** | |  |
| France | **2,634** | |  |  | **323** | | | |  |  | **2,957** | |  |
| Switzerland | **2,390** | |  |  | **301** | | | |  |  | **2,691** | |  |
| **December 31, 2018** |  | | |  |  | | | | |  |  | |  |
| Germany | $ | 20,157 |  |  | $ | | 489 | |  |  | $ | 20,646 |  |
| Japan | 13,985 | |  |  | 1,084 | | | |  |  | 15,069 | |  |
| United Kingdom | 12,623 | |  |  | 1,176 | | | |  |  | 13,799 | |  |
| Australia | 4,217 | |  |  | 1,349 | | | |  |  | 5,566 | |  |
| Canada | 3,010 | |  |  | 1,507 | | | |  |  | 4,517 | |  |
| Ireland | 2,019 | |  |  | 809 | | | |  |  | 2,828 | |  |
| France | 2,495 | |  |  | 294 | | | |  |  | 2,789 | |  |
| Luxembourg | 2,033 | |  |  | 710 | | | |  |  | 2,743 | |  |
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(1)Cross-border outstandings included countries in which we do business, and which amounted to at least 1% of our consolidated total assets as of the dates indicated.

As of both September 30, 2019 and December 31, 2018, 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:

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| • | credit and counterparty risk; |

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| • | liquidity risk, funding and management; |

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| • | operational risk; |

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| • | information technology risk; |

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| • | market risk associated with our trading activities; |

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| • | 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; |

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| • | model risk; |

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| • | strategic risk; and |

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| • | 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 on pages 17 to 46 included under Item 1A, Risk Factors, in our 2018 Form 10-K.

For additional information about our risk management, including our risk appetite framework and risk governance committee structure, refer to pages 79 to 83 included under Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, "Risk Management Framework", in our 2018 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 FX 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 framework, 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 83 to 88 included under Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, "Risk Management Framework", in our 2018 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.

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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 State Street Intermediate Funding, LLC (SSIF), a 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 financial distress at the Parent Company, the liquid assets available at SSIF continue to be available to the Parent Company. As of September 30, 2019, the Parent Company and State Street Bank had approximately $1.70 billion of senior notes or subordinated debentures outstanding that will mature in the next twelve months.

As a systemically important financial institution, our liquidity risk management activities are subject to heightened and evolving regulatory requirements, including interpretations of those requirements, under specific U.S. and international regulations and also resulting from published and unpublished guidance, supervisory activities, such as stress tests, resolution planning, examinations and other regulatory interactions. Satisfaction of these requirements could, in some cases, result in changes in the composition of our investment portfolio, reduced NII or NIM, a reduction in the level of certain business activities or modifications to the way in which we deliver our products and services. 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 88 to 92 included under Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operation, in our 2018 Form 10-K. For additional information on our liquidity ratios, including LCR and the net stable funding ratio, refer to pages 7 to 8 included under Item 1, Business, in our 2018 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 in our consolidated statement of condition. We restrict the eligibility of securities to be characterized as asset liquidity to U.S. Government and federal agency securities (including MBS), securities of selected non-U.S. Governments and supranational organizations as well as certain other high-quality securities which generally are more liquid than other types of assets even in times of stress. As a banking organization, we are subject to a minimum LCR of 100% under the LCR rule approved by U.S. banking regulators. The LCR is intended to promote the short-term resilience of internationally active banking organizations, like us, to improve the banking industry's ability to absorb shocks arising from market stress over a 30 calendar day period and improve the measurement and management of liquidity risk. The LCR measures an institution’s HQLA against its net cash outflows. HQLA primarily consists of unencumbered cash and certain high quality liquid securities that qualify for inclusion under the LCR rule. We report LCR to the Federal Reserve daily. For the quarters ended September 30, 2019 and December 31, 2018, daily average LCR for the Parent Company was 110% and 108%, respectively. The average HQLA for the Parent Company under the LCR final rule was $94.70 billion and $91.67 billion, post-prescribed haircuts, for the quarters ended September 30, 2019 and December 31, 2018, respectively.

We maintained average cash balances in excess of regulatory requirements governing deposits with the Federal Reserve of approximately $36.06 billion at the Federal Reserve, the ECB and other non-U.S. central banks for the quarter ended September 30, 2019, compared to $44.17 billion for the quarter ended December 31, 2018. The lower levels of average cash balances with central banks reflect lower levels of client deposits and an increase in the investment portfolio.

Liquid securities carried in our asset liquidity include securities pledged without corresponding advances from the Federal Reserve Bank of Boston (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. We had approximately $6 billion and $2 billion of outstanding borrowings from FHLB as of September 30, 2019 and December 31, 2018, respectively.

Access to primary, intra-day and contingent liquidity provided by these utilities is an important source of contingent liquidity with utilization subject to underlying conditions. As of September 30, 2019 and December 31, 2018, we had no outstanding primary

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credit borrowings from the FRBB discount window or any other central bank facility.

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

The average fair value of total unencumbered securities was $75.14 billion for the quarter ended September 30, 2019 compared to $65.94 billion for the quarter ended December 31, 2018.

***Uses of Liquidity***

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

We had unfunded commitments to extend credit with gross contractual amounts totaling $29.68 billion and $28.95 billion and standby letters of credit totaling $3.31 billion and $2.99 billion as of September 30, 2019 and December 31, 2018, respectively. These amounts do not reflect the value of any collateral. As of September 30, 2019, approximately 74% of our unfunded commitments to extend credit and 15% of our standby letters of 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 updated 2019 165(d) resolution plan describing our preferred resolution strategy to the Federal Reserve and FDIC (the Agencies) on June 27, 2019. The submitted 2019 resolution plan is currently

under review by the Agencies. Our 2019 resolution strategy is materially consistent with our prior resolution strategy. On April 8, 2019, the Federal Reserve and FDIC jointly issued a proposed rule that would revise the Dodd Frank Act's resolution planning requirements by means of establishing a biennial filing cycle for the U.S. G-SIBs, including State Street.

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 11 and 12 included under Item 1, Business, in our 2018 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 our 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.

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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.

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

A “Recapitalization Event” is defined under the support agreement as the earlier occurrence of one or more capital and liquidity thresholds being breached or the authorization by the Parent Company's Board of Directors for the Parent Company to commence bankruptcy proceedings. These thresholds are set at levels intended to provide for the availability of sufficient capital and liquidity to enable an orderly resolution without extraordinary government support. The SPOE Strategy and the obligations under the support agreement may result in the recapitalization of State Street Bank and the commencement of bankruptcy proceedings by the Parent Company at an earlier stage

of financial stress than might otherwise occur without such mechanisms in place. An expected effect of the SPOE Strategy and applicable TLAC regulatory requirements is that losses will be imposed on the Parent Company shareholders and the holders of long-term debt and other forms of TLAC securities currently outstanding or issued in the future by the Parent Company, as well as on any other Parent Company creditors, before any of its losses are imposed on the holders of the debt securities of the Parent Company's operating subsidiaries or any of their depositors or creditors, or before U.S. taxpayers are put at risk.

There can be no assurance that credit rating agencies, in response to our 2019 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, periodically in accordance with applicable regulations and FDIC guidance, a plan for resolution in the event of its failure, referred to as an Insured Depository Institution (IDI) plan. We filed our most recent IDI plan on June 28, 2018.

***Funding***

*Deposits*

We provide products and services including custody, accounting, administration, daily pricing, FX 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 our entities in various currencies. As of both September 30, 2019 and December 31, 2018, approximately 60% of our average total deposit balances were denominated in U.S. dollars, approximately 20% in EUR, 10% in GBP and 10% in all other currencies.

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*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 from wholesale investors. As discussed earlier under “Asset Liquidity,” State Street Bank's membership in the FHLB allows for advances of liquidity with varying terms against high-quality collateral.

Short-term secured funding also comes in the form of securities lent or sold under agreements to repurchase. These transactions are short-term in nature, generally overnight and are collateralized by high-quality investment securities. These balances were $1.33 billion and $1.08 billion as of September 30, 2019 and December 31, 2018, respectively.

State Street Bank currently maintains a line of credit with a financial institution of CAD $1.40 billion, or approximately $1.06 billion, as of September 30, 2019, 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 both September 30, 2019 and December 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 current authorization from the Board 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:

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| • | diverse and stable core earnings; |

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| • | relative market position; |

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| • | strong risk management; |

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| • | strong capital ratios; |

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| • | diverse liquidity sources, including the global capital markets and client deposits; |

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| • | strong liquidity monitoring procedures; and |

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| • | preparedness for current or future regulatory developments. |

High ratings limit borrowing costs and enhance our liquidity by:

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| • | providing assurance for unsecured funding and depositors; |

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| • | increasing the potential market for our debt and improving our ability to offer products; |

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| • | serving markets; and |

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| • | 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 provided in Note 7 to the consolidated financial statements 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.

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**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 93 to 96 included under Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, "Risk Management Framework", in our 2018 Form 10-K.

**Information Technology Risk Management**

We define information technology risk as the risk associated with the use, ownership, operation, involvement, influence and adoption of information technology. Information technology risk includes risks 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 information technology risk framework, refer to pages 96 to 97 included under Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, "Risk Management" in our 2018 Form 10-K.

**Market Risk Management**

Market risk is defined by U.S. banking regulators as the risk of loss that could result from broad market movements, such as changes in the general level of interest rates, credit spreads, FX 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 97 to 98 included under Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, in our 2018 Form 10-K.

As part of our trading activities, we assume positions in the FX and interest-rate markets by buying and selling cash instruments and entering into derivative instruments, including FX forward contracts, FX and interest-rate options and interest rate swaps, interest rate forward contracts, and interest rate futures. As of September 30, 2019, the notional amount of these derivative contracts was $2.51 trillion, of which $2.48 trillion was composed of FX forward, swap and spot contracts. We seek to match positions closely with the objective of minimizing related currency and interest rate risk. All FX contracts are valued daily at current market rates.

*Value-at-Risk and Stressed Value-at-Risk*

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

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

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U.S. Treasury debt in August 2011. As the historical data set used to determine the stress period expands over time, future market stress events will be automatically incorporated.

For additional information about our VaR measurement tools and methodologies, refer to pages 99 to 103 included under Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, in our 2018 Form 10-K.

*Stress Testing*

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

Stress testing results and limits are actively monitored on a daily basis by Enterprise Risk Management (ERM) and reported to the Trading and Markets Risk Committee (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 (P&L) outcomes, observed from daily market movements. We back-test our VaR model using “clean” P&L, which excludes non-trading revenue such as fees, commissions and NII, as well as estimated revenue from intra-day trading.

Our VaR definition of trading losses excludes items that are not specific to the price movement of the trading assets and liabilities themselves, such as fees, commissions, changes to reserves and gains or losses from intra-day activity.

We had no back-testing exceptions in the quarter ended September 30, 2019 and one back-testing exception in both the quarters ended June 30, 2019 and September 30, 2018.

The following tables present VaR and stressed VaR associated with our trading activities for covered positions held during the quarters ended September 30, 2019, June 30, 2019 and September 30, 2018. A covered position is generally defined by U.S. banking regulators as an on-or off-balance sheet position associated with the organization's trading activities that is free of any restrictions on its tradability, but does not include intangible assets, certain credit derivatives recognized as guarantees and certain equity positions not publicly traded.

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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| **TABLE 28: TEN-DAY VALUE-AT-RISK ASSOCIATED WITH TRADING ACTIVITIES FOR COVERED POSITIONS** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |  |  | | |
|  | **Three Months Ended** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |  | **As of September 30, 2019** | | |  | **As of June 30, 2019** | | |  | **As of September 30, 2018** | | |
|  | **September 30, 2019** | | | | | | | | | | |  | **June 30, 2019** | | | | | | | | | | |  | **September 30, 2018** | | | | | | | | | | |  |  |  |
| **(In thousands)** | **Avg.** | | |  | **Max.** | | |  | **Min.** | | |  | **Avg.** | | |  | **Max.** | | |  | **Min.** | | |  | **Avg.** | | |  | **Max.** | | |  | **Min.** | | |  | **VaR** | | |  | **VaR** | | |  | **VaR** | | |
| Global Markets | **$** | **10,404** |  |  | **$** | **24,389** |  |  | **$** | **5,239** |  |  | $ | 10,812 |  |  | $ | 19,594 |  |  | $ | 4,742 |  |  | $ | 6,008 |  |  | $ | 11,947 |  |  | $ | 3,308 |  |  | **$** | **24,389** |  |  | $ | 10,278 |  |  | $ | 5,428 |  |
| Global Treasury | **489** | |  |  | **1,221** | |  |  | **146** | |  |  | 1,066 | |  |  | 3,988 | |  |  | 167 | |  |  | 317 | |  |  | 896 | |  |  | 91 | |  |  | **287** | |  |  | 1,155 | |  |  | 896 | |  |
| Diversification | **(455** | | **)** |  | **(1,249** | | **)** |  | **(157** | | **)** |  | (941 | | ) |  | (3,975 | | ) |  | 1,360 | |  |  | (314 | | ) |  | (881 | | ) |  | (136 | | ) |  | **(315** | | **)** |  | (1,583 | | ) |  | (886 | | ) |
| Total VaR | **$** | **10,438** |  |  | **$** | **24,361** |  |  | **$** | **5,228** |  |  | $ | 10,937 |  |  | $ | 19,607 |  |  | $ | 6,269 |  |  | $ | 6,011 |  |  | $ | 11,962 |  |  | $ | 3,263 |  |  | **$** | **24,361** |  |  | $ | 9,850 |  |  | $ | 5,438 |  |
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| **TABLE 29: TEN-DAY STRESSED VALUE-AT-RISK ASSOCIATED WITH TRADING ACTIVITIES FOR COVERED POSITIONS** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |  |  | | |
|  | **Three Months Ended** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |  | **As of September 30, 2019** | | |  | **As of June 30, 2019** | | |  | **As of September 30, 2018** | | |
|  | **September 30, 2019** | | | | | | | | | | |  | **June 30, 2019** | | | | | | | | | | |  | **September 30, 2018** | | | | | | | | | | |  |  |  |
| **(In thousands)** | **Avg.** | | |  | **Max.** | | |  | **Min.** | | |  | **Avg.** | | |  | **Max.** | | |  | **Min.** | | |  | **Avg.** | | |  | **Max.** | | |  | **Min.** | | |  | **Stressed VaR** | | |  | **Stressed VaR** | | |  | **Stressed VaR** | | |
| Global Markets | **$** | **34,422** |  |  | **$** | **54,867** |  |  | **$** | **17,511** |  |  | $ | 33,306 |  |  | $ | 50,947 |  |  | $ | 15,312 |  |  | $ | 27,641 |  |  | $ | 47,571 |  |  | $ | 14,811 |  |  | **$** | **42,724** |  |  | $ | 47,670 |  |  | $ | 25,185 |  |
| Global Treasury | **5,117** | |  |  | **10,421** | |  |  | **1,519** | |  |  | 5,137 | |  |  | 10,840 | |  |  | 1,187 | |  |  | 2,130 | |  |  | 4,467 | |  |  | 840 | |  |  | **3,291** | |  |  | 5,813 | |  |  | 1,958 | |  |
| Diversification | **(5,106** | | **)** |  | **(11,198** | | **)** |  | **(1,009** | | **)** |  | (5,476 | | ) |  | (11,508 | | ) |  | (834 | | ) |  | (2,619 | | ) |  | (6,345 | | ) |  | (823 | | ) |  | **(3,227** | | **)** |  | (8,713 | | ) |  | (2,988 | | ) |
| Total VaR | **$** | **34,433** |  |  | **$** | **54,090** |  |  | **$** | **18,021** |  |  | $ | 32,967 |  |  | $ | 50,279 |  |  | $ | 15,665 |  |  | $ | 27,152 |  |  | $ | 45,693 |  |  | $ | 14,828 |  |  | **$** | **42,788** |  |  | $ | 44,770 |  |  | $ | 24,155 |  |

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The three month average of our stressed VaR-based measure was approximately $34 million for the quarter ended September 30, 2019 compared to an average of approximately $33 million for the quarter ended June 30, 2019 and $27 million for the quarter ended September 30, 2018. The average stressed VaR compared to the quarter ended June 30, 2019 was relatively unchanged. The increase in the average stressed VaR compared to the quarter ended September 30, 2018, is primarily attributed to higher interest rate risk positions.

The VaR-based measures presented in the preceding tables are primarily a reflection of the overall level of market volatility and our appetite for taking market risk in our trading activities. Overall levels of volatility have been low, both on an absolute basis and

relative to the historical information observed at the beginning of the period used for the calculations.

We may in the future modify and adjust our models and methodologies used to calculate VaR and stressed VaR, subject to regulatory review and approval, and these modifications and adjustments may result in changes in our VaR-based and stressed VaR-based measures. The following tables present the VaR and stressed-VaR associated with our trading activities attributable to FX risk, interest rate risk and volatility risk as of September 30, 2019, June 30, 2019 and September 30, 2018. Diversification effect in the table below represents the difference between total VaR and the sum of the VaRs for each risk category. This effect arises because the risk categories are not perfectly correlated.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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| **TABLE 30: TEN-DAY VALUE-AT-RISK ASSOCIATED WITH TRADING ACTIVITIES BY RISK FACTOR FOR COVERED POSITIONS(1)** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  | **As of September 30, 2019** | | | | | | | | | | |  | **As of June 30, 2019** | | | | | | | | | | |  | **As of September 30, 2018** | | | | | | | | | | |
| **(In thousands)** | **Foreign Exchange Risk** | | |  | **Interest Rate Risk** | | |  | **Volatility Risk** | | |  | **Foreign Exchange Risk** | | |  | **Interest Rate Risk** | | |  | **Volatility Risk** | | |  | **Foreign Exchange Risk** | | |  | **Interest Rate** | | |  | **Volatility Risk** | | |
| By component: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Global Markets | **$** | **9,178** |  |  | **$** | **20,808** |  |  | **$** | **303** |  |  | $ | 3,506 |  |  | $ | 9,464 |  |  | $ | 436 |  |  | $ | 3,103 |  |  | $ | 4,939 |  |  | $ | 233 |  |
| Global Treasury | **14** | |  |  | **284** | |  |  | **—** | |  |  | 39 | |  |  | 1,141 | |  |  | — | |  |  | 36 | |  |  | 896 | |  |  | — | |  |
| Diversification | **(27** | | **)** |  | **(396** | | **)** |  | **—** | |  |  | (64 | | ) |  | (1,612 | | ) |  | — | |  |  | (33 | | ) |  | (943 | | ) |  | — | |  |
| Total VaR | **$** | **9,165** |  |  | **$** | **20,696** |  |  | **$** | **303** |  |  | $ | 3,481 |  |  | $ | 8,993 |  |  | $ | 436 |  |  | $ | 3,106 |  |  | $ | 4,892 |  |  | $ | 233 |  |
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| **TABLE 31: TEN-DAY STRESSED VALUE-AT-RISK ASSOCIATED WITH TRADING ACTIVITIES BY RISK FACTOR FOR COVERED POSITIONS(1)** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  | **As of September 30, 2019** | | | | | | | | | | |  | **As of June 30, 2019** | | | | | | | | | | |  | **As of September 30, 2018** | | | | | | | | | | |
| **(In thousands)** | **Foreign Exchange Risk** | | |  | **Interest Rate Risk** | | |  | **Volatility Risk** | | |  | **Foreign Exchange Risk** | | |  | **Interest Rate Risk** | | |  | **Volatility Risk** | | |  | **Foreign Exchange Risk** | | |  | **Interest Rate** | | |  | **Volatility Risk** | | |
| By component: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Global Markets | **$** | **25,735** |  |  | **$** | **49,042** |  |  | **$** | **372** |  |  | $ | 7,291 |  |  | $ | 48,433 |  |  | $ | 819 |  |  | $ | 14,544 |  |  | $ | 29,451 |  |  | $ | 287 |  |
| Global Treasury | **26** | |  |  | **3,425** | |  |  | **—** | |  |  | 85 | |  |  | 5,765 | |  |  | — | |  |  | 109 | |  |  | 2,071 | |  |  | — | |  |
| Diversification | **(30** | | **)** |  | **(5,208** | | **)** |  | **—** | |  |  | (151 | | ) |  | (6,579 | | ) |  | — | |  |  | (117 | | ) |  | (3,446 | | ) |  | — | |  |
| Total VaR | **$** | **25,731** |  |  | **$** | **47,259** |  |  | **$** | **372** |  |  | $ | 7,225 |  |  | $ | 47,619 |  |  | $ | 819 |  |  | $ | 14,536 |  |  | $ | 28,076 |  |  | $ | 287 |  |

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(1)For purposes of risk attribution by component, FX 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 FX 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 on 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 rate shocks. Table 32, Key Interest Rates for Baseline Forecasts, presents the spot and 12-month forward rates used in our baseline forecasts at September 30, 2019 and September 30, 2018. Our September 30, 2019 baseline forecast includes the expectation of three rate cuts by the Federal Reserve over the next 12 months.

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| **TABLE 32: KEY INTEREST RATES FOR BASELINE FORECASTS** | | | | | | | | | | | |
|  | **September 30, 2019** | | | | |  | **September 30, 2018** | | | | |
|  | **Fed Funds Target** | |  | **10-Year Treasury** | |  | **Fed Funds Target** | |  | **10-Year Treasury** | |
| Spot rates | **2.00** | **%** |  | **1.66** | **%** |  | 2.25 | % |  | 3.06 | % |
| 12-month forward rates | **1.25** |  |  | **1.61** |  |  | 2.75 |  |  | 2.95 |  |

In Table 33, Net Interest Income Sensitivity, we report the expected change in NII over the next twelve

months from instantaneous shocks to various tenors on the yield curve, including the impacts from U.S. and non-U.S. rates. 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.

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| **TABLE 33: NET INTEREST INCOME SENSITIVITY** | | | | | | | | | | | | | | | | | | | | | | | |
|  | **September 30, 2019** | | | | | | | | | | |  | **September 30, 2018** | | | | | | | | | | |
| **(In millions)** | **U.S. Dollar** | | |  | **All Other Currencies** | | |  | **Total** | | |  | **U.S. Dollar** | | |  | **All Other Currencies** | | |  | **Total** | | |
| Rate change: | **Benefit (Exposure)** | | | | | | | | | | |  | **Benefit (Exposure)** | | | | | | | | | | |
| **Parallel shifts:** |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| +100 bps shock | **$** | **86** |  |  | **$** | **171** |  |  | **$** | **257** |  |  | $ | 89 |  |  | $ | 257 |  |  | $ | 346 |  |
| –100 bps shock | **(227** | | **)** |  | **58** | |  |  | **(169** | | **)** |  | (192 | | ) |  | 21 | |  |  | (171 | | ) |
| **Steeper yield curve:** |  | |  |  |  | | |  |  | |  |  |  | | |  |  | |  |  |  | |  |
| +100 bps shift in long-end rates | **151** | |  |  | **6** | |  |  | **157** | |  |  | 63 | |  |  | 20 | |  |  | 83 | |  |
| -100 bps shift in short-end rates | **(67** | | **)** |  | **61** | |  |  | **(6** | | **)** |  | (97 | | ) |  | 40 | |  |  | (57 | | ) |
| **Flatter yield curve:** |  | |  |  |  | | |  |  | |  |  |  | | |  |  | |  |  |  | |  |
| +100 bps shift in short-end rates | **(52** | | **)** |  | **165** | |  |  | **113** | |  |  | 28 | |  |  | 240 | |  |  | 268 | |  |
| -100 bps shift in long-end rates | **(146** | | **)** |  | **(5** | | **)** |  | **(151** | | **)** |  | (86 | | ) |  | (20 | | ) |  | (106 | | ) |

As of September 30, 2019, NII sensitivity remains positioned to benefit from rising interest rates. Compared to September 30, 2018, our NII is less sensitive to instantaneous parallel rate increases, while NII sensitivity to lower rates remains relatively stable. For the short-end shocks, the reduction in NII sensitivity was driven by changes to the composition of U.S. deposits and rising deposit pricing betas. For the long-end shocks, the increase in NII sensitivity was driven by higher levels of MBS in the investment portfolio resulting in increased sensitivity to prepayment speeds in different rate scenarios.

Non-U.S. rate sensitivities to the up 100 bps shock as of September 30, 2019 decreased slightly, versus September 30, 2018. The majority of the benefit to higher non-U.S. rates is driven by the short-end of the curve given deposit pricing expectations for currencies such as Euro and Sterling. Compared to September 30, 2018, our non-U.S. rate sensitivity to the up 100 bps instantaneous shock to the short-end rate declined due to lower client deposit balances.

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. In the following table, we report our EVE sensitivity to 200 bps instantaneous rate shocks, relative to spot interest rates. Management compares the change in EVE sensitivity against our 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.

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| **TABLE 34: ECONOMIC VALUE OF EQUITY SENSITIVITY** | | | | | | | |
|  | **As of September 30,** | | | | | | |
| **(In millions)** | **2019** | | |  | **2018** | | |
| Rate change: | **Benefit (Exposure)** | | | | | | |
| +200 bps shock | **$** | **(1,726** | **)** |  | $ | (1,827 | ) |
| –200 bps shock | **1,093** | |  |  | 1,338 | |  |

As of September 30, 2019, EVE sensitivity remains exposed to upward shifts in interest rates. Compared to September 30, 2018, the change in the up and down 200 bps instantaneous shocks was primarily driven by lower long-end U.S. rates, partially offset by investment portfolio purchases in fixed-rate securities.

Both NII sensitivity and EVE sensitivity are routinely monitored as market conditions change.

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For additional information about our Asset and Liability Management Activities, refer to pages 103 to 104 included under Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, in our 2018 Form 10-K.

**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 source of risk. In large banking organizations like us, 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 our model risk.

For additional information about our model risk management framework, including our governance and model validation, refer to pages 104 to 105 included under Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, "Risk Management Framework", in our 2018 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 framework, refer to page 105 included under Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, "Risk Management Framework", in our 2018 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.

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 surcharge above the minimum capital ratios set forth in the Basel III final rule. Further, like all other U.S. G-SIBs, we are also currently subject to a 2.0% leverage buffer under the Basel III final rule. If we fail to exceed any regulatory buffer or surcharge, we will be subject to increased restrictions (depending upon the extent of the shortfall) regarding capital distributions and discretionary executive bonus payments.

Not all of our 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 capital, liquidity and other regulatory requirements.

For additional information about our capital, refer to pages 105 to 112 included under Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, in our 2018 Form 10-K.

***Regulatory Capital***

We and State Street Bank, as advanced approaches banking organizations, are subject to the U.S. Basel III framework. Provisions of the Basel III final rule became effective with full implementation on 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 minimum capital ratios as of January 1, 2019, including a capital conservation buffer of 2.5% and a G-SIB surcharge of 1.5%, are 8.5% for CET1 capital, 10.0% for tier 1 risk-based capital and 12.0% for total risk-based capital. Based on a calculation date of December 31, 2018, our G-SIB surcharge for 2020 will be reduced to 1.0%. This reduction is driven by strategic balance sheet repositioning and risk reduction actions in 2018. To maintain the status of the Parent Company as a financial holding company, we and our insured depository institution subsidiaries are required, among other requirements, to be "well capitalized" as defined by the Prompt Corrective Action Framework.

The Basel III final rule provides for two frameworks for monitoring capital adequacy: the “standardized approach" and the “advanced approaches", applicable to advanced approaches banking organizations, like us. The standardized approach prescribes standardized calculations for credit risk RWA, including specified risk weights for certain on- and off-balance sheet exposures. The advanced approaches consist of the Advanced Internal Ratings-Based Approach used for the calculation of RWA related to credit risk, and the Advanced Measurement Approach used for the calculation of RWA related to operational risk.

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The specific calculation of our and State Street Bank's risk-based capital ratios changed as the provisions of the Basel III final rule related to the numerator (capital) and denominator (RWA) were phased in, and as our RWA 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 us 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 were 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** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  | | | | | **State Street Corporation** | | | | | | | | | | | | | | |  | **State Street Bank** | | | | | | | | | | | | | | | |
| **(Dollars in millions)** | | | | | **Basel III Advanced Approaches September 30, 2019** | | |  | **Basel III Standardized Approach September 30, 2019(2)** | | |  | **Basel III Advanced Approaches December 31, 2018(1)** | | |  | **Basel III Standardized Approach December 31, 2018(2)** | | |  | **Basel III Advanced Approaches September 30, 2019** | | | |  | **Basel III Standardized Approach September 30, 2019(2)** | | |  | **Basel III Advanced Approaches December 31, 2018(1)** | | |  | **Basel III Standardized Approach December 31, 2018(2)** | | |
| **Common shareholders' equity:** | | | | |  | | |  |  | | |  |  | | |  |  | | |  |  | | | |  |  | | |  |  | | |  |  | | |
| Common stock and related surplus | | | | | **$** | **10,621** |  |  | **$** | **10,621** |  |  | $ | 10,565 |  |  | $ | 10,565 |  |  | **$** | **12,878** | |  |  | **$** | **12,878** |  |  | $ | 12,894 |  |  | $ | 12,894 |  |
| Retained earnings | | | | | **21,612** | |  |  | **21,612** | |  |  | 20,606 | |  |  | 20,606 | |  |  | **14,194** | | |  |  | **14,194** | |  |  | 14,261 | |  |  | 14,261 | |  |
| Accumulated other comprehensive income (loss) | | | | | **(1,000** | | **)** |  | **(1,000** | | **)** |  | (1,332 | | ) |  | (1,332 | | ) |  | **(761** | | | **)** |  | **(761** | | **)** |  | (1,112 | | ) |  | (1,112 | | ) |
| Treasury stock, at cost | | | | | **(9,729** | | **)** |  | **(9,729** | | **)** |  | (8,715 | | ) |  | (8,715 | | ) |  | **—** | | |  |  | **—** | |  |  | — | |  |  | — | |  |
| **Total** | | | | | **21,504** | |  |  | **21,504** | |  |  | 21,124 | |  |  | 21,124 | |  |  | **26,311** | | |  |  | **26,311** | |  |  | 26,043 | |  |  | 26,043 | |  |
| Regulatory capital adjustments: | | | | |  | | |  |  | | |  |  | | |  |  | | |  |  | | | |  |  | | |  |  | | |  |  | | |
| Goodwill and other intangible assets, net of associated deferred tax liabilities | | | | | **(9,117** | | **)** |  | **(9,117** | | **)** |  | (9,350 | | ) |  | (9,350 | | ) |  | **(8,845** | | | **)** |  | **(8,845** | | **)** |  | (9,073 | | ) |  | (9,073 | | ) |
| Other adjustments(2) | | | | | **(158** | | **)** |  | **(158** | | **)** |  | (194 | | ) |  | (194 | | ) |  | **—** | | |  |  | **—** | |  |  | (29 | | ) |  | (29 | | ) |
| **Common equity tier 1 capital** | | | | | **12,229** | |  |  | **12,229** | |  |  | 11,580 | |  |  | 11,580 | |  |  | **17,466** | | |  |  | **17,466** | |  |  | 16,941 | |  |  | 16,941 | |  |
| Preferred stock | | | | | **3,690** | |  |  | **3,690** | |  |  | 3,690 | |  |  | 3,690 | |  |  | **—** | | |  |  | **—** | |  |  | — | |  |  | — | |  |
| **Tier 1 capital** | | | | | **15,919** | |  |  | **15,919** | |  |  | 15,270 | |  |  | 15,270 | |  |  | **17,466** | | |  |  | **17,466** | |  |  | 16,941 | |  |  | 16,941 | |  |
| Qualifying subordinated long-term debt | | | | | **607** | |  |  | **607** | |  |  | 778 | |  |  | 778 | |  |  | **604** | | |  |  | **604** | |  |  | 776 | |  |  | 776 | |  |
| Allowance for loan and lease losses | | | | | **4** | |  |  | **86** | |  |  | 14 | |  |  | 83 | |  |  | **3** | | |  |  | **86** | |  |  | 11 | |  |  | 83 | |  |
| **Total capital** | | | | | **$** | **16,530** |  |  | **$** | **16,612** |  |  | $ | 16,062 |  |  | $ | 16,131 |  |  | **$** | **18,073** | |  |  | **$** | **18,156** |  |  | $ | 17,728 |  |  | $ | 17,800 |  |
| **Risk-weighted assets:** | | | | |  | | |  |  | | |  |  | | |  |  | | |  |  | | | |  |  | | |  |  | | |  |  | | |
| Credit risk(3) | | | | | **$** | **51,726** |  |  | **$** | **107,013** |  |  | $ | 47,738 |  |  | $ | 97,303 |  |  | **$** | **49,183** | |  |  | **$** | **104,242** |  |  | $ | 45,565 |  |  | $ | 94,776 |  |
| Operational risk(4) | | | | | **46,913** | |  |  | **NA** | |  |  | 46,060 | |  |  | NA | |  |  | **44,125** | | |  |  | **NA** | |  |  | 44,494 | |  |  | NA | |  |
| Market risk | | | | | **1,688** | |  |  | **1,688** | |  |  | 1,517 | |  |  | 1,517 | |  |  | **1,688** | | |  |  | **1,688** | |  |  | 1,517 | |  |  | 1,517 | |  |
| **Total risk-weighted assets** | | | | | **$** | **100,327** |  |  | **$** | **108,701** |  |  | $ | 95,315 |  |  | $ | 98,820 |  |  | **$** | **94,996** | |  |  | **$** | **105,930** |  |  | $ | 91,576 |  |  | $ | 96,293 |  |
| **Adjusted quarterly average assets** | | | | | **$** | **213,997** |  |  | **$** | **213,997** |  |  | $ | 211,924 |  |  | $ | 211,924 |  |  | **$** | **210,625** | |  |  | **$** | **210,625** |  |  | $ | 209,413 |  |  | $ | 209,413 |  |
|  |  | |  | |  | | |  |  | | |  |  | | |  |  | | |  |  | | | |  |  | | |  |  | | |  |  | | |
| **Capital Ratios:** | 2019 Minimum Requirements Including Capital Conservation Buffer and G-SIB Surcharge(5) | | 2018 Minimum Requirements Including Capital Conservation Buffer and G-SIB Surcharge(6) | |  | | |  |  | | |  |  | | |  |  | | |  |  | | | |  |  | | |  |  | | |  |  | | |
| Common equity tier 1 capital | **8.5** | **%** | 7.5 | % | **12.2** | | **%** |  | **11.3** | | **%** |  | 12.1 | | % |  | 11.7 | | % |  | **18.4** | | | **%** |  | **16.5** | | **%** |  | 18.5 | | % |  | 17.6 | | % |
| Tier 1 capital | **10.0** |  | 9.0 |  | **15.9** | |  |  | **14.6** | |  |  | 16.0 | |  |  | 15.5 | |  |  | **18.4** | | |  |  | **16.5** | |  |  | 18.5 | |  |  | 17.6 | |  |
| Total capital | **12.0** |  | 11.0 |  | **16.5** | |  |  | **15.3** | |  |  | 16.9 | |  |  | 16.3 | |  |  | **19.0** | | |  |  | **17.1** | |  |  | 19.4 | |  |  | 18.5 | |  |
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(1) Under the applicable bank regulatory rules, we are not required to and, accordingly, did not revise previously-filed reported capital metrics and ratios following the change in accounting for LIHTC.

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

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

(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 RWA under the advanced approaches depending on the severity of the loss event and its categorization among the seven Basel-defined UOMs.

(5)Minimum requirements were phased in with full implementation beginning on January 1, 2019; minimum requirements listed are as of September 30, 2019.

(6)Minimum requirements were phased in with full implementation beginning on January 1, 2019; minimum requirements listed are as of December 31, 2018.

NA Not applicable

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Our CET1 capital increased $0.65 billion as of September 30, 2019 compared to December 31, 2018, primarily driven by net income and accumulated other comprehensive income in the nine months ended September 30, 2019, partially offset by common stock repurchases and capital distributions from common and preferred stock dividends.

Our tier 1 capital increased $0.65 billion as of September 30, 2019 compared to December 31, 2018 under both the advanced approaches and standardized approach due to the changes in our CET1 capital. Total capital increased under the advanced approaches and standardized approach by $0.47 billion and $0.48 billion, respectively, due to the changes in our CET1 and tier 2 capital.

The table below presents a roll-forward of CET1 capital, tier 1 capital and total capital for the nine months ended September 30, 2019 and for the year ended December 31, 2018.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
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| **TABLE 36: CAPITAL ROLL-FORWARD** | | | | | | | | | | | | | | | | | |
| **(In millions)** | | **Basel III Advanced Approaches September 30, 2019** | | |  | **Basel III Standardized Approach September 30, 2019** | | | |  | **Basel III**  **Advanced Approaches**  **December 31, 2018(1)** | | |  | **Basel III Standardized Approach**  **December 31, 2018(1)** | | |
| **Common equity tier 1 capital:** | |  | | |  |  | | | |  |  | | |  |  | | |
| Common equity tier 1 capital balance, beginning of period | | **$** | **11,580** |  |  | **$** | **11,580** | |  |  | $ | 12,204 |  |  | $ | 12,204 |  |
| Net income | | **1,678** | |  |  | **1,678** | | |  |  | 2,599 | |  |  | 2,599 | |  |
| Changes in treasury stock, at cost | | **(1,014** | | **)** |  | **(1,014** | | | **)** |  | 314 | |  |  | 314 | |  |
| Dividends declared | | **(703** | | **)** |  | **(703** | | | **)** |  | (853 | | ) |  | (853 | | ) |
| Goodwill and other intangible assets, net of associated deferred tax liabilities | | **233** | |  |  | **233** | | |  |  | (2,473 | | ) |  | (2,473 | | ) |
| Effect of certain items in accumulated other comprehensive income (loss) | | **331** | |  |  | **331** | | |  |  | (360 | | ) |  | (360 | | ) |
| Other adjustments | | **123** | |  |  | **123** | | |  |  | 149 | |  |  | 149 | |  |
| Changes in common equity tier 1 capital | | **649** | |  |  | **649** | | |  |  | (624 | | ) |  | (624 | | ) |
| Common equity tier 1 capital balance, end of period | | **12,229** | |  |  | **12,229** | | |  |  | 11,580 | |  |  | 11,580 | |  |
| **Additional tier 1 capital:** | |  | | |  |  | | | |  |  | | |  |  | | |
| Tier 1 capital balance, beginning of period | | **15,270** | |  |  | **15,270** | | |  |  | 15,382 | |  |  | 15,382 | |  |
| Change in common equity tier 1 capital | | **649** | |  |  | **649** | | |  |  | (624 | | ) |  | (624 | | ) |
| Net issuance of preferred stock | | **—** | |  |  | **—** | | |  |  | 494 | |  |  | 494 | |  |
| Other adjustments | | **—** | |  |  | **—** | | |  |  | 18 | |  |  | 18 | |  |
| Changes in tier 1 capital | | **649** | |  |  | **649** | | |  |  | (112 | | ) |  | (112 | | ) |
| Tier 1 capital balance, end of period | | **15,919** | |  |  | **15,919** | | |  |  | 15,270 | |  |  | 15,270 | |  |
| **Tier 2 capital:** | |  | | |  |  | | | |  |  | | |  |  | | |
| Tier 2 capital balance, beginning of period | | **792** | |  |  | **861** | | |  |  | 985 | |  |  | 1,053 | |  |
| Net issuance and changes in long-term debt qualifying as tier 2 | | **(171** | | **)** |  | **(171** | | | **)** |  | (202 | | ) |  | (202 | | ) |
| Changes in Allowance for loan and lease losses and other | | **(10** | | **)** |  | **3** | | |  |  | 10 | |  |  | 11 | |  |
| Change in other adjustments | | **—** | |  |  | **—** | | |  |  | (1 | | ) |  | (1 | | ) |
| Changes in tier 2 capital | | **(181** | | **)** |  | **(168** | | | **)** |  | (193 | | ) |  | (192 | | ) |
| Tier 2 capital balance, end of period | | **611** | |  |  | **693** | | |  |  | 792 | |  |  | 861 | |  |
| **Total capital:** | |  | | |  |  | | | |  |  | | |  |  | | |
| Total capital balance, beginning of period | | **16,062** | |  |  | **16,131** | | |  |  | 16,367 | |  |  | 16,435 | |  |
| Changes in tier 1 capital | | **649** | |  |  | **649** | | |  |  | (112 | | ) |  | (112 | | ) |
| Changes in tier 2 capital | | **(181** | | **)** |  | **(168** | | | **)** |  | (193 | | ) |  | (192 | | ) |
| Total capital balance, end of period | | **$** | **16,530** |  |  | **$** | **16,612** | |  |  | $ | 16,062 |  |  | $ | 16,131 |  |
|  | | | | | | | | | | | | | | | | | |
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(1) Under the applicable bank regulatory rules, we are not required to and, accordingly, did not revise previously-filed reported capital metrics and ratios following the change in accounting for LIHTC.

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The following table presents a roll-forward of the Basel III advanced and standardized approaches RWA for the nine months ended September 30, 2019 and for the year ended December 31, 2018.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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| **TABLE 37: ADVANCED & STANDARDIZED APPROACHES RISK-WEIGHTED ASSETS ROLL-FORWARD** | | | | | | | | | | | | | | | | |
| **(In millions)** | | **Basel III Advanced Approaches September 30, 2019** | | |  | **Basel III**  **Advanced Approaches December 31, 2018** | | |  | **Basel III Standardized Approach September 30, 2019** | | |  | **Basel III Standardized Approach December 31, 2018** | | |
| Total risk-weighted assets, beginning of period(1) | | **$** | **95,315** |  |  | $ | 99,156 |  |  | **$** | **98,820** |  |  | $ | 102,683 |  |
| Changes in credit risk-weighted assets: | |  | | |  |  | | |  |  | | |  |  | | |
| Net increase (decrease) in investment securities-wholesale | | **1,491** | |  |  | (940 | | ) |  | **2,973** | |  |  | (2,887 | | ) |
| Net increase (decrease) in loans and leases | | **1,207** | |  |  | (12 | | ) |  | **1,995** | |  |  | 3,104 | |  |
| Net increase (decrease) in securitization exposures | | **(167** | | **)** |  | (3,666 | | ) |  | **(167** | | **)** |  | (3,666 | | ) |
| Net increase (decrease) in repo-style transaction exposures | | **(417** | | **)** |  | (19 | | ) |  | **2,758** | |  |  | (3,156 | | ) |
| Net increase (decrease) in Over-the-counter derivatives exposures | | **(180** | | **)** |  | (1,170 | | ) |  | **522** | |  |  | (46 | | ) |
| Net increase (decrease) in all other(2)(3) | | **2,054** | |  |  | 1,545 | |  |  | **1,629** | |  |  | 2,605 | |  |
| Net increase (decrease) in credit risk-weighted assets | | **3,988** | |  |  | (4,262 | | ) |  | **9,710** | |  |  | (4,046 | | ) |
| Net increase (decrease) in market risk-weighted assets | | **171** | |  |  | 183 | |  |  | **171** | |  |  | 183 | |  |
| Net increase (decrease) in operational risk-weighted assets | | **853** | |  |  | 238 | |  |  | **N/A** | |  |  | N/A | |  |
| Total risk-weighted assets, end of period | | **$** | **100,327** |  |  | $ | 95,315 |  |  | **$** | **108,701** |  |  | $ | 98,820 |  |
|  | | | | | | | | | | | | | | | | |
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(1)Standardized approach RWA as of the periods noted above were calculated using our estimates, based on our then current interpretation of the Basel III final rule.

(2)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.

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

As of September 30, 2019, total advanced approaches RWA increased $5.01 billion compared to December 31, 2018, mainly due to increases in both credit and operational risk RWA. The increase in credit risk RWA was primarily due to purchases of MBS and foreign sovereign securities driving higher investment securities RWA, and increases in loans and other RWA. The increase in operational risk RWA was primarily due to the annual recalibration that occurred prior to the end of 2018.

As of September 30, 2019, total standardized approach RWA increased $9.88 billion compared to December 31, 2018, primarily due to higher credit risk RWA. The increase in credit risk RWA was mainly driven by investment securities, repo-style transaction, loans and other RWA in the nine months ended September 30, 2019.

The regulatory capital ratios as of September 30, 2019, 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 reflect calculations and determinations with respect to our capital and related matters as of September 30, 2019, based on our and external data, quantitative formulae, statistical models, historical correlations and assumptions, collectively referred to as “advanced systems,” in effect and used by us for those purposes as of the time we first reported such ratios in a quarterly report on Form 10-Q or an annual report on Form 10-K. Significant components of these advanced systems involve the exercise of judgment by us and our

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 RWA 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 UOM, 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, specific to us 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

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volatile over time, and that those latter changes or volatility could be material as calculated and measured from period to period. The full effects of the Basel III final rule on us and State Street Bank are therefore subject to further evaluation and also to further regulatory guidance, action or rule-making.

***Tier 1 Capital and Supplementary Leverage Ratio***

The SLR final rule requires that, as of January 1, 2018, (i) State Street Bank maintains an SLR of at least 6.0% to be well capitalized under the U.S. banking regulators’ Prompt Corrective Action Framework and (ii) we maintain an SLR of at least 5.0% to avoid limitations on capital distributions and discretionary bonus payments. In addition to the SLR, we are subject to a well capitalized tier 1 leverage ratio requirement of 5.0%.

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| **TABLE 38: TIER 1 AND SUPPLEMENTARY LEVERAGE RATIOS** | | | | | | | | | |
| **(Dollars in millions)** | | **September 30, 2019** | | | |  | **December 31, 2018** | | |
| **State Street Corporation:** | |  | | | |  |  | | |
| Tier 1 capital | | **$** | **15,919** | |  |  | $ | 15,270 |  |
| Average assets | | **223,273** | | |  |  | 221,350 | |  |
| Less: adjustments for deductions from tier 1 capital | | **(9,276** | | | **)** |  | (9,426 | | ) |
| Adjusted average assets | | **213,997** | | |  |  | 211,924 | |  |
| Off-balance sheet exposures | | **28,031** | | |  |  | 29,279 | |  |
| Total assets for SLR | | **$** | **242,028** | |  |  | $ | 241,203 |  |
| Tier 1 leverage ratio(1) | | **7.4** | | | **%** |  | 7.2 | | % |
| Supplementary leverage ratio | | **6.6** | | |  |  | 6.3 | |  |
|  | |  | | | |  |  | | |
| **State Street Bank:** | |  | | | |  |  | | |
| Tier 1 capital | | **$** | **17,466** | |  |  | $ | 16,941 |  |
| Average assets | | **219,470** | | |  |  | 218,402 | |  |
| Less: adjustments for deductions from tier 1 capital | | **(8,845** | | | **)** |  | (8,989 | | ) |
| Adjusted average assets | | **210,625** | | |  |  | 209,413 | |  |
| Off-balance sheet exposures | | **28,059** | | |  |  | 29,368 | |  |
| Total assets for SLR | | **$** | **238,684** | |  |  | $ | 238,781 |  |
| Tier 1 leverage ratio (1) | | **8.3** | | | **%** |  | 8.1 | | % |
| Supplementary leverage ratio | | **7.3** | | |  |  | 7.1 | |  |
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(1)Tier 1 leverage ratios were calculated in conformity with the Basel III final rule.

***Total Loss-Absorbing Capacity***

In 2016, the Federal Reserve released its final rule on TLAC, long-term debt (LTD) and clean holding company requirements for U.S. domiciled G-SIBs, such as us, that is intended to improve the resiliency and resolvability of certain U.S. banking organizations through enhanced prudential standards. Among other things, the TLAC final rule requires us to comply with minimum requirements for external TLAC and external LTD effective January 1, 2019. Specifically, we must hold (1) combined eligible tier 1 regulatory capital and LTD in the amount equal to the greater of 21.5% of total RWA (18.0% minimum plus a 2.5% capital conservation buffer plus a G-SIB surcharge calculated for these

purposes under Method 1 of 1.0%) and 9.5% of total leverage exposure (7.5% minimum plus the SLR buffer of 2.0%), as defined by the SLR final rule; and (2) qualifying external LTD equal to the greater of 7.5% of RWA (6.0% minimum plus a G-SIB surcharge calculated for these purposes under method 2 of 1.5%) and 4.5% of total leverage exposure, as defined by the SLR final rule.

The following table presents external LTD and external TLAC as of September 30, 2019:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
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| **TABLE 39: TOTAL LOSS-ABSORBING CAPACITY** | | | | | | | | | | | | | | | | |
|  | | **As of September 30, 2019** | | | | | | | | | | | | | | |
| **(Dollars in millions)** | | **Actual** | | | | | | |  | **Requirement(1)** | | | | | | |
| Total loss-absorbing capacity (eligible Tier 1 regulatory capacity and long term debt): | |  | | |  |  | | |  |  | | | |  |  | |
| Risk-weighted assets | | **$** | **25,542** |  |  | **23.5** | | **%** |  | **$** | **23,371** | |  |  | **21.5** | **%** |
| Supplementary leverage exposure | | **25,542** | |  |  | **10.6** | |  |  | **22,993** | | |  |  | **9.5** |  |
| Long term debt: | |  | | |  |  | | |  |  | | | |  |  | |
| Risk-weighted assets | | **8,878** | |  |  | **8.2** | |  |  | **8,153** | | |  |  | **7.5** |  |
| Supplementary leverage exposure | | **8,878** | |  |  | **3.7** | |  |  | **10,891** | | |  |  | **4.5** |  |
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(1) We have received a one year extension for compliance with LTD SLR to January 1, 2020; all other requirements of the TLAC final rule are effective January 1, 2019.

We requested and received from the Federal Reserve, a one year extension from January 1, 2019 to January 1, 2020, for compliance with the LTD SLR requirements of the TLAC final rule. In granting the extension request, the Federal Reserve noted that the Economic Growth, Regulatory Relief and Consumer Protection Act (EGRRCPA) was signed into law in May 2018. Under this legislation, the Federal Reserve and the other U.S. federal banking agencies must promulgate rules to exclude certain central bank placements from the calculation of SLR for custodial banks such as us.

***Regulatory Developments***

In April 2018, the Federal Reserve issued a proposed rule which would replace the current 2.0% supplementary leverage ratio buffer for G-SIBs, with a buffer equal to 50% of their G-SIB surcharge, which is currently 1.5% for us. This proposal would also make conforming modifications to our TLAC and eligible LTD requirements applicable to G-SIBs.

In addition, the Federal Reserve issued a separate proposed rule replacing the current 2.5% capital conservation buffer with a firm specific buffer (referred to as the Stress Capital Buffer (SCB)), updated annually and tailored to reflect the results of the most recent Federal Reserve’s CCAR supervisory severely adverse scenario stress test. The proposal also introduces a Stress Leverage Buffer (SLB) applicable to the tier 1 leverage ratio. The final framework is expected to be implemented before the 2020 CCAR cycle. Changes to the final rule, if and when proposed, may be material and the application of the proposed rule involves

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estimates which cannot reasonably be made at present. Consequently, we have not estimated the impact of the proposed rule.

On October 30, 2018, the Federal Reserve issued a proposal to implement the Standardized Approach for Counterparty Credit Risk (SA-CCR) as a replacement of the Current Exposure Method (CEM) that banks are currently required to apply to determine the Exposure At Default of their derivative exposures under the standardized approach. The SA-CCR expected effective date is July 1, 2020.

In April 2019, the Federal Reserve and the other U.S. federal banking agencies issued a proposed rule that would establish a deduction for central bank deposits from a custodial banking organization’s total leverage exposure equal to the lesser of (i) the total amount of funds the firm and its consolidated

subsidiaries have on deposit at qualifying central banks and (ii) the total amount of client funds on deposit at the custodial banking organization that are linked to fiduciary or custodial and safekeeping accounts. In the quarter ended September 30, 2019, we estimated $42.79 billion of average balances held on deposit at central banks would be excluded from the SLR denominator under our interpretation of the proposed regulation. The proposed rule, if implemented, would also reduce the TLAC and LTD that State Street is required to hold as calculated under the current requirements.

For additional information about our capital, refer to pages 105 to 112 included under Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, in our 2018 Form 10-K.

***Capital Actions***

*Preferred Stock*

The following table summarizes selected terms of each of the series of the preferred stock issued and outstanding as of September 30, 2019:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
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| **TABLE 40: PREFERRED STOCK ISSUED AND OUTSTANDING** | | | | | | | | | | | | | | | | | | | | | | |
|  | **Issuance Date** |  | **Depositary Shares Issued** | |  | **Ownership Interest Per Depositary Share** | |  | **Liquidation Preference Per Share** | | |  | **Liquidation Preference Per Depositary Share** | | | |  | **Net Proceeds of Offering (In millions)** | | |  | **Redemption Date(1)** |
| **Preferred Stock(2):** | |  |  | |  |  | |  |  | | |  |  | | | |  |  | | |  |  |
| Series C | August 2012 |  | 20,000,000 |  |  | 1/4,000th | |  | $ | 100,000 |  |  | $ | 25 | |  |  | $ | 488 |  |  | September 15, 2017 |
| Series D | February 2014 |  | 30,000,000 |  |  | 1/4,000th | |  | 100,000 | |  |  | 25 | | |  |  | 742 | |  |  | March 15, 2024 |
| Series E | November 2014 |  | 30,000,000 |  |  | 1/4,000th | |  | 100,000 | |  |  | 25 | | |  |  | 728 | |  |  | December 15, 2019 |
| Series F | May 2015 |  | 750,000 |  |  | 1/100th | |  | 100,000 | |  |  | 1,000 | | |  |  | 742 | |  |  | September 15, 2020 |
| Series G | April 2016 |  | 20,000,000 |  |  | 1/4,000th | |  | 100,000 | |  |  | 25 | | |  |  | 493 | |  |  | March 15, 2026 |
| Series H | September 2018 |  | 500,000 |  |  | 1/100th | |  | 100,000 | |  |  | 1,000 | | |  |  | 494 | |  |  | December 15, 2023 |
|  | | | | | | | | | | | | | | | | | | | | | | |
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(1)On the redemption date, or any dividend declaration date thereafter, the preferred stock and corresponding depositary shares may be redeemed by us, in whole or in part, at the liquidation price per share and liquidation price per depositary share plus any declared and unpaid dividends, without accumulation of any undeclared dividends.

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

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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** | | | | | | | | | | | | | | | | | | | | | | | |
|  | **Three Months Ended September 30,** | | | | | | | | | | | | | | | | | | | | | | |
|  | **2019** | | | | | | | | | | |  | **2018** | | | | | | | | | | |
| **(Dollars in millions, except per share amounts)** | **Dividends Declared per Share** | | |  | **Dividends Declared per Depositary Share** | | |  | **Total(1)** | | |  | **Dividends Declared per Share** | | |  | **Dividends Declared per Depositary Share** | | |  | **Total** | | |
| **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 | |  |
| Series H | **—** | |  |  | **—** | |  |  | **—** | |  |  | — | |  |  | — | |  |  | — | |  |
| Total |  | | |  |  | | |  | **$** | **55** |  |  |  | | |  |  | | |  | $ | 55 |  |
|  | | | | | | | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Nine Months Ended September 30,** | | | | | | | | | | | | | | | | | | | | | | |
|  | **2019** | | | | | | | | | | |  | **2018** | | | | | | | | | | |
| **(Dollars in millions, except per share amounts)** | **Dividends Declared per Share** | | |  | **Dividends Declared per Depositary Share** | | |  | **Total** | | |  | **Dividends Declared per Share** | | |  | **Dividends Declared per Depositary Share** | | |  | **Total** | | |
| **Preferred Stock:** |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Series C | **$** | **3,939** |  |  | **$** | **0.99** |  |  | **$** | **19** |  |  | $ | 3,939 |  |  | $ | 0.99 |  |  | $ | 19 |  |
| Series D | **4,425** | |  |  | **1.11** | |  |  | **33** | |  |  | 4,425 | |  |  | 1.11 | |  |  | 33 | |  |
| Series E | **4,500** | |  |  | **1.14** | |  |  | **33** | |  |  | 4,500 | |  |  | 1.14 | |  |  | 33 | |  |
| Series F | **5,250** | |  |  | **52.50** | |  |  | **40** | |  |  | 5,250 | |  |  | 52.50 | |  |  | 40 | |  |
| Series G | **4,014** | |  |  | **0.99** | |  |  | **21** | |  |  | 4,014 | |  |  | 0.99 | |  |  | 21 | |  |
| Series H | **2,813** | |  |  | **28.13** | |  |  | **14** | |  |  | — | |  |  | — | |  |  | — | |  |
| Total |  | | |  |  | | |  | **$** | **160** |  |  |  | | |  |  | | |  | $ | 146 |  |

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

(1)Dividends were paid in September 2019.

*Common Stock*

In June 2019, the Federal Reserve issued a non-objection to our capital plan submitted as part of the 2019 CCAR submission; and in connection with that capital plan, our Board approved a common stock purchase program authorizing the purchase of up to $2.0 billion of our common stock from July 1, 2019 through June 30, 2020 (the 2019 Program). We repurchased $500 million of our common stock in the third quarter of 2019 under the 2019 Program.

In June 2018, the Federal Reserve issued a conditional non-objection to our 2018 capital plan; and in connection with that capital plan, our Board approved a common stock purchase program authorizing the purchase of up to $1.2 billion of our common stock through June 30, 2019 (the 2018 Program), under which we repurchased $300 million of our common stock in each of the first and second quarters of 2019.

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

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |
| **TABLE 42: SHARES REPURCHASED** | | | | | | | | | | |
|  | **Three Months Ended September 30, 2019** | | | | | | | | | |
|  | **Shares Acquired (In millions)** | |  | **Average Cost per Share** | | |  | **Total Acquired (In millions)** | | |
| 2019 Program | **9.4** |  |  | **$** | **53.15** |  |  | **$** | **500** |  |
|  |  | |  |  | | |  |  | | |
|  | **Nine Months Ended September 30, 2019** | | | | | | | | | |
|  | **Shares Acquired (In millions)** | |  | **Average Cost per Share** | | |  | **Total Acquired (In millions)** | | |
| 2018 Program | **8.8** |  |  | **$** | **67.97** |  |  | **$** | **600** |  |
| 2019 Program | **9.4** |  |  | **$** | **53.15** |  |  | **$** | **500** |  |

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**MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION**

**AND RESULTS OF OPERATIONS**

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **TABLE 43: COMMON STOCK DIVIDENDS** | | | | | | | | | | | | | | | |
|  | **Three Months Ended September 30,** | | | | | | | | | | | | | | |
|  | **2019** | | | | | | |  | **2018** | | | | | | |
|  | **Dividends Declared per Share** | | |  | **Total (In millions)** | | |  | **Dividends Declared per Share** | | |  | **Total (In millions)** | | |
| Common Stock | **$** | **0.52** |  |  | **$** | **189** |  |  | $ | 0.47 |  |  | $ | 179 |  |
|  |  | | |  |  | | |  |  | | |  |  | | |
|  | **Nine Months Ended September 30,** | | | | | | | | | | | | | | |
|  | **2019** | | | | | | |  | **2018** | | | | | | |
|  | **Dividends Declared per Share** | | |  | **Total (In millions)** | | |  | **Dividends Declared per Share** | | |  | **Total (In millions)** | | |
| Common Stock | **$** | **1.46** |  |  | **$** | **541** |  |  | $ | 1.31 |  |  | $ | 486 |  |

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 50 and 51 included under Item 5, [Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities](file:///D:\TMP\finance-docx\State%20Street\STATE%20STREET-19.09.30-10-Q.html#s2890D3AB96A1D5CDCBB5536ECC11202B) in our 2018 Form 10-K, and to Note 15 on pages 68 to 70 to the consolidated financial statements included under Item 8, Financial Statements and Supplementary Data, in the 2018 Annual Financial Statements. Our common stock and preferred stock dividends, including the declaration, timing and amount thereof, are subject to consideration and approval by the Board at the relevant times.

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

**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 $386.98 billion and $342.34 billion as of September 30, 2019 and December 31, 2018, respectively. 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 $406.20 billion and $357.89 billion as collateral for indemnified securities on loan as of September 30, 2019 and December 31, 2018, 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 $406.20 billion and $357.89 billion, referenced above, $48.26 billion and $42.61 billion was invested in indemnified repurchase agreements as of September 30, 2019 and December 31, 2018, respectively. We or our agents held $51.72 billion and $45.06 billion as collateral for indemnified investments in repurchase agreements as of September 30, 2019 and December 31, 2018, respectively.

Additional information about our securities finance activities and other off-balance sheet arrangements is provided in Notes 7, 9 and 11 to the consolidated financial statements 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 in this Form 10-Q.

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**QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The information provided under “Market Risk Management” in "Financial Condition" in our Management's Discussion and Analysis in this Form 10-Q, is incorporated by reference herein. For additional information about our market risk framework, refer to pages 97 to 104 included under Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, "Risk Management Framework" in our 2018 Form 10-K.

**CONTROLS AND PROCEDURES**

We have established and maintained disclosure controls and procedures that are designed to ensure that information related to us and our subsidiaries on a consolidated basis required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. For the quarter ended September 30, 2019, our management carried out an evaluation, with the participation of the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on the evaluation of these disclosure controls and procedures, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of September 30, 2019.

We have established and maintained internal control over financial reporting as a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in conformity with U.S. GAAP. In the ordinary course of business, we routinely enhance our internal controls and procedures for financial reporting by either upgrading our current systems or implementing new systems. Changes have been made and may be made to our internal controls and procedures for financial reporting as a result of these efforts. During the quarter ended September 30, 2019, 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.

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**STATE STREET CORPORATION**

**CONSOLIDATED STATEMENT OF INCOME**

**(UNAUDITED)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Three Months Ended September 30,** | | | | | | |  | **Nine Months Ended September 30,** | | | | | | |
| **(Dollars in millions, except per share amounts)** | **2019** | | |  | **2018** | | |  | **2019** | | |  | **2018** | | |
| **Fee revenue:** |  | | |  |  | | |  |  | | |  |  | | |
| Servicing fees | **$** | **1,272** |  |  | $ | 1,333 |  |  | **$** | **3,775** |  |  | $ | 4,135 |  |
| Management fees | **445** | |  |  | 474 | |  |  | **1,306** | |  |  | 1,411 | |  |
| Foreign exchange trading services | **284** | |  |  | 288 | |  |  | **837** | |  |  | 907 | |  |
| Securities finance | **116** | |  |  | 128 | |  |  | **360** | |  |  | 423 | |  |
| Processing fees and other | **142** | |  |  | 95 | |  |  | **501** | |  |  | 252 | |  |
| Total fee revenue | **2,259** | |  |  | 2,318 | |  |  | **6,779** | |  |  | 7,128 | |  |
| **Net interest income:** |  | | |  |  | | |  |  | | |  |  | | |
| Interest income | **1,001** | |  |  | 916 | |  |  | **3,035** | |  |  | 2,680 | |  |
| Interest expense | **357** | |  |  | 244 | |  |  | **1,105** | |  |  | 706 | |  |
| Net interest income | **644** | |  |  | 672 | |  |  | **1,930** | |  |  | 1,974 | |  |
| **Gains (losses) related to investment securities, net:** |  | | |  |  | | |  |  | | |  |  | | |
| Gains (losses) from sales of available-for-sale securities, net | **—** | |  |  | — | |  |  | **—** | |  |  | 8 | |  |
| Losses from other-than-temporary impairment | **—** | |  |  | (1 | | ) |  | **(1** | | **)** |  | (2 | | ) |
| Gains (losses) related to investment securities, net | **—** | |  |  | (1 | | ) |  | **(1** | | **)** |  | 6 | |  |
| **Total revenue** | **2,903** | |  |  | 2,989 | |  |  | **8,708** | |  |  | 9,108 | |  |
| Provision for loan losses | **2** | |  |  | 5 | |  |  | **7** | |  |  | 7 | |  |
| **Expenses:** |  | | |  |  | | |  |  | | |  |  | | |
| Compensation and employee benefits | **1,083** | |  |  | 1,103 | |  |  | **3,396** | |  |  | 3,477 | |  |
| Information systems and communications | **376** | |  |  | 332 | |  |  | **1,103** | |  |  | 968 | |  |
| Transaction processing services | **254** | |  |  | 248 | |  |  | **741** | |  |  | 759 | |  |
| Occupancy | **113** | |  |  | 110 | |  |  | **344** | |  |  | 354 | |  |
| Acquisition and restructuring costs | **27** | |  |  | — | |  |  | **48** | |  |  | — | |  |
| Amortization of other intangible assets | **59** | |  |  | 47 | |  |  | **178** | |  |  | 145 | |  |
| Other | **268** | |  |  | 251 | |  |  | **817** | |  |  | 826 | |  |
| **Total expenses** | **2,180** | |  |  | 2,091 | |  |  | **6,627** | |  |  | 6,529 | |  |
| Income before income tax expense | **721** | |  |  | 893 | |  |  | **2,074** | |  |  | 2,572 | |  |
| Income tax expense | **138** | |  |  | 129 | |  |  | **396** | |  |  | 416 | |  |
| **Net income** | **$** | **583** |  |  | $ | 764 |  |  | **$** | **1,678** |  |  | $ | 2,156 |  |
| **Net income available to common shareholders** | **$** | **528** |  |  | $ | 708 |  |  | **$** | **1,517** |  |  | $ | 2,008 |  |
| **Earnings per common share:** |  | | |  |  | | |  |  | | |  |  | | |
| Basic | **$** | **1.44** |  |  | $ | 1.89 |  |  | **$** | **4.07** |  |  | $ | 5.44 |  |
| Diluted | **1.42** | |  |  | 1.87 | |  |  | **4.03** | |  |  | 5.37 | |  |
| **Average common shares outstanding (in thousands):** |  | | |  |  | | |  |  | | |  |  | | |
| Basic | **366,732** | |  |  | 374,963 | |  |  | **372,766** | |  |  | 369,368 | |  |
| Diluted | **370,595** | |  |  | 379,383 | |  |  | **376,361** | |  |  | 374,064 | |  |
| **Cash dividends declared per common share** | **$** | **.52** |  |  | $ | .47 |  |  | **$** | **1.46** |  |  | $ | 1.31 |  |

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 Months Ended September 30,** | | | | | | |
| **(In millions)** | **2019** | | |  | **2018** | | |
| **Net income** | **$** | **583** |  |  | $ | 764 |  |
| **Other comprehensive income (loss), net of related taxes:** |  | | |  |  | | |
| Foreign currency translation, net of related taxes of ($62) and $3, respectively | **(264** | | **)** |  | (57 | | ) |
| Net unrealized gains (losses) on available-for-sale securities, net of reclassification adjustment and net of related taxes of $53 and ($66), respectively | **136** | |  |  | (204 | | ) |
| Net unrealized gains (losses) on available-for-sale securities designated in fair value hedges, net of related taxes of $3 and ($12), respectively | **10** | |  |  | 6 | |  |
| Other-than-temporary impairment on held-to-maturity securities related to factors other than credit, net of related taxes of zero and $1, respectively | **1** | |  |  | 2 | |  |
| Net unrealized gains (losses) on cash flow hedges, net of related taxes of $3 and ($5), respectively | **7** | |  |  | 30 | |  |
| Net unrealized gains (losses) on retirement plans, net of related taxes of zero and $2, respectively | **(1** | | **)** |  | — | |  |
| **Other comprehensive income (loss)** | **(111** | | **)** |  | (223 | | ) |
| **Total comprehensive income** | **$** | **472** |  |  | $ | 541 |  |
|  |  | | |  |  | | |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
|  | **Nine Months Ended September 30,** | | | | | | |
| **(In millions)** | **2019** | | |  | **2018** | | |
| **Net income** | **$** | **1,678** |  |  | $ | 2,156 |  |
| **Other comprehensive income (loss), net of related taxes:** |  | | |  |  | | |
| Foreign currency translation, net of related taxes of ($55) and ($59), respectively | **(248** | | **)** |  | (244 | | ) |
| Net unrealized gains (losses) on available-for-sale securities, net of reclassification adjustment and net of related taxes of $263 and ($202), respectively | **665** | |  |  | (475 | | ) |
| Net unrealized gains (losses) on available-for-sale securities designated in fair value hedges, net of related taxes of $4 and $10, respectively | **13** | |  |  | 29 | |  |
| Other-than-temporary impairment on held-to-maturity securities related to factors other than credit, net of related taxes of $1 and $4, respectively | **2** | |  |  | 1 | |  |
| Net unrealized gains (losses) on cash flow hedges, net of related taxes of $12 and ($15), respectively | **32** | |  |  | (27 | | ) |
| Net unrealized gains (losses) on retirement plans, net of related taxes of ($5) and $5, respectively | **(9** | | **)** |  | 14 | |  |
| **Other comprehensive income (loss)** | **455** | |  |  | (702 | | ) |
| **Total comprehensive income** | **$** | **2,133** |  |  | $ | 1,454 |  |
|  |  | | |  |  | | |

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

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**STATE STREET CORPORATION**

**CONSOLIDATED STATEMENT OF CONDITION**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
|  | **September 30, 2019** | | |  | **December 31, 2018** | | |
| **(Dollars in millions, except per share amounts)** | **(Unaudited)** | | |  |  | | |
| **Assets:** |  | | |  |  | | |
| Cash and due from banks | **$** | **3,598** |  |  | $ | 3,212 |  |
| Interest-bearing deposits with banks | **62,324** | |  |  | 73,040 | |  |
| Securities purchased under resale agreements | **3,041** | |  |  | 4,679 | |  |
| Trading account assets | **839** | |  |  | 860 | |  |
| Investment securities available-for-sale | **54,757** | |  |  | 45,148 | |  |
| Investment securities held-to-maturity (fair value of $39,535 and $41,351) | **39,119** | |  |  | 41,914 | |  |
| Loans and leases (less allowance for losses of $71 and $67) | **26,938** | |  |  | 25,722 | |  |
| Premises and equipment (net of accumulated depreciation of $4,235 and $4,152) | **2,306** | |  |  | 2,214 | |  |
| Accrued interest and fees receivable | **3,258** | |  |  | 3,203 | |  |
| Goodwill | **7,500** | |  |  | 7,446 | |  |
| Other intangible assets | **2,077** | |  |  | 2,369 | |  |
| Other assets | **38,849** | |  |  | 34,789 | |  |
| **Total assets** | **$** | **244,606** |  |  | $ | 244,596 |  |
| **Liabilities:** |  | | |  |  | | |
| Deposits: |  | | |  |  | | |
| Non-interest-bearing | **$** | **33,719** |  |  | $ | 44,804 |  |
| Interest-bearing - U.S. | **72,260** | |  |  | 66,235 | |  |
| Interest-bearing - non-U.S. | **64,907** | |  |  | 69,321 | |  |
| Total deposits | **170,886** | |  |  | 180,360 | |  |
| Securities sold under repurchase agreements | **1,330** | |  |  | 1,082 | |  |
| Other short-term borrowings | **7,073** | |  |  | 3,092 | |  |
| Accrued expenses and other liabilities | **28,653** | |  |  | 24,232 | |  |
| Long-term debt | **11,455** | |  |  | 11,093 | |  |
| **Total liabilities** | **219,397** | |  |  | 219,859 | |  |
| Commitments, guarantees and contingencies (Notes 9 and 10) |  | | |  |  | | |
| **Shareholders’ equity:** |  | | |  |  | | |
| Preferred stock, no par, 3,500,000 shares authorized: |  | | |  |  | | |
| Series C, 5,000 shares issued and outstanding | **491** | |  |  | 491 | |  |
| Series D, 7,500 shares issued and outstanding | **742** | |  |  | 742 | |  |
| Series E, 7,500 shares issued and outstanding | **728** | |  |  | 728 | |  |
| Series F, 7,500 shares issued and outstanding | **742** | |  |  | 742 | |  |
| Series G, 5,000 shares issued and outstanding | **493** | |  |  | 493 | |  |
| Series H, 5,000 shares issued and outstanding | **494** | |  |  | 494 | |  |
| Common stock, $1 par, 750,000,000 shares authorized: |  | | |  |  | | |
| 503,879,642 and 503,879,642 shares issued, and 363,623,285 and 379,946,724 shares outstanding | **504** | |  |  | 504 | |  |
| Surplus | **10,117** | |  |  | 10,061 | |  |
| Retained earnings | **21,612** | |  |  | 20,553 | |  |
| Accumulated other comprehensive income (loss) | **(985** | | **)** |  | (1,356 | | ) |
| Treasury stock, at cost (140,256,357 and 123,932,918 shares) | **(9,729** | | **)** |  | (8,715 | | ) |
| **Total shareholders’ equity** | **25,209** | |  |  | 24,737 | |  |
| **Total liabilities and shareholders' equity** | **$** | **244,606** |  |  | $ | 244,596 |  |

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, except per share amounts, shares in thousands)** | **Preferred**  **Stock** | | |  | **Common Stock** | | | | | |  | **Surplus** | | |  | **Retained**  **Earnings** | | | |  | **Accumulated**  **Other**  **Comprehensive**  **Income (Loss)** | | |  | **Treasury Stock** | | | | | | |  | **Total** | | |
| **Shares**  **(In thousands)** | |  | **Amount** | | |  | **Shares (In thousands)** | | |  | **Amount** | | |  |
| **Balance at December 31, 2017** | $ | 3,196 |  |  | 503,880 |  |  | $ | 504 |  |  | $ | 9,799 |  |  | $ | 18,809 | |  |  | $ | (1,009 | ) |  | 136,230 | |  |  | $ | (9,029 | ) |  | $ | 22,270 |  |
| Net income |  | | |  |  | |  |  | | |  |  | | |  | 659 | | |  |  |  | | |  |  | | |  |  | | |  | 659 | |  |
| 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 exercised |  | | |  |  |  |  |  | |  |  | (3 | | ) |  |  | | | |  |  | | |  | (1,075 | | ) |  | 45 | |  |  | 42 | |  |
| Other |  | | |  |  | |  |  | | |  |  | |  |  | 3 | | |  |  |  | | |  | (7 | | ) |  | — | |  |  | 3 | |  |
| **Balance at March 31, 2018** | $ | 3,196 |  |  | 503,880 |  |  | $ | 504 |  |  | $ | 9,796 |  |  | $ | 19,262 | |  |  | $ | (1,074 | ) |  | 138,472 | |  |  | $ | (9,334 | ) |  | $ | 22,350 |  |
| Net income |  | | |  |  | |  |  | | |  |  | | |  | 733 | | |  |  |  | | |  |  | | |  |  | | |  | 733 | |  |
| Other comprehensive income |  | | |  |  | |  |  | | |  |  | | |  |  | | | |  | (414 | | ) |  |  | | |  |  | | |  | (414 | | ) |
| Cash dividends declared: |  | | |  |  | |  |  | | |  |  | | |  |  | | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Common stock - $0.42 per share |  | | |  |  | |  |  | | |  |  | | |  | (153 | | | ) |  |  | | |  |  | | |  |  | | |  | (153 | | ) |
| Preferred stock |  | | |  |  | |  |  | | |  |  | | |  | (36 | | | ) |  |  | | |  |  | | |  |  | | |  | (36 | | ) |
| Common stock awards exercised |  | | |  |  | |  |  | | |  | 24 | |  |  |  | | | |  |  | | |  | (423 | | ) |  | 17 | |  |  | 41 | |  |
| Other |  | | |  |  | |  |  | | |  |  | | |  |  | | | |  |  | | |  | 3 | |  |  | — | |  |  | — | |  |
| **Balance at June 30, 2018** | $ | 3,196 |  |  | 503,880 |  |  | $ | 504 |  |  | $ | 9,820 |  |  | $ | 19,806 | |  |  | $ | (1,488 | ) |  | 138,052 | |  |  | $ | (9,317 | ) |  | $ | 22,521 |  |
| Net income |  | | |  |  | |  |  | | |  |  | | |  | 764 | | |  |  |  | | |  |  | | |  |  | | |  | 764 | |  |
| Other comprehensive income |  | | |  |  | |  |  | | |  |  | | |  |  | | | |  | (223 | | ) |  |  | | |  |  | | |  | (223 | | ) |
| Preferred stock issued | 494 | |  |  |  | |  |  | | |  |  | | |  |  | | | |  |  | | |  |  | | |  |  | | |  | 494 | |  |
| Common stock issued |  | | |  |  | |  |  | | |  | 586 | |  |  |  | | | |  |  | | |  | (13,244 | | ) |  | 564 | |  |  | 1,150 | |  |
| Cash dividends declared: |  | | |  |  | |  |  | | |  |  | | |  |  | | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Common stock - $0.47 per share |  | | |  |  | |  |  | | |  |  | | |  | (179 | | | ) |  |  | | |  |  | | |  |  | | |  | (179 | | ) |
| Preferred stock |  | | |  |  | |  |  | | |  |  | | |  | (55 | | | ) |  |  | | |  |  | | |  |  | | |  | (55 | | ) |
| Common stock awards exercised |  | | |  |  | |  |  | | |  | 12 | |  |  |  | | | |  |  | | |  | (433 | | ) |  | 19 | |  |  | 31 | |  |
| Other |  | | |  |  | |  |  | | |  |  | | |  |  | | | |  |  | | |  | 15 | |  |  | (1 | | ) |  | (1 | | ) |
| **Balance at September 30, 2018** | $ | 3,690 |  |  | 503,880 |  |  | $ | 504 |  |  | $ | 10,418 |  |  | $ | 20,336 | |  |  | $ | (1,711 | ) |  | 124,390 | |  |  | $ | (8,735 | ) |  | $ | 24,502 |  |
| **Balance at December 31, 2018** | $ | 3,690 |  |  | 503,880 |  |  | $ | 504 |  |  | $ | 10,061 |  |  | $ | 20,553 | |  |  | $ | (1,356 | ) |  | 123,933 | |  |  | $ | (8,715 | ) |  | $ | 24,737 |  |
| Reclassification of certain tax effects(1) |  | | |  |  | |  |  | | |  |  | | |  | 84 | | |  |  | (84 | | ) |  |  | | |  |  | | |  | — | |  |
| Net income |  | | |  |  | |  |  | | |  |  | | |  | 508 | | |  |  |  | | |  |  | | |  |  | | |  | 508 | |  |
| Other comprehensive income |  | | |  |  | |  |  | | |  |  | | |  |  | | | |  | 260 | |  |  |  | | |  |  | | |  | 260 | |  |
| Cash dividends declared: |  | | |  |  | |  |  | | |  |  | | |  |  | | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Common stock - $0.47 per share |  | | |  |  | |  |  | | |  |  | | |  | (177 | | | ) |  |  | | |  |  | | |  |  | | |  | (177 | | ) |
| Preferred stock |  | | |  |  | |  |  | | |  |  | | |  | (55 | | | ) |  |  | | |  |  | | |  |  | | |  | (55 | | ) |
| Common stock acquired |  | | |  |  | |  |  | | |  |  | | |  |  | | | |  |  | | |  | 4,230 | |  |  | (300 | | ) |  | (300 | | ) |
| Common stock awards exercised |  | | |  |  | |  |  | | |  | 26 | |  |  |  | | | |  |  | | |  | (1,002 | | ) |  | 45 | |  |  | 71 | |  |
| Other |  | | |  |  | |  |  | | |  | (5 | | ) |  | (2 | | | ) |  |  | | |  | (2 | | ) |  | 1 | |  |  | (6 | | ) |
| **Balance at March 31, 2019** | $ | 3,690 |  |  | 503,880 |  |  | $ | 504 |  |  | $ | 10,082 |  |  | $ | 20,911 | |  |  | $ | (1,180 | ) |  | 127,159 | |  |  | $ | (8,969 | ) |  | $ | 25,038 |  |
| Net income |  | | |  |  | |  |  | | |  |  | | |  | 587 | | |  |  |  | | |  |  | | |  |  | | |  | 587 | |  |
| Other comprehensive income |  | | |  |  | |  |  | | |  |  | | |  |  | | | |  | 306 | |  |  |  | | |  |  | | |  | 306 | |  |
| Cash dividends declared: |  | | |  |  | |  |  | | |  |  | | |  |  | | | |  |  | | |  |  | | |  |  | | |  |  | |  |
| Common stock - $0.47 per share |  | | |  |  | |  |  | | |  |  | | |  | (175 | | | ) |  |  | | |  |  | | |  |  | | |  | (175 | | ) |
| Preferred stock |  | | |  |  | |  |  | | |  |  | | |  | (50 | | | ) |  |  | | |  |  | | |  |  | | |  | (50 | | ) |
| Common stock acquired |  | | |  |  | |  |  | | |  |  | | |  |  | | | |  |  | | |  | 4,598 | |  |  | (300 | | ) |  | (300 | | ) |
| Common stock awards exercised |  | | |  |  | |  |  | | |  | 27 | |  |  |  | | | |  |  | | |  | (452 | | ) |  | 20 | |  |  | 47 | |  |
| Other |  | | |  |  | |  |  | | |  |  | | |  | 1 | | |  |  |  | | |  | 2 | |  |  | — | |  |  | 1 | |  |
| **Balance at June 30, 2019** | $ | 3,690 |  |  | 503,880 |  |  | $ | 504 |  |  | $ | 10,109 |  |  | $ | 21,274 | |  |  | $ | (874 | ) |  | 131,307 | |  |  | $ | (9,249 | ) |  | $ | 25,454 |  |
| Net income |  | | |  |  | |  |  | | |  |  | | |  | **583** | | |  |  |  | | |  |  | | |  |  | | |  | **583** | |  |
| Other comprehensive income |  | | |  |  | |  |  | | |  |  | | |  |  | | | |  | **(111** | | **)** |  |  | | |  |  | | |  | **(111** | | **)** |
| Cash dividends declared: |  | | |  |  | |  |  | | |  |  | | |  |  | | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Common stock - $0.52 per share |  | | |  |  | |  |  | | |  |  | | |  | **(189** | | | **)** |  |  | | |  |  | | |  |  | | |  | **(189** | | **)** |
| Preferred stock |  | | |  |  | |  |  | | |  |  | | |  | **(55** | | | **)** |  |  | | |  |  | | |  |  | | |  | **(55** | | **)** |
| Common stock acquired |  | | |  |  | |  |  | | |  |  | | |  |  | | | |  |  | | |  | **9,407** | |  |  | **(500** | | **)** |  | **(500** | | **)** |
| Common stock awards exercised |  | | |  |  | |  |  | | |  | **29** | |  |  |  | | | |  |  | | |  | **(443** | | **)** |  | **20** | |  |  | **49** | |  |
| Other |  | | |  |  | |  |  | | |  | **(21** | | **)** |  | **(1** | | | **)** |  |  | | |  | **(15** | | **)** |  | **—** | |  |  | **(22** | | **)** |
| **Balance at September 30, 2019** | **$** | **3,690** |  |  | **503,880** |  |  | **$** | **504** |  |  | **$** | **10,117** |  |  | **$** | **21,612** | |  |  | **$** | **(985** | **)** |  | **140,256** | |  |  | **$** | **(9,729** | **)** |  | **$** | **25,209** |  |
|  | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  | | | |  | | | |  | | | | | | | | | |  | | | | | | | |  | | | | | | | | | |
|  | | | |  | | | |  | | | | | | | | | |  | | | | | | | |  | | | | | | | | | |

(1)Represents the reclassification from accumulated other comprehensive income into retained earnings as a result of our adoption of ASU 2018-02 - Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income in the first quarter of 2019.

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)**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
|  | **Nine Months Ended September 30,** | | | | | | |
| **(In millions)** | **2019** | | |  | **2018** | | |
| **Operating Activities:** |  | | |  |  | | |
| Net income | **$** | **1,678** |  |  | $ | 2,156 |  |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: |  | | |  |  | | |
| Deferred income tax expense (benefit) | **15** | |  |  | (91 | | ) |
| Amortization of other intangible assets | **178** | |  |  | 145 | |  |
| Other non-cash adjustments for depreciation, amortization and accretion, net | **796** | |  |  | 729 | |  |
| (Gains) losses related to investment securities, net | **1** | |  |  | (6 | | ) |
| Change in trading account assets, net | **21** | |  |  | 92 | |  |
| Change in accrued interest and fees receivable, net | **(55** | | **)** |  | (97 | | ) |
| Change in collateral deposits, net | **216** | |  |  | 7,236 | |  |
| Change in unrealized (gains) losses on foreign exchange derivatives, net | **254** | |  |  | (2,118 | | ) |
| Change in other assets, net | **(279** | | **)** |  | 47 | |  |
| Change in accrued expenses and other liabilities, net | **1,471** | |  |  | 873 | |  |
| Other, net | **341** | |  |  | 95 | |  |
| Net cash provided by operating activities | **4,637** | |  |  | 9,061 | |  |
| **Investing Activities:** |  | | |  |  | | |
| Net decrease in interest-bearing deposits with banks | **10,716** | |  |  | 3,609 | |  |
| Net decrease (increase) in securities purchased under resale agreements | **1,638** | |  |  | (954 | | ) |
| Proceeds from sales of available-for-sale securities | **5,185** | |  |  | 15,712 | |  |
| Proceeds from maturities of available-for-sale securities | **15,387** | |  |  | 11,156 | |  |
| Purchases of available-for-sale securities | **(30,204** | | **)** |  | (17,949 | | ) |
| Proceeds from maturities of held-to-maturity securities | **7,199** | |  |  | 5,003 | |  |
| Purchases of held-to-maturity securities | **(5,036** | | **)** |  | (4,390 | | ) |
| Net increase in loans and leases | **(1,220** | | **)** |  | (53 | | ) |
| Business acquisitions, net of cash acquired | **(54** | | **)** |  | (63 | | ) |
| Purchases of equity investments and other long-term assets | **(611** | | **)** |  | (243 | | ) |
| Purchases of premises and equipment, net | **(569** | | **)** |  | (436 | | ) |
| Other, net | **466** | |  |  | 39 | |  |
| Net cash provided by investing activities | **2,897** | |  |  | 11,431 | |  |
| **Financing Activities:** |  | | |  |  | | |
| Net (decrease) increase in time deposits | **(11,341** | | **)** |  | 1,606 | |  |
| Net increase (decrease) in all other deposits | **1,868** | |  |  | (18,304 | | ) |
| Net increase (decrease) in other short-term borrowings | **4,229** | |  |  | (1,287 | | ) |
| Payments for long-term debt and obligations under capital leases | **(47** | | **)** |  | (1,032 | | ) |
| Proceeds from issuance of preferred stock, net of issuance costs | **—** | |  |  | 495 | |  |
| Proceeds from issuance of common stock, net of issuance costs | **—** | |  |  | 1,150 | |  |
| Repurchases of common stock | **(1,100** | | **)** |  | (350 | | ) |
| Repurchases of common stock for employee tax withholding | **(66** | | **)** |  | 113 | |  |
| Payments for cash dividends | **(691** | | **)** |  | (608 | | ) |
| Net cash used in financing activities | **(7,148** | | **)** |  | (18,217 | | ) |
| Net increase | **386** | |  |  | 2,275 | |  |
| Cash and due from banks at beginning of period | **3,212** | |  |  | 2,004 | |  |
| Cash and due from banks at end of period | **$** | **3,598** |  |  | $ | 4,279 |  |

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)**

**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, including our principal banking subsidiary, State Street Bank.

The accompanying consolidated financial statements should be read in conjunction with the financial and risk factor information included in the 2018 Annual Financial Statements and in our 2018 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, 2018 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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**STATE STREET CORPORATION**

**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(UNAUDITED)**

***Recent Accounting Developments***

|  |  |  |  |
| --- | --- | --- | --- |
|  | | | |
|  |  |  |  |
| Relevant standards that were recently issued but not yet adopted as of September 30, 2019: | | | |
| **Standard** | **Description** | **Date of Adoption** | **Effects on the financial statements or other significant matters** |
| ASU 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments | The standard, and its related amendments, 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. | January 1, 2020, early adoption permitted | We are continuing to assess the impact of the standard on our consolidated financial statements. We have established a steering committee to provide cross-functional governance over the project plan and key decisions. We continue to enhance key accounting policies and refine the credit loss models, processes and the associated data requirements needed to meet the standard. The majority of our exposures will utilize a probability-of-default and loss-given-default methodology to estimate the credit loss reserve. We expect to complete validation of the credit loss models we have developed in 2019. During the remainder of 2019, we will continue executing our new processes in parallel with the existing processes to ensure that we have an appropriate control environment over the allowance for credit losses upon adoption in 2020. Based on our analysis to date, we expect the recognition of credit losses to accelerate under the new standard. We are continuing to assess the extent of the impact on the allowance for credit losses which will be impacted by our portfolio and the macroeconomic factors on the date of adoption, however, we do not expect the impact of adopting this standard to be material to us. We plan to adopt the new guidance on January 1, 2020. |
| ASU 2017-04, Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment | The standard simplifies the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. The ASU requires an entity to compare the fair value of a reporting unit with its carrying amount and recognize an impairment charge for the amount by which the carrying value exceeds the fair value of the reporting unit. Additionally, an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss. | January 1, 2020, early adoption permitted | We are evaluating the impacts of adoption, and will apply this standard prospectively from January 1, 2020. |
| ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement | The standard eliminates, amends and adds disclosure requirements for fair value measurements. | January 1, 2020, early adoption permitted, including partial early adoption. Provisions that eliminate or amend disclosures can be early adopted without early adopting the new disclosure requirements. | We have elected to early adopt the provisions of the new standard that eliminate or amend disclosures as of December 31, 2018 and our disclosures were modified accordingly. The provisions of the new standard that add disclosures will be adopted upon the effective date of the standard. |
| ASU 2018-15, Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement. That Is a Service Contract (a consensus of the Financial Accounting Standards Board Emerging Issues Task Force) | This standard addresses accounting for fees paid by a customer for implementation, set-up and other upfront costs incurred in a cloud computing arrangement that is hosted by the vendor, i.e., a service contract. The new guidance aligns treatment for capitalization of implementation costs with guidance on internal-use software. | January 1, 2020, early adoption permitted | We are currently evaluating the impact of the new standard. |

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**STATE STREET CORPORATION**

**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(UNAUDITED)**

*Relevant standards that were adopted in the first nine months of 2019:*

We adopted ASU 2016-02, Leases (Topic 842) and relevant amendments, effective January 1, 2019. The standard represents a change to lease accounting and requires all leases, other than short-term leases, to be reported on the balance sheet through recognition of a right-of-use asset and a corresponding liability for future lease obligations. The standard also requires incremental disclosures for assets, expenses, and cash flows associated with leases, as well as a maturity analysis of lease liabilities. We adopted Topic 842 by applying the transition method whereby comparative periods have not been restated, and no adjustment to retained earnings was required. Upon adoption of the standard, we recognized right-of-use assets of approximately $0.9 billion and lease liabilities of approximately $1.1 billion. This increase largely relates to the present value of future minimum lease payments due under existing operating leases of office space. No material changes are expected to the recognition of lease expenses in the Consolidated Statement of Income as a result of the adoption of Topic 842. For adoption, we elected Topic 842’s package of three practical expedients, and (1) did not reassess whether any expired or existing contracts are or contain leases, (2) did not reassess the lease classification for any expired or existing leases, and (3) did not reassess initial direct costs for any existing leases. In addition, we made an accounting policy election not to apply the recognition requirements to short-term leases, and elected the practical expedient to not separate lease and nonlease components of leases.

We adopted ASU 2017-08, Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities, effective January 1, 2019. The standard shortens the amortization period for certain purchased callable debt securities to the earliest call date. The standard does not impact debt securities which are held at a discount. The guidance requires a cumulative effect of initial application to be recognized in retained earnings at the beginning of the period of adoption. The impact to beginning retained earnings was not material.

We adopted ASU 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income, effective January 1, 2019. 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. Upon adoption of the standard we reclassified approximately $84 million of stranded tax effects.

**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 32 to 39 in Note 2 to the consolidated financial statements included under Item 8, Financial Statements and Supplementary Data, in the 2018 Annual Financial Statements.

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:

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**STATE STREET CORPORATION**

**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(UNAUDITED)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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|  | | | | | | | | | | | | | | | | | | | | | |
|  | |  |  | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | **Fair Value Measurements on a Recurring Basis** | | | | | | | | | | | | | | | | | | | |
|  | | **As of September 30, 2019** | | | | | | | | | | | | | | | | | | | |
| **(In millions)** | | **Quoted Market**  **Prices in Active**  **Markets**  **(Level 1)** | | | |  | **Pricing Methods**  **with Significant**  **Observable**  **Market Inputs**  **(Level 2)** | | |  | **Pricing Methods**  **with Significant**  **Unobservable**  **Market Inputs**  **(Level 3)** | | |  | **Impact of Netting(1)** | | |  | **Total Net**  **Carrying Value**  **in Consolidated**  **Statement of**  **Condition** | | |
| **Assets:** | |  | | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Trading account assets: | |  | | | |  |  | | |  |  | | |  |  | | |  |  | | |
| U.S. government securities | | **$** | **34** | |  |  | **$** | **—** |  |  | **$** | **—** |  |  |  | | |  | **$** | **34** |  |
| Non-U.S. government securities | | **137** | | |  |  | **208** | |  |  | **—** | |  |  |  | | |  | **345** | |  |
| Other | | **20** | | |  |  | **440** | |  |  | **—** | |  |  |  | | |  | **460** | |  |
| Total trading account assets | | **191** | | |  |  | **648** | |  |  | **—** | |  |  |  | | |  | **839** | |  |
| Available-for-sale investment securities: | |  | | | |  |  | | |  |  | | |  |  | | |  |  | | |
| U.S. Treasury and federal agencies: | |  | | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Direct obligations | | **2,039** | | |  |  | **—** | |  |  | **—** | |  |  |  | | |  | **2,039** | |  |
| Mortgage-backed securities | | **—** | | |  |  | **22,379** | |  |  | **—** | |  |  |  | | |  | **22,379** | |  |
| Total U.S. Treasury and federal agencies | | **2,039** | | |  |  | **22,379** | |  |  | **—** | |  |  |  | | |  | **24,418** | |  |
| Asset-backed securities: | |  | | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Student loans | | **—** | | |  |  | **471** | |  |  | **—** | |  |  |  | | |  | **471** | |  |
| Credit cards | | **—** | | |  |  | **90** | |  |  | **—** | |  |  |  | | |  | **90** | |  |
| Collateralized loan obligations | | **—** | | |  |  | **58** | |  |  | **1,388** | |  |  |  | | |  | **1,446** | |  |
| Total asset-backed securities | | **—** | | |  |  | **619** | |  |  | **1,388** | |  |  |  | | |  | **2,007** | |  |
| Non-U.S. debt securities: | |  | | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Mortgage-backed securities | | **—** | | |  |  | **1,917** | |  |  | **—** | |  |  |  | | |  | **1,917** | |  |
| Asset-backed securities | | **—** | | |  |  | **1,110** | |  |  | **721** | |  |  |  | | |  | **1,831** | |  |
| Government securities | | **—** | | |  |  | **13,189** | |  |  | **—** | |  |  |  | | |  | **13,189** | |  |
| Other(2) | | **—** | | |  |  | **6,954** | |  |  | **44** | |  |  |  | | |  | **6,998** | |  |
| Total non-U.S. debt securities | | **—** | | |  |  | **23,170** | |  |  | **765** | |  |  |  | | |  | **23,935** | |  |
| State and political subdivisions | | **—** | | |  |  | **1,819** | |  |  | **—** | |  |  |  | | |  | **1,819** | |  |
| Collateralized mortgage obligations | | **—** | | |  |  | **113** | |  |  | **—** | |  |  |  | | |  | **113** | |  |
| Other U.S. debt securities | | **—** | | |  |  | **2,465** | |  |  | **—** | |  |  |  | | |  | **2,465** | |  |
| Total available-for-sale investment securities | | **2,039** | | |  |  | **50,565** | |  |  | **2,153** | |  |  |  | | |  | **54,757** | |  |
| Other assets: | |  | | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Derivative instruments: | |  | | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Foreign exchange contracts | | **—** | | |  |  | **13,898** | |  |  | **14** | |  |  | **$** | **(8,886** | **)** |  | **5,026** | |  |
| Interest rate contracts | | **—** | | |  |  | **22** | |  |  | **—** | |  |  | **(8** | | **)** |  | **14** | |  |
| Total derivative instruments | | **—** | | |  |  | **13,920** | |  |  | **14** | |  |  | **(8,894** | | **)** |  | **5,040** | |  |
| Other | | **—** | | |  |  | **424** | |  |  | **—** | |  |  | **—** | |  |  | **424** | |  |
| Total assets carried at fair value | | **$** | **2,230** | |  |  | **$** | **65,557** |  |  | **$** | **2,167** |  |  | **$** | **(8,894** | **)** |  | **$** | **61,060** |  |
| **Liabilities:** | |  | | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Accrued expenses and other liabilities: | |  | | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Trading account liabilities: | |  | | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Other | | **$** | **4** | |  |  | **$** | **—** |  |  | **$** | **—** |  |  | **$** | **—** |  |  | **$** | **4** |  |
| Derivative instruments: | |  | | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Foreign exchange contracts | | **$** | **4** | |  |  | **$** | **14,173** |  |  | **$** | **12** |  |  | **$** | **(9,524** | **)** |  | **$** | **4,665** |  |
| Interest rate contracts | | **2** | | |  |  | **49** | |  |  | **—** | |  |  | **(8** | | **)** |  | **43** | |  |
| Other derivative contracts | | **—** | | |  |  | **207** | |  |  | **—** | |  |  | **—** | |  |  | **207** | |  |
| Total derivative instruments | | **6** | | |  |  | **14,429** | |  |  | **12** | |  |  | **(9,532** | | **)** |  | **4,915** | |  |
| Total liabilities carried at fair value | | **$** | **10** | |  |  | **$** | **14,429** |  |  | **$** | **12** |  |  | **$** | **(9,532** | **)** |  | **$** | **4,919** |  |
|  | | | | | | | | | | | | | | | | | | | | | |
|  |  | | |  | | | | | |  | | | | | | | | | | | |
|  |  | | |  | | | | | |  | | | | | | | | | | | |

(1)Represents counterparty netting against level 2 financial assets and liabilities where a legally enforceable master netting agreement exists between us and the counterparty. Netting also reflects asset and liability reductions of $0.79 billion and $1.43 billion, respectively, for cash collateral received from and provided to derivative counterparties.

(2)As of September 30, 2019, the fair value of other non-U.S. debt securities included $4.29 billion of supranational bonds, $1.52 billion of corporate bonds and $0.73 billion of covered bonds.

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**STATE STREET CORPORATION**

**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(UNAUDITED)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | | | | | |
|  | |  |  |  |  |  |  | |  |  |  |  | |  |  |  |  | |  |  |  |  |  |
|  | | **Fair Value Measurements on a Recurring Basis** | | | | | | | | | | | | | | | | | | | | | |
|  | | **As of December 31, 2018** | | | | | | | | | | | | | | | | | | | | | |
| **(In millions)** | | **Quoted Market**  **Prices in Active**  **Markets**  **(Level 1)** | | |  | **Pricing Methods**  **with Significant**  **Observable**  **Market Inputs**  **(Level 2)** | | | |  | **Pricing Methods**  **with Significant**  **Unobservable**  **Market Inputs**  **(Level 3)** | | | |  | **Impact of Netting(1)** | | | |  | **Total Net**  **Carrying Value**  **in Consolidated**  **Statement of**  **Condition** | | |
| **Assets:** | |  | | |  |  | | | |  |  | | | |  |  | | | |  |  | | |
| Trading account assets: | |  | | |  |  | | | |  |  | | | |  |  | | | |  |  | | |
| U.S. government securities | | $ | 34 |  |  | $ | — | |  |  | $ | — | |  |  |  | | | |  | $ | 34 |  |
| Non-U.S. government securities | | 146 | |  |  | 179 | | |  |  | — | | |  |  |  | | | |  | 325 | |  |
| Other | | — | |  |  | 501 | | |  |  | — | | |  |  |  | | | |  | 501 | |  |
| Total trading account assets | | 180 | |  |  | 680 | | |  |  | — | | |  |  |  | | | |  | 860 | |  |
| Available-for-sale investment securities: | |  | | |  |  | | | |  |  | | | |  |  | | | |  |  | | |
| U.S. Treasury and federal agencies: | |  | | |  |  | | | |  |  | | | |  |  | | | |  |  | | |
| Direct obligations | | 1,039 | |  |  | — | | |  |  | — | | |  |  |  | | | |  | 1,039 | |  |
| Mortgage-backed securities | | — | |  |  | 15,968 | | |  |  | — | | |  |  |  | | | |  | 15,968 | |  |
| Total U.S. Treasury and federal agencies | | 1,039 | |  |  | 15,968 | | |  |  | — | | |  |  |  | | | |  | 17,007 | |  |
| Asset-backed securities: | |  | | |  |  | | | |  |  | | | |  |  | | | |  |  | | |
| Student loans | | — | |  |  | 541 | | |  |  | — | | |  |  |  | | | |  | 541 | |  |
| Credit cards | | — | |  |  | 583 | | |  |  | — | | |  |  |  | | | |  | 583 | |  |
| Collateralized loan obligations | | — | |  |  | — | | |  |  | 593 | | |  |  |  | | | |  | 593 | |  |
| Total asset-backed securities | | — | |  |  | 1,124 | | |  |  | 593 | | |  |  |  | | | |  | 1,717 | |  |
| Non-U.S. debt securities: | |  | |  |  |  | | |  |  |  | | | |  |  | | | |  |  | |  |
| Mortgage-backed securities | | — | |  |  | 1,682 | | |  |  | — | | |  |  |  | | | |  | 1,682 | |  |
| Asset-backed securities | | — | |  |  | 943 | | |  |  | 631 | | |  |  |  | | | |  | 1,574 | |  |
| Government securities | | — | |  |  | 12,793 | | |  |  | — | | |  |  |  | | | |  | 12,793 | |  |
| Other(2) | | — | |  |  | 6,544 | | |  |  | 58 | | |  |  |  | | | |  | 6,602 | |  |
| Total non-U.S. debt securities | | — | |  |  | 21,962 | | |  |  | 689 | | |  |  |  | | | |  | 22,651 | |  |
| State and political subdivisions | | — | |  |  | 1,918 | | |  |  | — | | |  |  |  | | | |  | 1,918 | |  |
| Collateralized mortgage obligations | | — | |  |  | 195 | | |  |  | 2 | | |  |  |  | | | |  | 197 | |  |
| Other U.S. debt securities | | — | |  |  | 1,658 | | |  |  | — | | |  |  |  | | | |  | 1,658 | |  |
| Total available-for-sale investment securities | | 1,039 | |  |  | 42,825 | | |  |  | 1,284 | | |  |  |  | | | |  | 45,148 | |  |
| Other assets: | |  | | |  |  | | | |  |  | | | |  |  | | | |  |  | | |
| Derivative instruments: | |  | | |  |  | | | |  |  | | | |  |  | | | |  |  | | |
| Foreign exchange contracts | | — | |  |  | 16,382 | | |  |  | 4 | | |  |  | $ | (11,210 | | ) |  | 5,176 | |  |
| Interest rate contracts | | 13 | |  |  | — | | |  |  | — | | |  |  | — | | |  |  | 13 | |  |
| Total derivative instruments | | 13 | |  |  | 16,382 | | |  |  | 4 | | |  |  | (11,210 | | | ) |  | 5,189 | |  |
| Other | | — | |  |  | 395 | | |  |  | — | | |  |  | — | | |  |  | 395 | |  |
| Total assets carried at fair value | | $ | 1,232 |  |  | $ | 60,282 | |  |  | $ | 1,288 | |  |  | $ | (11,210 | | ) |  | $ | 51,592 |  |
| **Liabilities:** | |  | | |  |  | | | |  |  | | | |  |  | | | |  |  | | |
| Accrued expenses and other liabilities: | |  | | |  |  | | | |  |  | | | |  |  | | | |  |  | | |
| Derivative instruments: | |  | | |  |  | | | |  |  | | | |  |  | | | |  |  | | |
| Foreign exchange contracts | | $ | — |  |  | $ | 16,518 | |  |  | $ | 4 | |  |  | $ | (11,564 | | ) |  | $ | 4,958 |  |
| Interest rate contracts | | — | |  |  | 71 | | |  |  | — | | |  |  | — | | |  |  | 71 | |  |
| Other derivative contracts | | — | |  |  | 214 | | |  |  | — | | |  |  | — | | |  |  | 214 | |  |
| Total derivative instruments | | — | |  |  | 16,803 | | |  |  | 4 | | |  |  | (11,564 | | | ) |  | 5,243 | |  |
| Total liabilities carried at fair value | | $ | — |  |  | $ | 16,803 | |  |  | $ | 4 | |  |  | $ | (11,564 | | ) |  | $ | 5,243 |  |
|  | | | | | | | | | | | | | | | | | | | | | | | |
|  |  | | | | | | |  | | | | |  | | | | |  | | | | | |
|  |  | | | | | | |  | | | | |  | | | | |  | | | | | |

(1)Represents counterparty netting against level 2 financial assets and liabilities where a legally enforceable master netting agreement exists between us and the counterparty. Netting also reflects asset and liability reductions of $0.99 billion and $1.34 billion, respectively, for cash collateral received from and provided to derivative counterparties.

(2)As of December 31, 2018, the fair value of other non-U.S. debt securities included $3.20 billion of supranational bonds, $1.33 billion of corporate bonds and $1.30 billion of covered 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 three and nine months ended September 30, 2019 and 2018, respectively. Transfers into and out of level 3 are reported as of the beginning of the period presented. During the three and nine months ended September 30, 2019 and 2018, transfers into level 3 were primarily related to certain ABS and non-U.S. debt securities. During the three and nine months ended September 30, 2019 and 2018, transfers out of level 3 were mainly related to certain ABS, MBS, municipal bonds and non-U.S. debt securities, for which fair value was measured using prices for which observable market information became available.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Fair Value Measurements Using Significant Unobservable Inputs** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  | **Three Months Ended September 30, 2019** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  | **Fair Value as of June 30, 2019** | | |  | **Total Realized and Unrealized Gains (Losses)** | | | | | | |  | **Purchases** | | | |  | **Sales** | | |  | **Settlements** | | |  | **Transfers into**  **Level 3** | | |  | **Transfers**  **out of Level 3** | | |  | **Fair Value**  **as of September 30,**  **2019(1)** | | |  | **Change in Unrealized Gains (Losses) Related to Financial Instruments**  **Held as of**  **September 30, 2019** | | |
| **(In millions)** |  | **Recorded in Revenue(1)** | | |  | **Recorded in Other Comprehensive Income(1)** | | |  |  |  |  |  |  |  |
| **Assets:** |  | | |  |  | | |  |  | | |  |  | | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Available-for-sale Investment securities: |  | | |  |  | | |  |  | | |  |  | | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| U.S. Treasury and federal agencies: |  | | |  |  | | |  |  | | |  |  | | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Mortgage-backed securities | **123** | |  |  | **—** | |  |  | **—** | |  |  | **—** | | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **$** | **(123** | **)** |  | **$** | **—** |  |  |  | | |
| Asset-backed securities: |  | | |  |  | | |  |  | | |  |  | | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Collateralized loan obligations | **1,222** | |  |  | **—** | |  |  | **—** | |  |  | **33** | | |  |  | **—** | |  |  | **(97** | | **)** |  | **230** | |  |  | **—** | |  |  | **1,388** | |  |  |  | | |
| Total asset-backed securities | **1,222** | |  |  | **—** | |  |  | **—** | |  |  | **33** | | |  |  | **—** | |  |  | **(97** | | **)** |  | **230** | |  |  | **—** | |  |  | **1,388** | |  |  |  | | |
| Non-U.S. debt securities: |  | | |  |  | | |  |  | | |  |  | | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Asset-backed securities | **721** | |  |  | **—** | |  |  | **(27** | | **)** |  | **66** | | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **(39** | | **)** |  | **721** | |  |  |  | | |
| Other | **46** | |  |  | **—** | |  |  | **(2** | | **)** |  | **—** | | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **44** | |  |  |  | | |
| Total non-U.S. debt securities | **767** | |  |  | **—** | |  |  | **(29** | | **)** |  | **66** | | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **(39** | | **)** |  | **765** | |  |  |  | | |
| Total Available-for-sale investment securities | **2,112** | |  |  | **—** | |  |  | **(29** | | **)** |  | **99** | | |  |  | **—** | |  |  | **(97** | | **)** |  | **230** | |  |  | **(162** | | **)** |  | **2,153** | |  |  |  | | |
| Other assets: |  | | |  |  | | |  |  | | |  |  | | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Derivative instruments: |  | | |  |  | | |  |  | | |  |  | | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Foreign exchange contracts | **11** | |  |  | **(1** | | **)** |  | **—** | |  |  | **5** | | |  |  | **—** | |  |  | **(1** | | **)** |  | **—** | |  |  | **—** | |  |  | **14** | |  |  | **$** | **—** |  |
| Total derivative instruments | **11** | |  |  | **(1** | | **)** |  | **—** | |  |  | **5** | | |  |  | **—** | |  |  | **(1** | | **)** |  | **—** | |  |  | **—** | |  |  | **14** | |  |  | **—** | |  |
| Total assets carried at fair value | **$** | **2,123** |  |  | **$** | **(1** | **)** |  | **$** | **(29** | **)** |  | **$** | **104** | |  |  | **$** | **—** |  |  | **$** | **(98** | **)** |  | **$** | **230** |  |  | **$** | **(162** | **)** |  | **$** | **2,167** |  |  | **$** | **—** |  |
|  | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  | | | | | | |  | | | | | | | |  | | | | | | | | | | |  | | | | | | | | | | | | | | |
|  | | | | | | |  | | | | | | | |  | | | | | | | | | | |  | | | | | | | | | | | | | | |

(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 foreign exchange trading services.

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**STATE STREET CORPORATION**

**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(UNAUDITED)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Fair Value Measurements Using Significant Unobservable Inputs** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  | **Nine Months Ended September 30, 2019** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  | **Fair Value as of December 31, 2018** | | |  | **Total Realized and Unrealized Gains (Losses)** | | | | | | |  | **Purchases** | | | |  | **Sales** | | |  | **Settlements** | | |  | **Transfers into**  **Level 3** | | |  | **Transfers**  **out of Level 3** | | |  | **Fair Value**  **as of September 30, 2019(1)** | | |  | **Change in Unrealized Gains (Losses) Related to Financial Instruments**  **Held as of**  **September 30, 2019** | | |
| **(In millions)** |  | **Recorded in Revenue(1)** | | |  | **Recorded in Other Comprehensive Income(1)** | | |  |  |  |  |  |  |  |
| **Assets:** |  | | |  |  | | |  |  | | |  |  | | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Available-for-sale Investment securities: |  | | |  |  | | |  |  | | |  |  | | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| U.S. Treasury and federal agencies: |  | | |  |  | | |  |  | | |  |  | | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Mortgage-backed securities | **$** | **—** |  |  | **$** | **—** |  |  | **$** | **—** |  |  | **$** | **123** | |  |  | **$** | **—** |  |  | **$** | **—** |  |  | **$** | **—** |  |  | **$** | **(123** | **)** |  | **$** | **—** |  |  |  | | |
| Asset-backed securities: |  | | |  |  | | |  |  | | |  |  | | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Collateralized loan obligations | **593** | |  |  | **1** | |  |  | **—** | |  |  | **620** | | |  |  | **—** | |  |  | **(272** | | **)** |  | **446** | |  |  | **—** | |  |  | **1,388** | |  |  |  | | |
| Total asset-backed securities | **593** | |  |  | **1** | |  |  | **—** | |  |  | **620** | | |  |  | **—** | |  |  | **(272** | | **)** |  | **446** | |  |  | **—** | |  |  | **1,388** | |  |  |  | | |
| Non-U.S. debt securities: |  | | |  |  | | |  |  | | |  |  | | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Asset-backed securities | **631** | |  |  | **—** | |  |  | **(28** | | **)** |  | **157** | | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **(39** | | **)** |  | **721** | |  |  |  | | |
| Other | **58** | |  |  | **—** | |  |  | **(2** | | **)** |  | **—** | | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **(12** | | **)** |  | **44** | |  |  |  | | |
| Total non-U.S. debt securities | **689** | |  |  | **—** | |  |  | **(30** | | **)** |  | **157** | | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **(51** | | **)** |  | **765** | |  |  |  | | |
| Collateralized mortgage obligations | **2** | |  |  | **—** | |  |  | **—** | |  |  | **—** | | |  |  | **—** | |  |  | **(2** | | **)** |  | **—** | |  |  | **—** | |  |  | **—** | |  |  |  | | |
| Total Available-for-sale investment securities | **1,284** | |  |  | **1** | |  |  | **(30** | | **)** |  | **900** | | |  |  | **—** | |  |  | **(274** | | **)** |  | **446** | |  |  | **(174** | | **)** |  | **2,153** | |  |  |  | | |
| Other assets: |  | | |  |  | | |  |  | | |  |  | | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Derivative instruments: |  | | |  |  | | |  |  | | |  |  | | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Foreign exchange contracts | **4** | |  |  | **(3** | | **)** |  | **—** | |  |  | **14** | | |  |  | **—** | |  |  | **(1** | | **)** |  | **—** | |  |  | **—** | |  |  | **14** | |  |  | **$** | **—** |  |
| Total derivative instruments | **4** | |  |  | **(3** | | **)** |  | **—** | |  |  | **14** | | |  |  | **—** | |  |  | **(1** | | **)** |  | **—** | |  |  | **—** | |  |  | **14** | |  |  | **—** | |  |
| Total assets carried at fair value | **$** | **1,288** |  |  | **$** | **(2** | **)** |  | **$** | **(30** | **)** |  | **$** | **914** | |  |  | **$** | **—** |  |  | **$** | **(275** | **)** |  | **$** | **446** |  |  | **$** | **(174** | **)** |  | **$** | **2,167** |  |  | **$** | **—** |  |
|  | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  | | | | | | | |  | | | | | | |  | | | | | | | | | | |  | | | | | | | | | | | | | | |
|  | | | | | | | |  | | | | | | |  | | | | | | | | | | |  | | | | | | | | | | | | | | |

(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 foreign exchange trading services.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |  |  |  |  |  | |
|  | **Fair Value Measurements Using Significant Unobservable Inputs** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  | **Three Months Ended September 30, 2018** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  | **Fair Value**  **as of**  **June 30,**  **2018** | | |  | **Total Realized and Unrealized Gains (Losses)** | | | | | | |  | **Purchases** | | |  | **Settlements** | | |  | **Transfers into Level 3** | | |  | **Transfers out of Level 3** | | |  | **Fair Value**  **as of September 30, 2018(1)** | | | |  | **Change in Unrealized Gains (Losses) Related to Financial Instruments**  **Held as of**  **September 30, 2018** | | | |
| **(In millions)** |  | **Recorded in Revenue(1)** | | |  | **Recorded in Other Comprehensive Income(1)** | | |  |  |  |  |  |
| **Assets:** |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | | |  |  | | | |
| Available-for-sale Investment securities: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | | |  |  | | | |
| Asset-backed securities: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | | |  |  | | | |
| Collateralized loan obligations | $ | 851 |  |  | $ | 1 |  |  | $ | (2 | ) |  | $ | — |  |  | $ | (239 | ) |  | $ | — |  |  | $ | — |  |  | $ | 611 | |  |  |  | | | |
| Total asset-backed securities | 851 | |  |  | 1 | |  |  | (2 | | ) |  | — | |  |  | (239 | | ) |  | — | |  |  | — | |  |  | 611 | | |  |  |  | | | |
| Non-U.S. debt securities: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | | |  |  | | | |
| Asset-backed securities | 474 | |  |  | — | |  |  | (5 | | ) |  | 76 | |  |  | — | |  |  | 46 | |  |  | — | |  |  | 591 | | |  |  |  | | | |
| Other | 169 | |  |  | — | |  |  | (1 | | ) |  | — | |  |  | — | |  |  | — | |  |  | (64 | | ) |  | 104 | | |  |  |  | | | |
| Total non-U.S. debt securities | 643 | |  |  | — | |  |  | (6 | | ) |  | 76 | |  |  | — | |  |  | 46 | |  |  | (64 | | ) |  | 695 | | |  |  |  | | | |
| Collateralized mortgage obligations | — | |  |  | — | |  |  | — | |  |  | — | |  |  | — | |  |  | 8 | |  |  | — | |  |  | 8 | | |  |  |  | | | |
| Total Available-for-sale investment securities | 1,494 | |  |  | 1 | |  |  | (8 | | ) |  | 76 | |  |  | (239 | | ) |  | 54 | |  |  | (64 | | ) |  | 1,314 | | |  |  |  | | | |
| Other assets: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | | |  |  | | | |
| Derivative instruments: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | | |  |  | | | |
| Foreign exchange contracts | 7 | |  |  | (2 | | ) |  | — | |  |  | 3 | |  |  | (6 | | ) |  | — | |  |  | — | |  |  | 2 | | |  |  | $ | (2 | ) | |
| Total derivative instruments | 7 | |  |  | (2 | | ) |  | — | |  |  | 3 | |  |  | (6 | | ) |  | — | |  |  | — | |  |  | 2 | | |  |  | (2 | | ) | |
| Total assets carried at fair value | $ | 1,501 |  |  | $ | (1 | ) |  | $ | (8 | ) |  | $ | 79 |  |  | $ | (245 | ) |  | $ | 54 |  |  | $ | (64 | ) |  | $ | 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 foreign exchange trading services.

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**STATE STREET CORPORATION**

**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(UNAUDITED)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |  |  |  |  |  | |
|  | **Fair Value Measurements Using Significant Unobservable Inputs** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  | **Nine Months Ended September 30, 2018** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  | **Fair Value**  **as of**  **December 31,**  **2017** | | |  | **Total Realized and Unrealized Gains (Losses)** | | | | | | |  | **Purchases** | | |  | **Sales** | | |  | **Settlements** | | |  | **Transfers into Level 3** | | |  | **Transfers out of Level 3** | | |  | **Fair Value**  **as of September 30, 2018(1)** | | | |  | **Change in Unrealized Gains (Losses) Related to Financial Instruments**  **Held as of**  **September 30, 2018** | | | |
| **(In millions)** |  | **Recorded in Revenue(1)** | | |  | **Recorded in Other Comprehensive Income(1)** | | |  |  |  |  |  |  |  |
| **Assets:** |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | | |  |  | | | |
| Available-for-sale Investment securities: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | | |  |  | | | |
| Asset-backed securities: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | | |  |  | | | |
| Collateralized loan obligations | $ | 1,358 |  |  | $ | 3 |  |  | $ | (5 | ) |  | $ | 319 |  |  | $ | (636 | ) |  | $ | (219 | ) |  | $ | — |  |  | $ | (209 | ) |  | $ | 611 | |  |  |  | | | |
| Total asset-backed securities | 1,358 | |  |  | 3 | |  |  | (5 | | ) |  | 319 | |  |  | (636 | | ) |  | (219 | | ) |  | — | |  |  | (209 | | ) |  | 611 | | |  |  |  | | | |
| Non-U.S. debt securities: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | | |  |  | | | |
| Mortgage-backed securities | 119 | |  |  | — | |  |  | — | |  |  | — | |  |  | — | |  |  | — | |  |  | — | |  |  | (119 | | ) |  | — | | |  |  |  | | | |
| Asset-backed securities | 402 | |  |  | — | |  |  | (14 | | ) |  | 455 | |  |  | (310 | | ) |  | (56 | | ) |  | 114 | |  |  | — | |  |  | 591 | | |  |  |  | | | |
| Other | 204 | |  |  | — | |  |  | (6 | | ) |  | — | |  |  | — | |  |  | (30 | | ) |  | — | |  |  | (64 | | ) |  | 104 | | |  |  |  | | | |
| Total non-U.S. debt securities | 725 | |  |  | — | |  |  | (20 | | ) |  | 455 | |  |  | (310 | | ) |  | (86 | | ) |  | 114 | |  |  | (183 | | ) |  | 695 | | |  |  |  | | | |
| State and political subdivisions | 43 | |  |  | — | |  |  | — | |  |  | — | |  |  | (37 | | ) |  | (1 | | ) |  | — | |  |  | (5 | | ) |  | — | | |  |  |  | | | |
| Collateralized mortgage obligations | — | |  |  | — | |  |  | — | |  |  | — | |  |  | — | |  |  | — | |  |  | 8 | |  |  | — | |  |  | 8 | | |  |  |  | | | |
| Total Available-for-sale investment securities | 2,126 | |  |  | 3 | |  |  | (25 | | ) |  | 774 | |  |  | (983 | | ) |  | (306 | | ) |  | 122 | |  |  | (397 | | ) |  | 1,314 | | |  |  |  | | | |
| Other assets: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | | |  |  | | | |
| Derivative instruments: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | | |  |  | | | |
| Foreign exchange contracts | 1 | |  |  | (3 | | ) |  | — | |  |  | 4 | |  |  | — | |  |  | — | |  |  | — | |  |  | — | |  |  | 2 | | |  |  | $ | (2 | ) | |
| Total derivative instruments | 1 | |  |  | (3 | | ) |  | — | |  |  | 4 | |  |  | — | |  |  | — | |  |  | — | |  |  | — | |  |  | 2 | | |  |  | (2 | | ) | |
| Total assets carried at fair value | $ | 2,127 |  |  | $ | — |  |  | $ | (25 | ) |  | $ | 778 |  |  | $ | (983 | ) |  | $ | (306 | ) |  | $ | 122 |  |  | $ | (397 | ) |  | $ | 1,316 | |  |  | $ | (2 | ) | |
|  | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  | | | | | | | |  | | | | | | | | |  | | | | | | | | | | | | | | | | | |  | | | | | |  |
|  | | | | | | | |  | | | | | | | | |  | | | | | | | | | | | | | | | | | |  | | | | | |  |

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

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | | |
|  |  |  | |  |  |  |  | |  |  |  |  |  | |  |  |  |  |  |  |
|  | **Quantitative Information about Level 3 Fair Value Measurements** | | | | | | | | | | | | | | | | | | | |
|  | **Fair Value** | | | | | | | | |  |  |  |  | |  | **Weighted-Average** | | | | |
| **(Dollars in millions)** | **As of September 30, 2019** | | | |  | **As of December 31, 2018** | | | |  | **Valuation Technique** |  | **Significant Unobservable Input(1)** | |  | **As of September 30, 2019** | |  | **As of December 31, 2018** | |
| **Significant unobservable inputs readily available to State Street:** | | | | | | | | | | | | | | | | | | | | |
| **Assets:** |  | | | |  |  | | | |  |  |  |  | |  |  | |  |  | |
| Derivative Instruments, foreign exchange contracts | **$** | **14** | |  |  | $ | 4 | |  |  | Option model |  | Volatility | |  | **9.1** | **%** |  | 11.4 | % |
| Total | **$** | **14** | |  |  | $ | 4 | |  |  |  |  |  | |  |  | |  |  | |
| **Liabilities:** |  | | | |  |  | | | |  |  |  |  | |  |  | |  |  | |
| Derivative instruments, foreign exchange contracts | **12** | | |  |  | $ | 4 | |  |  | Option model |  | Volatility | |  | **9.2** | **%** |  | 11.4 | % |
| Total | **$** | **12** | |  |  | $ | 4 | |  |  |  |  |  | |  |  | |  |  | |
|  | | | | | | | | | | | | | | | | | | | | |
|  | | |  | | | | |  | | | | | |  | | | | | | |
|  | | |  | | | | |  | | | | | |  | | | | | | |

(1)Significant changes in these unobservable inputs may result in significant changes in fair value measurement of the derivative instrument.

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**STATE STREET CORPORATION**

**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(UNAUDITED)**

***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:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |  |  |  |  |  |
|  |  | | |  |  | | |  | **Fair Value Hierarchy** | | | | | | | | | | | |
| **(In millions)** | **Reported Amount** | | |  | **Estimated Fair Value** | | |  | **Quoted Market Prices in Active Markets (Level 1)** | | |  | **Pricing Methods with Significant Observable Market Inputs (Level 2)** | | | |  | **Pricing Methods with Significant Unobservable Market Inputs (Level 3)** | | |
| **September 30, 2019** |  | | |  |  | | |  |  | | |  |  | | | |  |  | | |
| **Financial Assets:** |  | |  |  |  | | |  |  | | |  |  | | | |  |  | | |
| Cash and due from banks | **$** | **3,598** |  |  | **$** | **3,598** |  |  | **$** | **3,598** |  |  | **$** | **—** | |  |  | **$** | **—** |  |
| Interest-bearing deposits with banks | **62,324** | |  |  | **62,324** | |  |  | **—** | |  |  | **62,324** | | |  |  | **—** | |  |
| Securities purchased under resale agreements | **3,041** | |  |  | **3,041** | |  |  | **—** | |  |  | **3,041** | | |  |  | **—** | |  |
| Investment securities held-to-maturity | **39,119** | |  |  | **39,535** | |  |  | **11,753** | |  |  | **27,681** | | |  |  | **101** | |  |
| Net loans(1) | **26,938** | |  |  | **27,133** | |  |  | **—** | |  |  | **25,546** | | |  |  | **1,587** | |  |
| Other(2) | **8,499** | |  |  | **8,499** | |  |  | **—** | |  |  | **8,499** | | |  |  | **—** | |  |
| **Financial Liabilities:** |  | | |  |  | | |  |  | | |  |  | | | |  |  | | |
| Deposits: |  | | |  |  | | |  |  | | |  |  | | | |  |  | | |
| Non-interest-bearing | **$** | **33,719** |  |  | **$** | **33,719** |  |  | **$** | **—** |  |  | **$** | **33,719** | |  |  | **$** | **—** |  |
| Interest-bearing - U.S. | **72,260** | |  |  | **72,260** | |  |  | **—** | |  |  | **72,260** | | |  |  | **—** | |  |
| Interest-bearing - non-U.S. | **64,907** | |  |  | **64,907** | |  |  | **—** | |  |  | **64,907** | | |  |  | **—** | |  |
| Securities sold under repurchase agreements | **1,330** | |  |  | **1,330** | |  |  | **—** | |  |  | **1,330** | | |  |  | **—** | |  |
| Other short-term borrowings | **7,073** | |  |  | **7,073** | |  |  | **—** | |  |  | **7,073** | | |  |  | **—** | |  |
| Long-term debt | **11,455** | |  |  | **11,506** | |  |  | **—** | |  |  | **11,345** | | |  |  | **161** | |  |
| Other(1) | **8,499** | |  |  | **8,499** | |  |  | **—** | |  |  | **8,499** | | |  |  | **—** | |  |
|  | | | | | | | | | | | | | | | | | | | | |
|  | |  | | | | | | | |  | | | | |  | | | | | |
|  | |  | | | | | | | |  | | | | |  | | | | | |

(1)Includes $37 million of loans classified as held-for-sale that were measured at fair value on a non-recurring basis as of September 30, 2019.

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |  |  |  |  |  |
|  |  | | |  |  | | |  | **Fair Value Hierarchy** | | | | | | | | | | | |
| **(In millions)** | **Reported Amount** | | |  | **Estimated Fair Value** | | |  | **Quoted Market Prices in Active Markets (Level 1)** | | |  | **Pricing Methods with Significant Observable Market Inputs (Level 2)** | | | |  | **Pricing Methods with Significant Unobservable Market Inputs (Level 3)** | | |
| **December 31, 2018** |  | | |  |  | | |  |  | | |  |  | | | |  |  | | |
| **Financial Assets:** |  | | |  |  | | |  |  | | |  |  | | | |  |  | | |
| Cash and due from banks | $ | 3,212 |  |  | $ | 3,212 |  |  | $ | 3,212 |  |  | $ | — | |  |  | $ | — |  |
| Interest-bearing deposits with banks | 73,040 | |  |  | 73,040 | |  |  | — | |  |  | 73,040 | | |  |  | — | |  |
| Securities purchased under resale agreements | 4,679 | |  |  | 4,679 | |  |  | — | |  |  | 4,679 | | |  |  | — | |  |
| Investment securities held-to-maturity | 41,914 | |  |  | 41,351 | |  |  | 14,541 | |  |  | 26,688 | | |  |  | 122 | |  |
| Net loans (excluding leases)(1) | 25,722 | |  |  | 25,561 | |  |  | — | |  |  | 24,648 | | |  |  | 913 | |  |
| Other(2) | 8,500 | |  |  | 8,500 | |  |  | — | |  |  | 8,500 | | |  |  | — | |  |
| **Financial Liabilities:** |  | | |  |  | | |  |  | | |  |  | | | |  |  | | |
| Deposits: |  | | |  |  | | |  |  | | |  |  | | | |  |  | | |
| Non-interest-bearing | $ | 44,804 |  |  | $ | 44,804 |  |  | $ | — |  |  | $ | 44,804 | |  |  | $ | — |  |
| Interest-bearing - U.S. | 66,235 | |  |  | 66,235 | |  |  | — | |  |  | 66,235 | | |  |  | — | |  |
| Interest-bearing - non-U.S. | 69,321 | |  |  | 69,321 | |  |  | — | |  |  | 69,321 | | |  |  | — | |  |
| Securities sold under repurchase agreements | 1,082 | |  |  | 1,082 | |  |  | — | |  |  | 1,082 | | |  |  | — | |  |
| Other short-term borrowings | 3,092 | |  |  | 3,092 | |  |  | — | |  |  | 3,092 | | |  |  | — | |  |
| Long-term debt | 11,093 | |  |  | 11,048 | |  |  | — | |  |  | 10,865 | | |  |  | 183 | |  |
| Other(2) | 8,500 | |  |  | 8,500 | |  |  | — | |  |  | 8,500 | | |  |  | — | |  |
|  | | | | | | | | | | | | | | | | | | | | |
|  | |  | | | | | | | |  | | | | |  | | | | | |
|  | |  | | | | | | | |  | | | | |  | | | | | |

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

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

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**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. For additional information on our accounting for investment securities, refer to page 40 in Note 3 to the consolidated financial statements included under Item 8, Financial Statements and Supplementary Data, in the 2018 Annual Financial Statements.

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:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | **September 30, 2019** | | | | | | | | | | | | | | |  | **December 31, 2018** | | | | | | | | | | | | | | |
|  | | **Amortized**  **Cost** | | |  | **Gross**  **Unrealized** | | | | | | |  | **Fair**  **Value** | | |  | **Amortized**  **Cost** | | |  | **Gross**  **Unrealized** | | | | | | |  | **Fair**  **Value** | | |
| **(In millions)** | | **Gains** | | |  | **Losses** | | |  | **Gains** | | |  | **Losses** | | |  |
| **Available-for-sale:** | |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| U.S. Treasury and federal agencies: | |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Direct obligations | | **$** | **2,035** |  |  | **$** | **11** |  |  | **$** | **7** |  |  | **$** | **2,039** |  |  | $ | 1,035 |  |  | $ | 4 |  |  | $ | — |  |  | $ | 1,039 |  |
| Mortgage-backed securities | | **22,076** | |  |  | **321** | |  |  | **18** | |  |  | **22,379** | |  |  | 16,112 | |  |  | 37 | |  |  | 181 | |  |  | 15,968 | |  |
| Total U.S. Treasury and federal agencies | | **24,111** | |  |  | **332** | |  |  | **25** | |  |  | **24,418** | |  |  | 17,147 | |  |  | 41 | |  |  | 181 | |  |  | 17,007 | |  |
| Asset-backed securities: | |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Student loans(1) | | **469** | |  |  | **2** | |  |  | **—** | |  |  | **471** | |  |  | 538 | |  |  | 4 | |  |  | 1 | |  |  | 541 | |  |
| Credit cards | | **90** | |  |  | **—** | |  |  | **—** | |  |  | **90** | |  |  | 609 | |  |  | — | |  |  | 26 | |  |  | 583 | |  |
| Collateralized loan obligations | | **1,448** | |  |  | **—** | |  |  | **2** | |  |  | **1,446** | |  |  | 594 | |  |  | 1 | |  |  | 2 | |  |  | 593 | |  |
| Total asset-backed securities | | **2,007** | |  |  | **2** | |  |  | **2** | |  |  | **2,007** | |  |  | 1,741 | |  |  | 5 | |  |  | 29 | |  |  | 1,717 | |  |
| Non-U.S. debt securities: | |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Mortgage-backed securities | | **1,916** | |  |  | **3** | |  |  | **2** | |  |  | **1,917** | |  |  | 1,687 | |  |  | — | |  |  | 5 | |  |  | 1,682 | |  |
| Asset-backed securities | | **1,829** | |  |  | **3** | |  |  | **1** | |  |  | **1,831** | |  |  | 1,580 | |  |  | — | |  |  | 6 | |  |  | 1,574 | |  |
| Government securities | | **12,996** | |  |  | **194** | |  |  | **1** | |  |  | **13,189** | |  |  | 12,816 | |  |  | 22 | |  |  | 45 | |  |  | 12,793 | |  |
| Other(2) | | **6,891** | |  |  | **108** | |  |  | **1** | |  |  | **6,998** | |  |  | 6,600 | |  |  | 18 | |  |  | 16 | |  |  | 6,602 | |  |
| Total non-U.S. debt securities | | **23,632** | |  |  | **308** | |  |  | **5** | |  |  | **23,935** | |  |  | 22,683 | |  |  | 40 | |  |  | 72 | |  |  | 22,651 | |  |
| State and political subdivisions(3) | | **1,765** | |  |  | **56** | |  |  | **2** | |  |  | **1,819** | |  |  | 1,905 | |  |  | 20 | |  |  | 7 | |  |  | 1,918 | |  |
| Collateralized mortgage obligations | | **112** | |  |  | **1** | |  |  | **—** | |  |  | **113** | |  |  | 200 | |  |  | — | |  |  | 3 | |  |  | 197 | |  |
| Other U.S. debt securities | | **2,432** | |  |  | **34** | |  |  | **1** | |  |  | **2,465** | |  |  | 1,683 | |  |  | 1 | |  |  | 26 | |  |  | 1,658 | |  |
| Total | | **$** | **54,059** |  |  | **$** | **733** |  |  | **$** | **35** |  |  | **$** | **54,757** |  |  | $ | 45,359 |  |  | $ | 107 |  |  | $ | 318 |  |  | $ | 45,148 |  |
| **Held-to-maturity:** | |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| U.S. Treasury and federal agencies: | |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Direct obligations | | **$** | **11,781** |  |  | **$** | **20** |  |  | **$** | **11** |  |  | **$** | **11,790** |  |  | $ | 14,794 |  |  | $ | — |  |  | $ | 199 |  |  | $ | 14,595 |  |
| Mortgage-backed securities | | **21,966** | |  |  | **324** | |  |  | **29** | |  |  | **22,261** | |  |  | 21,647 | |  |  | 24 | |  |  | 518 | |  |  | 21,153 | |  |
| Total U.S. Treasury and federal agencies | | **33,747** | |  |  | **344** | |  |  | **40** | |  |  | **34,051** | |  |  | 36,441 | |  |  | 24 | |  |  | 717 | |  |  | 35,748 | |  |
| Asset-backed securities: | |  | |  |  |  | |  |  |  | |  |  |  | |  |  |  | | |  |  | | |  |  | | |  |  | | |
| Student loans(1) | | **3,881** | |  |  | **22** | |  |  | **21** | |  |  | **3,882** | |  |  | 3,191 | |  |  | 35 | |  |  | 10 | |  |  | 3,216 | |  |
| Credit cards | | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | 193 | |  |  | — | |  |  | — | |  |  | 193 | |  |
| Other | | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | 1 | |  |  | — | |  |  | — | |  |  | 1 | |  |
| Total asset-backed securities | | **3,881** | |  |  | **22** | |  |  | **21** | |  |  | **3,882** | |  |  | 3,385 | |  |  | 35 | |  |  | 10 | |  |  | 3,410 | |  |
| Non-U.S. debt securities: | |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Mortgage-backed securities | | **471** | |  |  | **80** | |  |  | **7** | |  |  | **544** | |  |  | 638 | |  |  | 77 | |  |  | 9 | |  |  | 706 | |  |
| Asset-backed securities | | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | 223 | |  |  | — | |  |  | — | |  |  | 223 | |  |
| Government securities | | **294** | |  |  | **1** | |  |  | **—** | |  |  | **295** | |  |  | 358 | |  |  | 1 | |  |  | — | |  |  | 359 | |  |
| Other | | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | 46 | |  |  | — | |  |  | — | |  |  | 46 | |  |
| Total non-U.S. debt securities | | **765** | |  |  | **81** | |  |  | **7** | |  |  | **839** | |  |  | 1,265 | |  |  | 78 | |  |  | 9 | |  |  | 1,334 | |  |
| Collateralized mortgage obligations | | **726** | |  |  | **38** | |  |  | **1** | |  |  | **763** | |  |  | 823 | |  |  | 38 | |  |  | 2 | |  |  | 859 | |  |
| Total | | **$** | **39,119** |  |  | **$** | **485** |  |  | **$** | **69** |  |  | **$** | **39,535** |  |  | $ | 41,914 |  |  | $ | 175 |  |  | $ | 738 |  |  | $ | 41,351 |  |
|  | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  |  | | | | | | | | |  | | | | | | | | |  | | | | | | | | | | | | | |
|  |  | | | | | | | | |  | | | | | | | | |  | | | | | | | | | | | | | |

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

(2)As of September 30, 2019 and December 31, 2018, the fair value of other non-U.S. debt securities included $4.29 billion and $3.20 billion, respectively, primarily of supranational bonds, $1.52 billion and $1.33 billion, respectively, of corporate bonds and $0.73 billion and $1.30 billion, respectively, of covered bonds.

(3) As of September 30, 2019 and December 31, 2018, the fair value of state and political subdivisions includes securities in trusts of $0.99 billion and $1.05 billion, respectively. Additional information about these trusts is provided in Note 11.

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Aggregate investment securities with carrying values of approximately $45.68 billion and $38.87 billion as of September 30, 2019 and December 31, 2018, respectively, were designated as pledged for public and trust deposits, short-term borrowings and for other purposes as provided by law.

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:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **As of September 30, 2019** | | | | | | | | | | | | | | | | | | | | | | |
|  | **Less than 12 months** | | | | | | |  | **12 months or longer** | | | | | | |  | **Total** | | | | | | |
| **(In millions)** | **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 | **$** | **622** |  |  | **$** | **7** |  |  | **$** | **—** |  |  | **$** | **—** |  |  | **$** | **622** |  |  | **$** | **7** |  |
| Mortgage-backed securities | **2,465** | |  |  | **4** | |  |  | **1,727** | |  |  | **14** | |  |  | **4,192** | |  |  | **18** | |  |
| Total U.S. Treasury and federal agencies | **3,087** | |  |  | **11** | |  |  | **1,727** | |  |  | **14** | |  |  | **4,814** | |  |  | **25** | |  |
| Asset-backed securities: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Student loans | **65** | |  |  | **—** | |  |  | **154** | |  |  | **—** | |  |  | **219** | |  |  | **—** | |  |
| Credit cards | **90** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **90** | |  |  | **—** | |  |
| Collateralized loan obligations | **643** | |  |  | **1** | |  |  | **276** | |  |  | **1** | |  |  | **919** | |  |  | **2** | |  |
| Total asset-backed securities | **798** | |  |  | **1** | |  |  | **430** | |  |  | **1** | |  |  | **1,228** | |  |  | **2** | |  |
| Non-U.S. debt securities: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Mortgage-backed securities | **245** | |  |  | **1** | |  |  | **288** | |  |  | **1** | |  |  | **533** | |  |  | **2** | |  |
| Asset-backed securities | **279** | |  |  | **1** | |  |  | **217** | |  |  | **—** | |  |  | **496** | |  |  | **1** | |  |
| Government securities | **3,075** | |  |  | **1** | |  |  | **—** | |  |  | **—** | |  |  | **3,075** | |  |  | **1** | |  |
| Other | **1,289** | |  |  | **1** | |  |  | **190** | |  |  | **—** | |  |  | **1,479** | |  |  | **1** | |  |
| Total non-U.S. debt securities | **4,888** | |  |  | **4** | |  |  | **695** | |  |  | **1** | |  |  | **5,583** | |  |  | **5** | |  |
| State and political subdivisions | **199** | |  |  | **2** | |  |  | **—** | |  |  | **—** | |  |  | **199** | |  |  | **2** | |  |
| Collateralized mortgage obligations | **—** | |  |  | **—** | |  |  | **6** | |  |  | **—** | |  |  | **6** | |  |  | **—** | |  |
| Other U.S. debt securities | **171** | |  |  | **—** | |  |  | **56** | |  |  | **1** | |  |  | **227** | |  |  | **1** | |  |
| Total | **$** | **9,143** |  |  | **$** | **18** |  |  | **$** | **2,914** |  |  | **$** | **17** |  |  | **$** | **12,057** |  |  | **$** | **35** |  |
| **Held-to-maturity:** |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| U.S. Treasury and federal agencies: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Direct obligations | **$** | **253** |  |  | **$** | **—** |  |  | **$** | **5,645** |  |  | **$** | **11** |  |  | **$** | **5,898** |  |  | **$** | **11** |  |
| Mortgage-backed securities | **3,780** | |  |  | **14** | |  |  | **1,731** | |  |  | **15** | |  |  | **5,511** | |  |  | **29** | |  |
| Total U.S. Treasury and federal agencies | **4,033** | |  |  | **14** | |  |  | **7,376** | |  |  | **26** | |  |  | **11,409** | |  |  | **40** | |  |
| Asset-backed securities: |  | | |  |  | | |  |  | | |  |  | | |  |  | |  |  |  | |  |
| Student loans | **1,504** | |  |  | **10** | |  |  | **530** | |  |  | **11** | |  |  | **2,034** | |  |  | **21** | |  |
| Total asset-backed securities | **1,504** | |  |  | **10** | |  |  | **530** | |  |  | **11** | |  |  | **2,034** | |  |  | **21** | |  |
| Non-U.S. debt securities: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Mortgage-backed securities | **13** | |  |  | **1** | |  |  | **145** | |  |  | **6** | |  |  | **158** | |  |  | **7** | |  |
| Total non-U.S. debt securities | **13** | |  |  | **1** | |  |  | **145** | |  |  | **6** | |  |  | **158** | |  |  | **7** | |  |
| Collateralized mortgage obligations | **94** | |  |  | **—** | |  |  | **28** | |  |  | **1** | |  |  | **122** | |  |  | **1** | |  |
| Total | **$** | **5,644** |  |  | **$** | **25** |  |  | **$** | **8,079** |  |  | **$** | **44** |  |  | **$** | **13,723** |  |  | **$** | **69** |  |

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**STATE STREET CORPORATION**

**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(UNAUDITED)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **As of December 31, 2018** | | | | | | | | | | | | | | | | | | | | | | |
|  | **Less than 12 months** | | | | | | |  | **12 months or longer** | | | | | | |  | **Total** | | | | | | |
| **(In millions)** | **Fair**  **Value** | | |  | **Gross**  **Unrealized**  **Losses** | | |  | **Fair**  **Value** | | |  | **Gross**  **Unrealized**  **Losses** | | |  | **Fair**  **Value** | | |  | **Gross**  **Unrealized**  **Losses** | | |
| **Available-for-sale:** |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| U.S. Treasury and federal agencies: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Mortgage-backed securities | $ | 5,058 |  |  | $ | 21 |  |  | $ | 5,089 |  |  | $ | 160 |  |  | $ | 10,147 |  |  | $ | 181 |  |
| Total U.S. Treasury and federal agencies | 5,058 | |  |  | 21 | |  |  | 5,089 | |  |  | 160 | |  |  | 10,147 | |  |  | 181 | |  |
| Asset-backed securities: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Student loans | 106 | |  |  | — | |  |  | 218 | |  |  | 1 | |  |  | 324 | |  |  | 1 | |  |
| Credit cards | 90 | |  |  | — | |  |  | 493 | |  |  | 26 | |  |  | 583 | |  |  | 26 | |  |
| Collateralized loan obligations | 548 | |  |  | 2 | |  |  | — | |  |  | — | |  |  | 548 | |  |  | 2 | |  |
| Total asset-backed securities | 744 | |  |  | 2 | |  |  | 711 | |  |  | 27 | |  |  | 1,455 | |  |  | 29 | |  |
| Non-U.S. debt securities: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Mortgage-backed securities | 1,407 | |  |  | 4 | |  |  | 118 | |  |  | 1 | |  |  | 1,525 | |  |  | 5 | |  |
| Asset-backed securities | 1,479 | |  |  | 6 | |  |  | — | |  |  | — | |  |  | 1,479 | |  |  | 6 | |  |
| Government securities | 5,478 | |  |  | 45 | |  |  | — | |  |  | — | |  |  | 5,478 | |  |  | 45 | |  |
| Other | 2,167 | |  |  | 12 | |  |  | 226 | |  |  | 4 | |  |  | 2,393 | |  |  | 16 | |  |
| Total non-U.S. debt securities | 10,531 | |  |  | 67 | |  |  | 344 | |  |  | 5 | |  |  | 10,875 | |  |  | 72 | |  |
| State and political subdivisions | 365 | |  |  | 3 | |  |  | 244 | |  |  | 4 | |  |  | 609 | |  |  | 7 | |  |
| Collateralized mortgage obligations | 181 | |  |  | 3 | |  |  | 14 | |  |  | — | |  |  | 195 | |  |  | 3 | |  |
| Other U.S. debt securities | 861 | |  |  | 14 | |  |  | 484 | |  |  | 12 | |  |  | 1,345 | |  |  | 26 | |  |
| Total | $ | 17,740 |  |  | $ | 110 |  |  | $ | 6,886 |  |  | $ | 208 |  |  | $ | 24,626 |  |  | $ | 318 |  |
| **Held-to-maturity:** |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| U.S. Treasury and federal agencies: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Direct obligations | $ | 2,192 |  |  | $ | 45 |  |  | $ | 12,403 |  |  | $ | 154 |  |  | $ | 14,595 |  |  | $ | 199 |  |
| Mortgage-backed securities | 6,502 | |  |  | 103 | |  |  | 10,648 | |  |  | 415 | |  |  | 17,150 | |  |  | 518 | |  |
| Total U.S. Treasury and federal agencies | 8,694 | |  |  | 148 | |  |  | 23,051 | |  |  | 569 | |  |  | 31,745 | |  |  | 717 | |  |
| Asset-backed securities: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Student loans | 481 | |  |  | 4 | |  |  | 536 | |  |  | 6 | |  |  | 1,017 | |  |  | 10 | |  |
| Total asset-backed securities | 481 | |  |  | 4 | |  |  | 536 | |  |  | 6 | |  |  | 1,017 | |  |  | 10 | |  |
| Non-U.S. debt securities: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Mortgage-backed securities | 184 | |  |  | 2 | |  |  | 119 | |  |  | 7 | |  |  | 303 | |  |  | 9 | |  |
| Total non-U.S. debt securities | 184 | |  |  | 2 | |  |  | 119 | |  |  | 7 | |  |  | 303 | |  |  | 9 | |  |
| Collateralized mortgage obligations | 102 | |  |  | 1 | |  |  | 51 | |  |  | 1 | |  |  | 153 | |  |  | 2 | |  |
| Total | $ | 9,461 |  |  | $ | 155 |  |  | $ | 23,757 |  |  | $ | 583 |  |  | $ | 33,218 |  |  | $ | 738 |  |

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**STATE STREET CORPORATION**

**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(UNAUDITED)**

The following table presents contractual maturities of debt investment securities by carrying amount as of September 30, 2019. The maturities of certain ABS, MBS and collateralized mortgage obligations 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.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **As of September 30, 2019** | | | | | | | | | | | | | | | | | | |
| **(In millions)** | **Under 1 Year** | | |  | **1 to 5 Years** | | |  | **6 to 10 Years** | | |  | **Over 10 Years** | | |  | **Total** | | |
| **Available-for-sale:** |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| U.S. Treasury and federal agencies: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Direct obligations | **$** | **236** |  |  | **$** | **809** |  |  | **$** | **994** |  |  | **$** | **—** |  |  | **$** | **2,039** |  |
| Mortgage-backed securities | **122** | |  |  | **974** | |  |  | **3,085** | |  |  | **18,198** | |  |  | **22,379** | |  |
| Total U.S. Treasury and federal agencies | **358** | |  |  | **1,783** | |  |  | **4,079** | |  |  | **18,198** | |  |  | **24,418** | |  |
| Asset-backed securities: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Student loans | **28** | |  |  | **265** | |  |  | **119** | |  |  | **59** | |  |  | **471** | |  |
| Credit cards | **—** | |  |  | **—** | |  |  | **90** | |  |  | **—** | |  |  | **90** | |  |
| Collateralized loan obligations | **30** | |  |  | **548** | |  |  | **751** | |  |  | **117** | |  |  | **1,446** | |  |
| Total asset-backed securities | **58** | |  |  | **813** | |  |  | **960** | |  |  | **176** | |  |  | **2,007** | |  |
| Non-U.S. debt securities: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Mortgage-backed securities | **336** | |  |  | **569** | |  |  | **202** | |  |  | **810** | |  |  | **1,917** | |  |
| Asset-backed securities | **473** | |  |  | **718** | |  |  | **445** | |  |  | **195** | |  |  | **1,831** | |  |
| Government securities | **5,231** | |  |  | **6,609** | |  |  | **1,349** | |  |  | **—** | |  |  | **13,189** | |  |
| Other | **647** | |  |  | **5,889** | |  |  | **441** | |  |  | **21** | |  |  | **6,998** | |  |
| Total non-U.S. debt securities | **6,687** | |  |  | **13,785** | |  |  | **2,437** | |  |  | **1,026** | |  |  | **23,935** | |  |
| State and political subdivisions | **146** | |  |  | **784** | |  |  | **490** | |  |  | **399** | |  |  | **1,819** | |  |
| Collateralized mortgage obligations | **—** | |  |  | **—** | |  |  | **—** | |  |  | **113** | |  |  | **113** | |  |
| Other U.S. debt securities | **576** | |  |  | **1,746** | |  |  | **143** | |  |  | **—** | |  |  | **2,465** | |  |
| Total | **$** | **7,825** |  |  | **$** | **18,911** |  |  | **$** | **8,109** |  |  | **$** | **19,912** |  |  | **$** | **54,757** |  |
| **Held-to-maturity:** |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| U.S. Treasury and federal agencies: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Direct obligations | **$** | **4,316** |  |  | **$** | **7,427** |  |  | **$** | **7** |  |  | **$** | **31** |  |  | **$** | **11,781** |  |
| Mortgage-backed securities | **38** | |  |  | **214** | |  |  | **1,991** | |  |  | **19,723** | |  |  | **21,966** | |  |
| Total U.S. Treasury and federal agencies | **4,354** | |  |  | **7,641** | |  |  | **1,998** | |  |  | **19,754** | |  |  | **33,747** | |  |
| Asset-backed securities: |  | | |  |  | |  |  |  | |  |  |  | |  |  |  | |  |
| Student loans | **47** | |  |  | **265** | |  |  | **324** | |  |  | **3,245** | |  |  | **3,881** | |  |
| Total asset-backed securities | **47** | |  |  | **265** | |  |  | **324** | |  |  | **3,245** | |  |  | **3,881** | |  |
| Non-U.S. debt securities: |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Mortgage-backed securities | **96** | |  |  | **34** | |  |  | **4** | |  |  | **337** | |  |  | **471** | |  |
| Government securities | **184** | |  |  | **110** | |  |  | **—** | |  |  | **—** | |  |  | **294** | |  |
| Total non-U.S. debt securities | **280** | |  |  | **144** | |  |  | **4** | |  |  | **337** | |  |  | **765** | |  |
| Collateralized mortgage obligations | **—** | |  |  | **303** | |  |  | **13** | |  |  | **410** | |  |  | **726** | |  |
| Total | **$** | **4,681** |  |  | **$** | **8,353** |  |  | **$** | **2,339** |  |  | **$** | **23,746** |  |  | **$** | **39,119** |  |

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, adjusted as prepayments occur, 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.

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**STATE STREET CORPORATION**

**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(UNAUDITED)**

***Impairment***

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

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | |
|  | |  |  |  |  |  |  |  |
|  | | **Nine Months Ended September 30,** | | | | | | |
| **(In millions)** | | **2019** | | |  | **2018** | | |
| Balance, beginning of period | | **$** | **78** |  |  | $ | 77 |  |
| Additions(1): | |  | | |  |  | | |
| Other-than-temporary-impairment recognized | | **1** | |  |  | 2 | |  |
| Realized losses on securities sold or matured | | **(2** | | **)** |  | — | |  |
| Balance, end of period | | **$** | **77** |  |  | $ | 79 |  |
|  | | | | | | | | |
|  |  | | | | | | | |
|  |  | | | | | | | |

(1)Additions represent securities with a first time credit impairment realized or when a subsequent credit impairment has occurred.

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 45 to 47 in Note 3 to the consolidated financial statements included under Item 8, Financial Statements and Supplementary Data, in the 2018 Annual Financial Statements.

We recorded approximately $1 million and $2 million of OTTI in the nine months ended September 30, 2019 and 2018, respectively, 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 $104 million related to 487 securities as of September 30, 2019 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 into two segments: commercial and financial loans and commercial real estate loans. We further classify commercial and financial loans as loans to investment funds, senior secured bank loans (otherwise known as leveraged 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 48 to 50 in Note 4 to the consolidated financial statements included under Item 8, Financial Statements and

Supplementary Data, in the 2018 Annual Financial Statements.

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

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | |
|  | |  |  | | |  |  |  |  |  |
| **(In millions)** | | **September 30, 2019** | | | | |  | **December 31, 2018** | | |
| **Domestic(1):** | |  | | | | |  |  | | |
| Commercial and financial: | |  | | | | |  |  | | |
| Loans to investment funds | | **$** | **13,747** | | |  |  | $ | 15,050 |  |
| Senior secured bank loans | | **3,145** | | | |  |  | 3,490 | |  |
| Loans to municipalities | | **762** | | | |  |  | 902 | |  |
| Other | | **28** | | | |  |  | 37 | |  |
| Commercial real estate | | **1,346** | | | |  |  | 874 | |  |
| Total domestic | | **19,028** | | | |  |  | 20,353 | |  |
| **Foreign(1):** | |  | | | | |  |  | | |
| Commercial and financial: | |  | | | | |  |  | | |
| Loans to investment funds | | **6,868** | | | |  |  | 4,505 | |  |
| Senior secured bank loans | | **1,113** | | | |  |  | 931 | |  |
| Total foreign | | **7,981** | | | |  |  | 5,436 | |  |
| Total loans and leases(2) | | **27,009** | | | |  |  | 25,789 | |  |
| Allowance for loan and lease losses | | **(71** | | | | **)** |  | (67 | | ) |
| Loans and leases, net of allowance | | **$** | **26,938** | | |  |  | $ | 25,722 |  |
|  | | | | | | | | | | | |
|  |  | | |  |  | | | | | | |
|  |  | | |  |  | | | | | | |

(1) Domestic and foreign categorization is based on the borrower’s country of domicile.

(2) Loans to investment funds Include $6.14 billion and $5.44 billion of overdrafts as of September 30, 2019 and December 31, 2018, respectively.

The commercial and financial segment is composed primarily of floating-rate loans to mutual fund and private equity fund clients, purchased senior secured bank loans and loans to municipalities. Investment fund lending is composed of revolving credit lines providing liquidity and leverage to mutual fund and private equity fund clients.

Certain loans are pledged as collateral for access to the Federal Reserve's discount window. As of September 30, 2019 and December 31, 2018, the loans pledged as collateral totaled $7.49 billion and $6.51 billion, respectively.

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**STATE STREET CORPORATION**

**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(UNAUDITED)**

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

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |
| **September 30, 2019** | **Commercial and Financial** | | |  | **Commercial Real Estate** | | |  | **Total Loans and Leases** | | |
| **(In millions)** |
| Investment grade(1) | **$** | **20,607** |  |  | **$** | **1,346** |  |  | **$** | **21,953** |  |
| Speculative(2) | **5,017** | |  |  | **—** | |  |  | **5,017** | |  |
| Special mention(3) | **25** | |  |  | **—** | |  |  | **25** | |  |
| Substandard(4) | **14** | |  |  | **—** | |  |  | **14** | |  |
| Total | **$** | **25,663** |  |  | **$** | **1,346** |  |  | **$** | **27,009** |  |
|  | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |
| **December 31, 2018** | **Commercial and Financial** | | |  | **Commercial Real Estate** | | |  | **Total Loans and Leases** | | |
| **(In millions)** |
| Investment grade(1) | $ | 19,599 |  |  | $ | 874 |  |  | $ | 20,473 |  |
| Speculative(2) | 5,308 | |  |  | — | |  |  | 5,308 | |  |
| Substandard(4) | 8 | |  |  | — | |  |  | 8 | |  |
| Total | $ | 24,915 |  |  | $ | 874 |  |  | $ | 25,789 |  |

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

(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 consist of counterparties with potential weaknesses that, if uncorrected, may result in deterioration of repayment prospects.

(4) Substandard loans and leases consist of counterparties with well-defined weaknesses that jeopardize repayment with the possibility we will sustain some loss.

As of September 30, 2019 and December 31, 2018, we had no loans or leases on non-accrual status and no loans or leases 30 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 as of both September 30, 2019 and December 31, 2018.

We review loans for indicators of impairment. Loans where indicators exist are evaluated individually for impairment at least quarterly. For those loans where no such indicators are identified, the loans are collectively evaluated for impairment. As of September 30, 2019, we had no impaired loans. As of December 31, 2018, we had one impaired loan for $8 million in the commercial and financial segment that was individually evaluated for impairment and did not record any reserve on this loan, which was subsequently paid in full in January 2019.

***Allowance for Loan and Lease Losses***

The following table presents activity in the ALLL for the periods indicated:

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | |
|  | |  |  |  |  |  |  | |  |
|  | | **Three Months Ended September 30,** | | | | | | | |
| **(In millions)** | | **2019** | | |  | **2018** | | | |
| **Allowance for loan and lease losses:** | | | | |  |  | | | |
| Beginning balance | | **$** | **72** |  |  | $ | 55 | |  |
| Provision for loan and lease losses(1) | | **2** | |  |  | 5 | | |  |
| Charge-offs(1) | | **(2** | | **)** |  | — | | |  |
| Other(2) | | **(1** | | **)** |  | — | | |  |
| Ending balance | | **$** | **71** |  |  | $ | 60 | |  |
|  | |  | | |  |  | | | |
|  | | **Nine Months Ended September 30,** | | | | | | | |
| **(In millions)** | | **2019** | | |  | **2018** | | | |
| **Allowance for loan and lease losses:** | | | | |  |  | | | |
| Beginning balance | | **$** | **67** |  |  | $ | 54 | |  |
| Provision for loan and lease losses(1) | | **7** | |  |  | 7 | | |  |
| Charge-offs(1) | | **(2** | | **)** |  | (1 | | | ) |
| Other(2) | | **(1** | | **)** |  | — | | |  |
| Ending balance | | **$** | **71** |  |  | $ | 60 | |  |
|  | | | | | | | | | |
|  |  | | | | | | |  | |
|  |  | | | | | | |  | |

(1) The provisions and charge-offs for loans and leases were primarily attributable to exposure to purchased senior secured loans to non-investment grade loans.

(2) Consists primarily of FX translation.

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 ALLL losses at a level considered appropriate to absorb estimated incurred losses in the loan and lease portfolio.

**Note 5.    Goodwill and Other Intangible Assets**

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | |
|  |  |  |  |  |  |  | |  |  |  |  |  |
| **(In millions)** | **Investment**  **Servicing(1)** | | |  | **Investment**  **Management** | | | |  | **Total** | | |
| **Goodwill:** |  | | |  |  | | | |  |  | | |
| **Ending balance December 31, 2017** | $ | 5,752 |  |  | $ | 270 | |  |  | $ | 6,022 |  |
| Acquisitions(1) | 1,512 | |  |  | — | | |  |  | 1,512 | |  |
| Foreign currency translation | (84 | | ) |  | (4 | | | ) |  | (88 | | ) |
| **Ending balance December 31, 2018** | 7,180 | |  |  | 266 | | |  |  | 7,446 | |  |
| Acquisitions(2) | **$** | **122** |  |  | **$** | **—** | |  |  | **$** | **122** |  |
| Foreign currency translation | **(66** | | **)** |  | **(2** | | | **)** |  | **(68** | | **)** |
| **Ending balance September 30, 2019** | **7,236** | |  |  | **264** | | |  |  | **7,500** | |  |
|  | | | | | | |
|  | | | | | | |
|  | | | | | | |

(1) Investment Servicing includes our acquisition of CRD.

(2)We have completed the purchase price accounting for the CRD acquisition as of March 31, 2019. Upon completion of valuation procedures related to the acquired assets and assumed liabilities, primarily the identifiable intangible assets, we recorded measurement period adjustments in the nine months ended September 30, 2019, resulting in an increase in the goodwill of $113 million and a decrease of $93 million in intangibles assets.

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | |
|  |  |  | |  |  |  |  |  |  |  |  |  |
| **(In millions)** | **Investment**  **Servicing(1)** | | | |  | **Investment**  **Management** | | |  | **Total** | | |
| **Other intangible assets:** |  | | | |  |  | | |  |  | | |
| **Ending balance December 31, 2017** | $ | 1,432 | |  |  | $ | 181 |  |  | $ | 1,613 |  |
| Acquisitions(1) | 1,007 | | |  |  | — | |  |  | 1,007 | |  |
| Amortization | (196 | | | ) |  | (30 | | ) |  | (226 | | ) |
| Foreign currency translation | (25 | | | ) |  | — | |  |  | (25 | | ) |
| **Ending balance December 31, 2018** | 2,218 | | |  |  | 151 | |  |  | 2,369 | |  |
| Acquisitions(2) | **(93** | | | **)** |  | **—** | |  |  | **(93** | | **)** |
| Amortization | **(156** | | | **)** |  | **(22** | | **)** |  | **(178** | | **)** |
| Foreign currency translation | **(21** | | | **)** |  | **—** | |  |  | **(21** | | **)** |
| **Ending balance September 30, 2019** | **$** | **1,948** | |  |  | **$** | **129** |  |  | **$** | **2,077** |  |
|  | | |
|  | | |
|  | | |

(1) Investment Servicing includes our acquisition of CRD.

(2) We have completed the purchase price accounting for the CRD acquisition as of March 31, 2019. Upon completion of valuation procedures related to the acquired assets and assumed liabilities, primarily the identifiable intangible assets, we recorded measurement period adjustments in the nine months ended September 30, 2019, resulting in a decrease in the fair value of intangible assets of $93 million, with a corresponding increase to goodwill.

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:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **September 30, 2019** | | | | | | | | | | |  | **December 31, 2018** | | | | | | | | | | |
| **(In millions)** | **Gross**  **Carrying**  **Amount** | | |  | **Accumulated**  **Amortization** | | |  | **Net**  **Carrying**  **Amount** | | |  | **Gross**  **Carrying**  **Amount** | | |  | **Accumulated**  **Amortization** | | |  | **Net**  **Carrying**  **Amount** | | |
| **Other intangible assets:** |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Client relationships | **$** | **3,077** |  |  | **$** | **(1,659** | **)** |  | **$** | **1,418** |  |  | $ | 3,262 |  |  | $ | (1,605 | ) |  | $ | 1,657 |  |
| Technology | **402** | |  |  | **(77** | | **)** |  | **325** | |  |  | 389 | |  |  | (49 | | ) |  | 340 | |  |
| Core deposits | **667** | |  |  | **(370** | | **)** |  | **297** | |  |  | 676 | |  |  | (350 | | ) |  | 326 | |  |
| Other | **98** | |  |  | **(61** | | **)** |  | **37** | |  |  | 103 | |  |  | (57 | | ) |  | 46 | |  |
| Total | **$** | **4,244** |  |  | **$** | **(2,167** | **)** |  | **$** | **2,077** |  |  | $ | 4,430 |  |  | $ | (2,061 | ) |  | $ | 2,369 |  |

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**Note 6.    Other Assets**

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

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | |
|  |  |  | |  |  |  |  |  |
| **(In millions)** | **September 30, 2019** | | | |  | **December 31, 2018** | | |
| Securities borrowed(1) | **$** | **22,669** | |  |  | $ | 19,575 |  |
| Derivative instruments, net | **5,040** | | |  |  | 5,189 | |  |
| Bank-owned life insurance | **3,388** | | |  |  | 3,323 | |  |
| Investments in joint ventures and other unconsolidated entities(2) | **3,064** | | |  |  | 2,882 | |  |
| Accounts receivable | **889** | | |  |  | 308 | |  |
| Right-of-use assets(3) | **834** | | |  |  | — | |  |
| Collateral, net | **707** | | |  |  | 1,354 | |  |
| Prepaid expenses | **430** | | |  |  | 493 | |  |
| Receivable for securities settlement | **429** | | |  |  | 531 | |  |
| Income taxes receivable | **119** | | |  |  | 129 | |  |
| Deferred tax assets, net of valuation allowance(4) | **95** | | |  |  | 113 | |  |
| Deposits with clearing organizations | **58** | | |  |  | 58 | |  |
| Other | **1,127** | | |  |  | 834 | |  |
| Total | **$** | **38,849** | |  |  | $ | 34,789 |  |
|  | | | | | | | | |
|  | | |  | | | | | |
|  | | |  | | | | | |

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

(2) 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.

(3)We adopted ASU 2016-02, Leases (Topic 842) and relevant amendments, effective January 1, 2019. Refer to Note 1 for further information on this new accounting standard.

(4)Deferred tax assets and liabilities recorded in our consolidated statement of condition are netted within the same tax jurisdiction.

**Note 7. Derivative Financial Instruments**

We use derivative financial instruments to support our clients' needs and to manage our interest rate and currency risks. These financial instruments consist of FX contracts such as forwards, futures and options contracts; interest rate contracts such as interest rate swaps (cross currency and single currency) and futures; and other derivative contracts. Derivative instruments used for risk management purposes that are highly effective in offsetting the risk being hedged are generally designated as hedging instruments in hedge accounting relationships, while others are economic hedges and not designated in hedge accounting relationships. For additional information on our derivative financial instruments, including derivatives not designated as hedging instruments, refer to page 55 in Note 10 to the consolidated financial statements included under Item 8, Financial Statements and Supplementary Data, in the 2018 Annual Financial Statements.

***Derivatives Designated as Hedging Instruments***

For additional information on our derivatives designated as hedging instruments, including our risk management objectives and hedging documentation methodologies, refer to pages 55 to 58 in Note 10 to the consolidated financial statements included under

Item 8, Financial Statements and Supplementary Data, in the 2018 Annual Financial Statements.

*Fair Value Hedges*

Derivatives designated as fair value hedges are utilized to mitigate the risk of changes in the fair values of recognized assets and liabilities, including long-term debt, AFS securities, and foreign currency investment securities. We use interest rate or FX contracts in this manner to manage our exposure to changes in the fair value of hedged items caused by changes in interest rates or FX rates.

Changes in the fair value of the derivative and changes in fair value of the hedged item due to changes in the hedged risk are recognized in earnings in the same line item. If a hedge is terminated, but the hedged item was not derecognized, all remaining adjustments to the carrying amount of the hedged item shall be amortized over a period that is consistent with the amortization of other discounts or premiums associated with the hedged item.

*Cash Flow Hedges*

Derivatives designated as cash flow hedges are utilized to offset the variability of cash flows of recognized assets or liabilities or forecasted transactions. We have entered into FX contracts to hedge the change in cash flows attributable to FX movements in foreign currency denominated investment securities. Additionally, we have entered into interest rate swap agreements to hedge the forecasted cash flows associated with LIBOR indexed floating-rate loans. The interest rate swaps synthetically convert the loan interest receipts from a variable-rate to a fixed-rate, thereby mitigating the risk attributable to changes in the LIBOR benchmark rate.

Changes in fair value of the derivatives designated as cash flow hedges are initially recorded in AOCI and then reclassified into earnings in the same period or periods during which the hedged forecasted transaction affects earnings and are presented in the same income statement line item as the earnings effect of the hedged item. If the hedge relationship is terminated, the change in fair value on the derivative recorded in AOCI is reclassified into earnings consistent with the timing of the hedged item. For hedge relationships that are discontinued because a forecasted transaction is not expected to occur according to the original hedge terms, any related derivative values recorded in AOCI are immediately recognized in earnings. As of September 30, 2019, the maximum maturity date of the underlying loans is approximately 3 years.

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*Net Investment Hedges*

Derivatives categorized as net investment hedges are entered into to protect the net investment in our foreign operations against adverse changes in exchange rates. We use FX forward contracts to convert the foreign currency risk to U.S. dollars to mitigate our exposure to fluctuations in FX rates. The changes in fair value of the FX forward contracts are recorded, net of taxes, in the foreign currency translation component of OCI.

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

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | |
|  | |  |  | |  |  |  |  |  |
| **(In millions)** | | **September 30, 2019** | | | |  | **December 31, 2018** | | |
| **Derivatives not designated as hedging instruments:** | |  | | | |  |  | | |
| Interest rate contracts: | |  | | | |  |  | | |
| Futures | | **$** | **6,539** | |  |  | $ | 2,348 |  |
| Foreign exchange contracts: | |  | | | |  |  | | |
| Forward, swap and spot | | **2,480,037** | | |  |  | 2,238,819 | |  |
| Options purchased | | **1,219** | | |  |  | 578 | |  |
| Options written | | **618** | | |  |  | 576 | |  |
| Futures | | **1,546** | | |  |  | 49 | |  |
| Other: | |  | | | |  |  | | |
| Stable value contracts(1) | | **27,023** | | |  |  | 26,634 | |  |
| Deferred value awards(2) | | **450** | | |  |  | 434 | |  |
| **Derivatives designated as hedging instruments:** | |  | | | |  |  | | |
| Interest rate contracts: | |  | | | |  |  | | |
| Swap agreements | | **12,758** | | |  |  | 10,596 | |  |
| Foreign exchange contracts: | |  | | | |  |  | | |
| Forward and swap | | **3,285** | | |  |  | 3,412 | |  |
|  | | | | | | | | | |
|  |  | | |  | | | | | |
|  |  | | |  | | | | | |

(1) The notional value of the stable value contracts represents our maximum exposure. However, exposure to various stable value contracts is generally contractually limited to substantially lower amounts than the notional values.

(2)For additional information on our derivatives not designated as hedging instruments, including deferred value awards, refer to page 55 in Note 10 to the consolidated financial statements under Item 8, Financial Statements and Supplementary Data, in the 2018 Annual Financial Statements.

Notional amounts are provided here as an indication of the volume of our derivative activity and serve as a reference to calculate the fair values of the derivative.

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.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | |
|  | |  |  |  |  |  |  |  |  |  |  | |  |  |  |  |  |
|  | | **September 30, 2019** | | |  | **December 31, 2018** | | |  | **September 30, 2019** | | | |  | **December 31, 2018** | | |
| **(In millions)** | | **Derivative Assets(1)** | | | | | | |  | **Derivative Liabilities(2)** | | | | | | | |
| **Derivatives not designated as hedging instruments:** | | | | | | | | |  |  | | | |  |  | | |
| Foreign exchange contracts | | **$** | **13,883** |  |  | $ | 16,369 |  |  | **$** | **14,111** | |  |  | $ | 16,434 |  |
| Other derivative contracts | | **—** | |  |  | — | |  |  | **207** | | |  |  | 214 | |  |
| Total | | **$** | **13,883** |  |  | $ | 16,369 |  |  | **$** | **14,318** | |  |  | $ | 16,648 |  |
|  | |  | | |  |  | | |  |  | | | |  |  | | |
| **Derivatives designated as hedging instruments:** | | | | | | | | |  |  | | | |  |  | | |
| Foreign exchange contracts | | **$** | **29** |  |  | $ | 17 |  |  | **$** | **78** | |  |  | $ | 88 |  |
| Interest rate contracts | | **22** | |  |  | 13 | |  |  | **51** | | |  |  | 71 | |  |
| Total | | **$** | **51** |  |  | $ | 30 |  |  | **$** | **129** | |  |  | $ | 159 |  |
|  | | | | | | | | | | | | | | | | | |
|  |  | | | | | | | | | | |  | | | | | |
|  |  | | | | | | | | | | |  | | | | | |

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

(2)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:

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|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | **Three Months Ended September 30,** | | | | | | |  | **Nine Months Ended September 30,** | | | | | | |
|  |  | **2019** | | |  | **2018** | | |  | **2019** | | |  | **2018** | | |
| **(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** | | | | | | | | | | | | | | |
| **Derivatives not designated as hedging instruments:** | |  | | |  |  | | |  |  | | |  |  | | |
| Foreign exchange contracts | Foreign exchange trading services revenue | **$** | **160** |  |  | $ | 170 |  |  | **$** | **476** |  |  | $ | 549 |  |
| Foreign exchange contracts | Interest Expense | **(37** | | **)** |  | (3 | | ) |  | **(135** | | **)** |  | (18 | | ) |
| Interest rate contracts | Foreign exchange trading services revenue | **(1** | | **)** |  | (2 | | ) |  | **(2** | | **)** |  | (6 | | ) |
| Interest rate contracts | Processing fees and other revenue | **—** | |  |  | (1 | | ) |  | **—** | |  |  | (1 | | ) |
| Other derivative contracts | Foreign exchange trading services revenue | **—** | |  |  | 3 | |  |  | **—** | |  |  | 3 | |  |
| Other derivative contracts | Compensation and employee benefits | **(46** | | **)** |  | (34 | | ) |  | **(166** | | **)** |  | (140 | | ) |
| Total |  | **$** | **76** |  |  | $ | 133 |  |  | **$** | **173** |  |  | $ | 387 |  |

The following table shows the carrying amount and associated cumulative basis adjustments related to the application of hedge accounting that is included in the carrying amount of hedged assets and liabilities in fair value hedging relationships:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | |
|  | | | |  |  | |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | | | **September 30, 2019** | | | | | | | | | | | | | | | |
|  | | | | **Hedged Items Currently Designated** | | | | | | | |  | **Hedged Items No Longer Designated(1)** | | | | | | |
| **(In millions)** | | | | **Carrying Amount of Assets and Liabilities(2)** | | | |  | **Cumulative Hedge Accounting Basis Adjustments** | | |  | **Carrying Amount of Assets and Liabilities** | | |  | **Cumulative Hedge Accounting Basis Adjustments** | | |
| Long-term debt | | | | **$** | **8,274** | |  |  | **$** | **254** |  |  | **$** | **1,199** |  |  | **$** | **(11** | **)** |
| Available-for-sale securities | | | | **985** | | |  |  | **56** | |  |  | **—** | |  |  | **—** | |  |
| Total | | | | **$** | **9,259** | |  |  | **$** | **310** |  |  | **$** | **1,199** |  |  | **$** | **(11** | **)** |
|  | | | |  | | | |  |  | | |  |  | | |  |  | | |
|  | | | | **December 31, 2018** | | | | | | | | | | | | | | | |
|  | | | | **Hedged Items Currently Designated** | | | | | | | |  | **Hedged Items No Longer Designated(1)** | | | | | | |
| **(In millions)** | | | | **Carrying Amount of Assets and Liabilities(2)** | | | |  | **Cumulative Hedge Accounting Basis Adjustments** | | |  | **Carrying Amount of Assets and Liabilities** | | |  | **Cumulative Hedge Accounting Basis Adjustments** | | |
| Long-term debt | | | | $ | 8,270 | |  |  | $ | (137 | ) |  | $ | 1,197 |  |  | $ | (20 | ) |
| Available-for-sale securities | | | | 1,496 | | |  |  | 72 | |  |  | 50 | |  |  | 1 | |  |
| Total | | | | $ | 9,766 | |  |  | $ | (65 | ) |  | $ | 1,247 |  |  | $ | (19 | ) |
|  | | | | | | | | | |
|  |  |  |  | | |  | | | |
|  |  |  |  | | |  | | | |

(1)Represents hedged items no longer designated in qualifying fair value hedging relationships for which an associated basis adjustment exists at the balance sheet date.

(2)Does not include the carrying amount of hedged items when only foreign currency risk is the designated hedged risk. The carrying amount excluded for investment securities was zero and $458 million for September 30, 2019 and December 31, 2018, respectively.

As of September 30, 2019 and December 31, 2018, the total notional amount of the interest rate swaps of fair value hedges was $8.76 billion and $9.30 billion, respectively.

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

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | | | | | | |
|  | |  | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | |  | | |  | **Three Months Ended September 30,** | | | | | | |  |  |  |  |  | **Three Months Ended September 30,** | | | | | | |
|  | |  | | |  | **2019** | | |  | **2018** | | |  |  |  |  |  | **2019** | | |  | **2018** | | |
| **(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** | | | | | | |
| **Derivatives designated as fair value hedges:** | | | | | | | | | | | | | | | | | | | | | | | | |
| Foreign exchange contracts | | Processing fees and other revenue | | |  | **$** | **—** |  |  | $ | (14 | ) |  | Investment securities |  | Processing fees and other revenue |  | **$** | **—** |  |  | $ | 14 |  |
| Foreign exchange contracts | | Processing fees and other revenue | | |  | **—** | |  |  | 33 | |  |  | Foreign exchange deposit |  | Processing fees and other revenue |  | **—** | |  |  | (33 | | ) |
| Interest rate contracts | | Net interest income | | |  | **1** | |  |  | 9 | |  |  | Available-for-sale securities(1) |  | Net interest income |  | **(2** | | **)** |  | (8 | | ) |
| Interest rate contracts | | Net interest income | | |  | **75** | |  |  | (40 | | ) |  | Long-term debt |  | Net interest income |  | **(72** | | **)** |  | 39 | |  |
| Total | |  | | |  | **$** | **76** |  |  | $ | (12 | ) |  |  |  |  |  | **$** | **(74** | **)** |  | $ | 12 |  |
|  | |  | | |  |  | | |  |  | | |  |  |  |  |  |  | | |  |  | | |
|  | |  | | |  | **Nine Months Ended September 30,** | | | | | | |  |  |  |  |  | **Nine Months Ended September 30,** | | | | | | |
|  | |  | | |  | **2019** | | |  | **2018** | | |  |  |  |  |  | **2019** | | |  | **2018** | | |
| **(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** | | | | | | |
| **Derivatives designated as fair value hedges:** | | | | | | | | | | | | | | | | | | | | | | | | |
| Foreign exchange contracts | | Processing fees and other revenue | | |  | **$** | **—** |  |  | $ | (57 | ) |  | Investment securities |  | Processing fees and other revenue |  | **$** | **—** |  |  | $ | 57 |  |
| Foreign exchange contracts | | Processing fees and other revenue | | |  | **—** | |  |  | (320 | | ) |  | Foreign exchange deposit |  | Processing fees and other revenue |  | **—** | |  |  | 320 | |  |
| Interest rate contracts | | Net interest income | | |  | (10 | | ) |  | 40 | |  |  | Available-for-sale securities(2) |  | Net interest income |  | 9 | |  |  | (38 | | ) |
| Interest rate contracts | | Net interest income | | |  | 366 | |  |  | (254 | | ) |  | Long-term debt |  | Net interest income |  | (357 | | ) |  | 239 | |  |
| Total | |  | | |  | **$** | **356** |  |  | $ | (591 | ) |  |  |  |  |  | **$** | **(348** | **)** |  | $ | 578 |  |
|  | | | | | | | | | | | | |
|  |  | |  |  | | | |  | | | | |
|  |  | |  |  | | | |  | | | | |

(1)In the three months ended September 30, 2019, $10 million of net unrealized gains on AFS investment securities designated in fair value hedges was recognized in OCI compared to $6 million of net unrealized gains in the same period in 2018.

(2)In the nine months ended September 30, 2019, $13 million of net unrealized gains on AFS investment securities designated in fair value hedges was recognized in OCI compared to $29 million of net unrealized gains in the same period in 2018.

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**(UNAUDITED)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Three Months Ended September 30,** | | | | | | |  |  |  | **Three Months Ended September 30,** | | | | | | |
|  | **2019** | | |  | **2018** | | |  |  |  | **2019** | | |  | **2018** | | |
| **(In millions)** | **Amount of Gain or (Loss) Recognized in Other Comprehensive Income on Derivative** | | | | | | |  | **Location of Gain or (Loss) Reclassified from Accumulated Other Comprehensive Income into Income** |  | **Amount of Gain or (Loss) Reclassified from Accumulated Other Comprehensive Income into Income** | | | | | | |
| **Derivatives designated as cash flow hedges:** |  | | |  |  | | |  |  |  |  | | |  |  | | |
| Interest rate contracts | **$** | **2** |  |  | $ | (7 | ) |  | Net interest income |  | **$** | **(3** | **)** |  | $ | (1 | ) |
| Foreign exchange contracts | **12** | |  |  | 38 | |  |  | Net interest income |  | **7** | |  |  | 6 | |  |
| Total derivatives designated as cash flow hedges | **$** | **14** |  |  | $ | 31 |  |  |  |  | **$** | **4** |  |  | $ | 5 |  |
|  |  | | |  |  | | |  |  |  |  | | |  |  | | |
| **Derivatives designated as net investment hedges:** |  | | |  |  | | |  |  |  |  | | |  |  | | |
| Foreign exchange contracts | **$** | **57** |  |  | $ | 19 |  |  | Gains (Losses) related to investment securities, net |  | **$** | **—** |  |  | $ | — |  |
| Total derivatives designated as net investment hedges | **57** | |  |  | 19 | |  |  |  |  | **—** | |  |  | — | |  |
|  |  | | |  |  | | |  |  |  |  | | |  |  | | |
| Total | **$** | **71** |  |  | $ | 50 |  |  |  |  | **$** | **4** |  |  | $ | 5 |  |
|  |  | | |  |  | | |  |  |  |  | | |  |  | | |
|  | **Nine Months Ended September 30,** | | | | | | |  |  |  | **Nine Months Ended September 30,** | | | | | | |
|  | **2019** | | |  | **2018** | | |  |  |  | **2019** | | |  | **2018** | | |
| **(In millions)** | **Amount of Gain or (Loss) Recognized in Other Comprehensive Income on Derivative** | | | | | | |  | **Location of Gain or (Loss) Reclassified from Accumulated Other Comprehensive Income into Income** |  | **Amount of Gain or (Loss) Reclassified from Accumulated Other Comprehensive Income into Income** | | | | | | |
| **Derivatives designated as cash flow hedges:** |  | | |  |  | | |  |  |  |  | | |  |  | | |
| Interest rate contracts | **$** | **33** |  |  | $ | (35 | ) |  | Net interest income |  | **$** | **(7** | **)** |  | $ | — |  |
| Foreign exchange contracts | **24** | |  |  | 14 | |  |  | Net interest income |  | **21** | |  |  | 20 | |  |
| Total derivatives designated as cash flow hedges | **$** | **57** |  |  | $ | (21 | ) |  |  |  | **$** | **14** |  |  | $ | 20 |  |
|  |  | | |  |  | | |  |  |  |  | | |  |  | | |
| **Derivatives designated as net investment hedges:** |  | | |  |  | | |  |  |  |  | | |  |  | | |
| Foreign exchange contracts | **$** | **75** |  |  | $ | 54 |  |  | Gains (losses) related to investment securities, net |  | **$** | **—** |  |  | $ | — |  |
| Total derivatives designated as net investment hedges | **75** | |  |  | 54 | |  |  |  |  | **—** | |  |  | — | |  |
|  |  | | |  |  | | |  |  |  |  | | |  |  | | |
| Total | **$** | **132** |  |  | $ | 33 |  |  |  |  | **$** | **14** |  |  | $ | 20 |  |

***Derivatives Netting and Credit Contingencies***

*Netting*

Derivatives receivable and payable as well as cash collateral from the same counterparty are netted in the consolidated statement of condition for those counterparties with whom we have legally binding master netting agreements in place. In addition to cash collateral received and transferred presented on a net basis, we also receive and transfer collateral in the form of securities, which mitigate credit risk but are not eligible for netting. Additional information on netting is provided in Note 8.

*Credit Contingencies*

Certain of our derivatives are subject to master netting agreements with our derivative counterparties containing credit risk-related contingent features, which

requires us to maintain an investment grade credit rating with the various credit rating agencies. If our rating falls below investment grade, we would be in violation of the provisions, and counterparties to the derivatives could request immediate payment or demand full overnight collateralization on derivatives instruments in net liability positions. The aggregate fair value of all derivatives with credit contingent features and in a liability position as of September 30, 2019 totaled approximately $2.53 billion, against which we provided $1.67 billion of collateral in the normal course of business. If our credit related contingent features underlying these agreements were triggered as of September 30, 2019, the maximum additional collateral we would be required to post to our counterparties is approximately $0.86 billion.

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**Note 8. Offsetting Arrangements**

For additional information on our offsetting arrangements, refer to page 59 in Note 11 to the consolidated financial statements included under Item 8, Financial Statements and Supplementary Data, in the 2018 Annual Financial Statements.

As of September 30, 2019 and December 31, 2018, the value of securities received as collateral from third parties where we are permitted to transfer or re-

pledge the securities totaled $11.40 billion and $11.69 billion, respectively, and the fair value of the portion that had been transferred or re-pledged as of the same dates was $7.22 billion and $5.31 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:** | **September 30, 2019** | | | | | | | | | | | | | | | | | | |
|  | **Gross Amounts of Recognized**  **Assets(1)(2)** | | |  | **Gross Amounts Offset in Statement of Condition(3)** | | |  | **Net Amounts of Assets Presented in Statement of Condition** | | |  | **Gross Amounts Not Offset in Statement of Condition** | | | | | | |
| **(In millions)** |  |  |  | **Cash and Securities Received(4)** | | |  | **Net Amount(5)** | | |
| **Derivatives:** | | | | | | | |  |  | | |  |  | | |  |  | | |
| Foreign exchange contracts | **$** | **13,912** |  |  | **$** | **(8,093** | **)** |  | **$** | **5,819** |  |  | **$** | **—** |  |  | **$** | **5,819** |  |
| Interest rate contracts(6) | **22** | |  |  | **(8** | | **)** |  | **14** | |  |  | **—** | |  |  | **14** | |  |
| Cash collateral and securities netting | **NA** | |  |  | **(793** | | **)** |  | **(793** | | **)** |  | **(477** | | **)** |  | **(1,270** | | **)** |
| Total derivatives | **13,934** | |  |  | **(8,894** | | **)** |  | **5,040** | |  |  | **(477** | | **)** |  | **4,563** | |  |
| **Other financial instruments:** | | | | | | | |  |  | | |  |  | | |  |  | | |
| Resale agreements and securities borrowing(7)(8) | **155,464** | |  |  | **(129,754** | | **)** |  | **25,710** | |  |  | **(24,595** | | **)** |  | **1,115** | |  |
| Total derivatives and other financial instruments | **$** | **169,398** |  |  | **$** | **(138,648** | **)** |  | **$** | **30,750** |  |  | **$** | **(25,072** | **)** |  | **$** | **5,678** |  |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  | |  |  |  |  | |  |  |  |  |  |  |  |  |  |
| **Assets:** | **December 31, 2018** | | | | | | | | | | | | | | | | | | | | |
|  | **Gross Amounts of Recognized**  **Assets(1)(2)** | | |  | **Gross Amounts Offset in Statement of Condition(3)** | | | |  | **Net Amounts of Assets Presented in Statement of Condition** | | | |  | **Gross Amounts Not Offset in Statement of Condition** | | | | | | |
| **(In millions)** |  |  |  | **Cash and Securities Received(4)** | | |  | **Net Amount(5)** | | |
| **Derivatives:** |  | | |  |  | | | |  |  | | | |  |  | | |  |  | | |
| Foreign exchange contracts | $ | 16,386 |  |  | $ | (10,223 | | ) |  | $ | 6,163 | |  |  | $ | — |  |  | $ | 6,163 |  |
| Interest rate contracts(6) | 13 | |  |  | — | | |  |  | 13 | | |  |  | — | |  |  | 13 | |  |
| Cash collateral and securities netting | NA | |  |  | (987 | | | ) |  | (987 | | | ) |  | (220 | | ) |  | (1,207 | | ) |
| Total derivatives | 16,399 | |  |  | (11,210 | | | ) |  | 5,189 | | |  |  | (220 | | ) |  | 4,969 | |  |
| **Other financial instruments:** |  | | |  |  | | | |  |  | | | |  |  | | |  |  | | |
| Resale agreements and securities borrowing(7)(8) | 116,143 | |  |  | (91,889 | | | ) |  | 24,254 | | |  |  | (22,872 | | ) |  | 1,382 | |  |
| Total derivatives and other financial instruments | $ | 132,542 |  |  | $ | (103,099 | | ) |  | $ | 29,443 | |  |  | $ | (23,092 | ) |  | $ | 6,351 |  |
|  | | | | | | | | | | | | | | | | | | | | | |
|  | |  | | | | |  | | | | |  | | | | | | |  | | |
|  | |  | | | | |  | | | | |  | | | | | | |  | | |

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

(2)Refer to Note 1 and Note 2 for additional information about the measurement basis of derivative instruments.

(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 $25.71 billion as of September 30, 2019 were $3.04 billion of resale agreements and $22.67 billion of collateral provided related to securities borrowing. Included in the $24.25 billion as of December 31, 2018 were $4.68 billion of resale agreements and $19.58 billion 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.

(8)Offsetting of resale agreements primarily relates to our involvement in FICC, where we settle transactions on a net basis for payment and delivery through the Fedwire system.

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:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Liabilities:** | **September 30, 2019** | | | | | | | | | | | | | | | | | | |
|  | **Gross Amounts of Recognized Liabilities(1)(2)** | | |  | **Gross Amounts Offset in Statement of Condition(3)** | | |  | **Net Amounts of Liabilities Presented in Statement of Condition** | | |  | **Gross Amounts Not Offset in Statement of Condition** | | | | | | |
| **(In millions)** |  |  |  | **Cash and Securities Received(4)** | | |  | **Net Amount(5)** | | |
| **Derivatives:** | | | | | | | |  |  | | |  |  | | |  |  | | |
| Foreign exchange contracts | **$** | **14,189** |  |  | **$** | **(8,093** | **)** |  | **$** | **6,096** |  |  | **$** | **—** |  |  | **$** | **6,096** |  |
| Interest rate contracts(6) | **51** | |  |  | **(8** | | **)** |  | **43** | |  |  | — | |  |  | **43** | |  |
| Other derivative contracts | **207** | |  |  | **—** | |  |  | **207** | |  |  | — | |  |  | **207** | |  |
| Cash collateral and securities netting | **NA** | |  |  | **(1,432** | | **)** |  | **(1,432** | | **)** |  | **(796** | | **)** |  | **(2,228** | | **)** |
| Total derivatives | **14,447** | |  |  | **(9,533** | | **)** |  | **4,914** | |  |  | **(796** | | **)** |  | **4,118** | |  |
| **Other financial instruments:** | | | | | | | |  |  | | |  |  | | |  |  | | |
| Repurchase agreements and securities lending(7)(8) | **145,522** | |  |  | **(129,754** | | **)** |  | **15,768** | |  |  | **(14,453** | | **)** |  | **1,315** | |  |
| Total derivatives and other financial instruments | **$** | **159,969** |  |  | **$** | **(139,287** | **)** |  | **$** | **20,682** |  |  | **$** | **(15,249** | **)** |  | **$** | **5,433** |  |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | | | | |
|  |  |  | |  |  |  |  | |  |  |  |  | |  |  |  |  |  |  |  |  |  |
| **Liabilities:** | **December 31, 2018** | | | | | | | | | | | | | | | | | | | | | |
|  | **Gross Amounts of Recognized Liabilities(1)(2)** | | | |  | **Gross Amounts Offset in Statement of Condition(3)** | | | |  | **Net Amounts of Liabilities Presented in Statement of Condition** | | | |  | **Gross Amounts Not Offset in Statement of Condition** | | | | | | |
| **(In millions)** |  |  |  | **Cash and Securities Received(4)** | | |  | **Net Amount(5)** | | |
| **Derivatives:** |  | | | |  |  | | | |  |  | | | |  |  | | |  |  | | |
| Foreign exchange contracts | $ | 16,522 | |  |  | $ | (10,223 | | ) |  | $ | 6,299 | |  |  | $ | — |  |  | $ | 6,299 |  |
| Interest rate contracts(6) | 71 | | |  |  | — | | |  |  | 71 | | |  |  | — | |  |  | 71 | |  |
| Other derivative contracts | 214 | | |  |  | — | | |  |  | 214 | | |  |  | — | |  |  | 214 | |  |
| Cash collateral and securities netting | NA | | |  |  | (1,341 | | | ) |  | (1,341 | | | ) |  | (215 | | ) |  | (1,556 | | ) |
| Total derivatives | 16,807 | | |  |  | (11,564 | | | ) |  | 5,243 | | |  |  | (215 | | ) |  | 5,028 | |  |
| **Other financial instruments:** |  | | | |  |  | | | |  |  | | | |  |  | | |  |  | | |
| Repurchase agreements and securities lending(7)(8) | 104,494 | | |  |  | (91,889 | | | ) |  | 12,605 | | |  |  | (11,543 | | ) |  | 1,062 | |  |
| Total derivatives and other financial instruments | $ | 121,301 | |  |  | $ | (103,453 | | ) |  | $ | 17,848 | |  |  | $ | (11,758 | ) |  | $ | 6,090 |  |
|  | | | | | | | | | | | | | | | | | | | | | | |
|  | | |  | | | | |  | | | | |  | | | | | | |  | | |
|  | | |  | | | | |  | | | | |  | | | | | | |  | | |

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

(2)Refer to Note 1 and Note 2 for additional information about the measurement basis of derivative instruments.

(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 $15.77 billion as of September 30, 2019 were $1.33 billion of repurchase agreements and $14.44 billion of collateral received related to securities lending transactions. Included in the $12.60 billion as of December 31, 2018 were $1.08 billion of repurchase agreements and $11.52 billion 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.

(8) Offsetting of repurchase agreements primarily relates to our involvement in FICC, where we settle transactions on a net basis for payment and delivery through the Fedwire system.

NANot applicable

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 us to 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.

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | | | | | | | |
|  | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |  |  |  |  |  |
|  | | **As of September 30, 2019** | | | | | | | | | | |  | **As of December 31, 2018** | | | | | | | | | | | |
| **(In millions)** | | **Overnight and Continuous** | | |  | **Up to 30 Days** | | |  | **Total** | | |  | **Overnight and Continuous** | | |  | **Up to 30 Days** | | | |  | **Total** | | |
| **Repurchase agreements:** | |  | | |  |  | | |  |  | | |  |  | | |  |  | | | |  |  | | |
| U.S. Treasury and agency securities | | **$** | **126,017** |  |  | **$** | **—** |  |  | **$** | **126,017** |  |  | $ | 88,904 |  |  | $ | — | |  |  | $ | 88,904 |  |
| Total | | **126,017** | |  |  | **—** | |  |  | **126,017** | |  |  | 88,904 | |  |  | — | | |  |  | 88,904 | |  |
| **Securities lending transactions:** | |  | | |  |  | | |  |  | | |  |  | | |  |  | | | |  |  | | |
| US Treasury and agency securities | | **22** | |  |  | **—** | |  |  | **22** | |  |  | 249 | |  |  | — | | |  |  | 249 | |  |
| Corporate debt securities | | **430** | |  |  | **—** | |  |  | **430** | |  |  | 278 | |  |  | — | | |  |  | 278 | |  |
| Equity securities | | **10,463** | |  |  | **91** | |  |  | **10,554** | |  |  | 6,426 | |  |  | 137 | | |  |  | 6,563 | |  |
| Other(1) | | **8,499** | |  |  | **—** | |  |  | **8,499** | |  |  | 8,500 | |  |  | — | | |  |  | 8,500 | |  |
| Total | | **19,414** | |  |  | **91** | |  |  | **19,505** | |  |  | 15,453 | |  |  | 137 | | |  |  | 15,590 | |  |
| **Gross amount of recognized liabilities for repurchase agreements and securities lending** | | **$** | **145,431** |  |  | **$** | **91** |  |  | **$** | **145,522** |  |  | $ | 104,357 |  |  | $ | 137 | |  |  | $ | 104,494 |  |
|  | | | | | | | | | | | | | | | | | | | | | | | | | |
|  |  | | | | |  | | | | | | | | |  | | | | |  | | | | | |
|  |  | | | | |  | | | | | | | | |  | | | | |  | | | | | |

(1) Represents a security interest in underlying client assets related to our enhanced custody business, which assets clients have allowed us to transfer and re-pledge.

**Note 9.    Commitments and Guarantees**

For additional information on our commitments and guarantees, refer to page 63 in Note 12 to the consolidated financial statements included under Item 8, Financial Statements and Supplementary Data, in the 2018 Annual Financial Statements.

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

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | |
|  |  |  | |  |  |  |  |  |
| **(In millions)** | **September 30, 2019** | | | |  | **December 31, 2018** | | |
| **Commitments:** |  | | | |  |  | | |
| Unfunded credit facilities(1) | **$** | **29,681** | |  |  | $ | 28,951 |  |
| **Guarantees**(2)**:** |  | | | |  |  | | |
| Indemnified securities financing | **$** | **386,978** | |  |  | $ | 342,337 |  |
| Standby letters of credit | **3,307** | | |  |  | 2,985 | |  |
|  | | | | | | | | | |
|  | | |  | | | | | | |
|  | | |  | | | | | | |

(1)As of September 30, 2019, approximately 74% of our unfunded commitments to extend credit expire within one year.

(2)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.

*Indemnified Securities Financing*

For additional information on our Indemnified Securities Financing, refer to page 63 in Note 12 to the consolidated financial statements included under Item 8, Financial Statements and Supplementary Data, in the 2018 Annual Financial Statements.

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

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
| **(In millions)** | **September 30, 2019** | | |  | **December 31, 2018** | | |
| Fair value of indemnified securities financing | **$** | **386,978** |  |  | $ | 342,337 |  |
| Fair value of cash and securities held by us, as agent, as collateral for indemnified securities financing | **406,202** | |  |  | 357,893 | |  |
| Fair value of collateral for indemnified securities financing invested in indemnified repurchase agreements | **48,263** | |  |  | 42,610 | |  |
| Fair value of cash and securities held by us or our agents as collateral for investments in indemnified repurchase agreements | **51,717** | |  |  | 45,064 | |  |

In certain cases, we participate in securities finance transactions as a principal. As a principal, we borrow securities from the lending client and then lend such securities to the subsequent borrower, either our client or a broker/dealer. Our right to receive and obligation to return collateral in connection with our securities lending transactions are recorded in other assets and other liabilities, respectively, in our consolidated statement of condition. As of September 30, 2019 and December 31, 2018, we had approximately $22.67 billion and $19.58 billion, respectively, of collateral provided and approximately $14.44 billion and $11.52 billion, respectively, of collateral received from clients in connection with our participation in principal securities finance transactions.

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**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 or development in certain of the matters described below could have a material adverse effect on our consolidated results of operations for the period in which such matter is resolved, or an accrual is determined to be required, on our consolidated financial condition, or on our reputation.

We evaluate our needs for accruals of loss contingencies related to legal and regulatory proceedings on a case-by-case basis. When we have a liability that we deem probable, and we deem the amount of such liability can be reasonably estimated as of the date of our consolidated financial statements, we accrue our estimate of the amount of loss. We also consider a loss probable and establish an accrual when we make, or intend to make, an offer of settlement. Once established, an accrual is subject to subsequent adjustment as a result of additional information. The resolution of legal and regulatory proceedings and the amount of reasonably estimable loss (or range thereof) are inherently difficult to predict, especially in the early stages of proceedings. Even if a loss is probable, an amount (or range) of loss might not be reasonably estimated until the later stages of the proceeding due to many factors such as the presence of complex or novel legal theories, the discretion of governmental authorities in seeking sanctions or negotiating resolutions in civil and criminal matters, the pace and timing of discovery and other assessments of facts and the procedural posture of the matter (collectively, "factors influencing reasonable estimates").

As of September 30, 2019, our aggregate accruals for loss contingencies for legal and regulatory matters totaled approximately $7 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.

As of September 30, 2019, for those matters for which we have accrued probable loss contingencies (including the Invoicing Matter described below) and for other matters for which loss is reasonably possible (but not probable) in future periods, and for which we are able to estimate a range of reasonably possible loss, our estimate of the aggregate reasonably possible loss (in excess of any accrued amounts) ranges up to approximately $300 million. Our estimate with respect to the aggregate 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, which may change quickly and significantly from time to time, particularly if and as we engage with applicable governmental agencies or plaintiffs in connection with a proceeding. Also, the matters underlying the reasonably possible loss will change from time to time. As a result, actual results may vary significantly from the current estimate.

In certain pending matters, it is not currently feasible to reasonably estimate the amount or a range of reasonably possible loss, 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. 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 our actual losses from any legal or regulatory proceeding for which we have provided an estimate of the reasonably possible loss could significantly exceed such estimate, and 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, no conclusion as to our 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 2015, we determined that we had incorrectly invoiced clients for certain expenses. We have reimbursed most of our affected customers for those expenses, and we have implemented enhancements to our billing processes. 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. In 2017, we identified an additional area of incorrect expense billing

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associated with mailing services in our retirement services business. We currently expect the cumulative total of our payments to customers for these invoicing errors, including the error in the retirement services business, to be at least $380 million, all of which has been paid or is accrued. However, we may identify additional remediation costs.

In March 2017, a purported class action was commenced against us alleging that our invoicing practices violated duties owed to retirement plan customers under the Employee Retirement Income Security Act. 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 cooperating with investigations by governmental and regulatory authorities on these matters, including the civil and criminal divisions of the DOJ and the Department of Labor, 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 settlement of civil claims regarding our indirect FX business. In June 2019, we reached an agreement with the SEC to settle its claims that we violated the recordkeeping provisions of Section 34(b) of the Investment Company Act of 1940 and caused violations of Section 31(a) of the Investment Company Act and Rules 31a-1(a) and 31a-1(b) thereunder in connection with our overcharges of customers which are registered investment companies. In reaching this settlement, we neither admitted nor denied the claims contained in the SEC’s order, and agreed to pay a civil monetary penalty of $40 million. Also in June 2019, we reached an agreement with the Massachusetts Attorney General’s office to resolve its claims related to this matter, and agreed to pay a civil monetary penalty of $5.5 million. The costs associated with these settlements were within our related previously established accruals for loss contingencies.

The SEC and Massachusetts Attorney General’s office settlements both recognize that the payment of $48.8 million in disgorgement and interest is satisfied by State Street’s direct reimbursements of its customers. It is possible that discussions will commence in 2019 with the DOJ regarding a potential resolution of their investigation regarding this matter, which will then enable us to better assess the potential penalties and/or other sanctions they will be seeking. There can be no assurance that any settlement, whether with the DOJ or the Department of Labor, will be reached or, if so, the amount of the settlement or its impact on other claims relating to these matters. The aggregate amount of penalties that may potentially be imposed upon us in connection with the resolution of all outstanding investigations into our historical billing practices could be significant multiples of the settlement, including recognized reimbursed amounts, that we have reached with the SEC.

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, Anti-Money Laundering regulations and U.S. economic sanctions regulations promulgated by the Office of Foreign Assets Control. As part of this enforcement action, we have been required to, among other things, implement improvements to our compliance programs. If we fail to comply with the terms of the written agreement, we may become subject to fines and other regulatory sanctions, which may have a material adverse effect on us.

*Shareholder Litigation*

A shareholder of ours 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 the Ohio public retirement plans matter.

***Income Taxes***

In determining our provision for income taxes, we make certain judgments and interpretations with respect to tax laws in jurisdictions in which we have business operations. Because of the complex nature of these laws, in the normal course of our business, we are subject to challenges from U.S. and non-U.S. income tax authorities regarding the amount of income taxes due. These challenges may result in adjustments to the timing or amount of taxable income or deductions or the allocation of taxable income among tax

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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 $101 million as of September 30, 2019 decreased from $108 million as of December 31, 2018.

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 2012. Management believes that we have sufficiently accrued liabilities as of September 30, 2019 for potential tax exposures.

**Note 11.    Variable Interest Entities**

For additional information on our variable interest entities (VIEs), refer to pages 66 to 67 in Note 14 to the consolidated financial statements included under Item 8, Financial Statements and Supplementary Data, "Variable Interest Entities", in the 2018 Annual Financial Statements.

***Tax Exempt Investment Program***

In the normal course of our business, we structure and sell certificated interests in pools of tax exempt investment grade assets, principally to our mutual fund clients. We structure these pools as partnership trusts, and the assets and liabilities of the trusts are recorded in our consolidated statement of condition as AFS investment securities and other short term borrowings. As of September 30, 2019 and December 31, 2018, we carried AFS investment securities, composed of securities related to state and political subdivisions, with a fair value of $0.99 billion and $1.05 billion, respectively, and other short term borrowings of $0.86 billion and $0.93 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 3.1 years and 3.6 years as of September 30, 2019 and December 31, 2018, respectively.

***Interests in Investment Funds***

As of September 30, 2019, the aggregate assets and liabilities of our consolidated sponsored investment funds totaled $20 million and $4 million, respectively. As of September 30, 2019, our maximum total exposure associated with the consolidated sponsored investment funds totaled $15 million and represented the value of our economic ownership interest in the funds. As of December 31, 2018, we did not have any consolidated investment funds.

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 $35 million as of September 30, 2019 and $70 million as of December 31, 2018, 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 September 30, 2019:

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

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

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

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Three Months Ended September 30,** | | | | | | | | | | | | | | | | | | | | | | |
|  | **2019** | | | | | | | | | | |  | **2018** | | | | | | | | | | |
| **(Dollars in millions, except per share amounts)** | **Dividends Declared per Share** | | |  | **Dividends Declared per Depositary Share** | | |  | **Total(1)** | | |  | **Dividends Declared per Share** | | |  | **Dividends Declared per Depositary Share** | | |  | **Total** | | |
| **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 | |  |
| Series H | **—** | |  |  | **—** | |  |  | **—** | |  |  | — | |  |  | — | |  |  | — | |  |
| Total |  | | |  |  | | |  | **$** | **55** |  |  |  | | |  |  | | |  | $ | 55 |  |
|  | | | | | | | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Nine Months Ended September 30,** | | | | | | | | | | | | | | | | | | | | | | |
|  | **2019** | | | | | | | | | | |  | **2018** | | | | | | | | | | |
| **(Dollars in millions, except per share amounts)** | **Dividends Declared per Share** | | |  | **Dividends Declared per Depositary Share** | | |  | **Total** | | |  | **Dividends Declared per Share** | | |  | **Dividends Declared per Depositary Share** | | |  | **Total** | | |
| **Preferred Stock:** |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Series C | **$** | **3,939** |  |  | **$** | **0.99** |  |  | **$** | **19** |  |  | $ | 3,939 |  |  | $ | 0.99 |  |  | $ | 19 |  |
| Series D | **4,425** | |  |  | **1.11** | |  |  | **33** | |  |  | 4,425 | |  |  | 1.11 | |  |  | 33 | |  |
| Series E | **4,500** | |  |  | **1.14** | |  |  | **33** | |  |  | 4,500 | |  |  | 1.14 | |  |  | 33 | |  |
| Series F | **5,250** | |  |  | **52.50** | |  |  | **40** | |  |  | 5,250 | |  |  | 52.50 | |  |  | 40 | |  |
| Series G | **4,014** | |  |  | **0.99** | |  |  | **21** | |  |  | 4,014 | |  |  | 0.99 | |  |  | 21 | |  |
| Series H | **2,813** | |  |  | **28.13** | |  |  | **14** | |  |  | — | |  |  | — | |  |  | — | |  |
| Total |  | | |  |  | | |  | **$** | **160** |  |  |  | | |  |  | | |  | $ | 146 |  |

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

(1)Dividends were paid in September 2019.

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***Common Stock***

In June 2019, our Board approved a common stock purchase program authorizing the purchase of up to $2.0 billion of our common stock from July 1, 2019 through June 30, 2020 (the 2019 Program). We repurchased $500 million of our common stock in the third quarter of 2019 under the 2019 Program.

In June 2018, our Board approved a common stock purchase program authorizing the purchase of up to $1.2 billion of our common stock through June 30, 2019 (the 2018 Program). We repurchased $300 million of our common stock in each of the first and second quarters of 2019 under the 2018 Program.

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Three Months Ended September 30, 2019** | | | | | | | | | |  | **Nine Months Ended September 30, 2019** | | | | | | | | | |
|  | **Shares Acquired (In millions)** | |  | **Average Cost per Share** | | |  | **Total Acquired (In millions)** | | |  | **Shares Acquired (In millions)** | |  | **Average Cost per Share** | | |  | **Total Acquired (In millions)** | | |
| 2018 Program | **—** |  |  | **$** | **—** |  |  | **$** | **—** |  |  | **8.8** |  |  | **$** | **67.97** |  |  | **$** | **600** |  |
| 2019 Program | **9.4** |  |  | **$** | **53.15** |  |  | **$** | **500** |  |  | **9.4** |  |  | **$** | **53.15** |  |  | **$** | **500** |  |

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Three Months Ended September 30,** | | | | | | | | | | | | | | |
|  | **2019** | | | | | | |  | **2018** | | | | | | |
|  | **Dividends Declared per Share** | | |  | **Total**  **(In millions)** | | |  | **Dividends Declared per Share** | | |  | **Total**  **(In millions)** | | |
| Common Stock | **$** | **0.52** |  |  | **$** | **189** |  |  | $ | 0.47 |  |  | $ | 179 |  |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Nine Months Ended September 30,** | | | | | | | | | | | | | | |
|  | **2019** | | | | | | |  | **2018** | | | | | | |
|  | **Dividends Declared per Share** | | |  | **Total**  **(In millions)** | | |  | **Dividends Declared per Share** | | |  | **Total**  **(In millions)** | | |
| Common Stock | **$** | **1.46** |  |  | **$** | **541** |  |  | $ | 1.31 |  |  | $ | 486 |  |

***Accumulated Other Comprehensive Income (Loss)***

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

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
| **(In millions)** | **September 30, 2019** | | |  | **December 31, 2018** | | |
| Net unrealized (losses) on cash flow hedges | **$** | **(63** | **)** |  | $ | (89 | ) |
| Net unrealized gains (losses) on available-for-sale securities portfolio | **509** | |  |  | (193 | | ) |
| Net unrealized gains related to reclassified available-for-sale securities | **56** | |  |  | 58 | |  |
| Net unrealized gains (losses) on available-for-sale securities | **565** | |  |  | (135 | | ) |
| Net unrealized (losses) on available-for-sale securities designated in fair value hedges | **(41** | | **)** |  | (40 | | ) |
| Net unrealized gains on hedges of net investments in non-U.S. subsidiaries | **91** | |  |  | 16 | |  |
| Other-than-temporary impairment on held-to-maturity securities related to factors other than credit | **(1** | | **)** |  | (2 | | ) |
| Net unrealized (losses) on retirement plans | **(180** | | **)** |  | (143 | | ) |
| Foreign currency translation | **(1,356** | | **)** |  | (963 | | ) |
| Total | **$** | **(985** | **)** |  | $ | (1,356 | ) |

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Nine Months Ended September 30, 2019** | | | | | | | | | | | | | | | | | | | | | | | | | | |
| **(In millions)** | **Net Unrealized Gains (Losses) on Cash Flow Hedges** | | |  | **Net Unrealized Gains (Losses) on Available-for-Sale Securities** | | |  | **Net Unrealized Gains (Losses) on Hedges of Net Investments in Non-U.S. Subsidiaries** | | |  | **Other-Than-Temporary Impairment on Held-to-Maturity Securities** | | |  | **Net Unrealized Losses on Retirement Plans** | | |  | **Foreign Currency Translation** | | |  | **Total** | | |
| Balance as of December 31, 2018 | $ | (89 | ) |  | $ | (175 | ) |  | $ | 16 |  |  | $ | (2 | ) |  | $ | (143 | ) |  | $ | (963 | ) |  | $ | (1,356 | ) |
| Other comprehensive income (loss) before reclassifications | **22** | |  |  | **678** | |  |  | **78** | |  |  | **3** | |  |  | **—** | |  |  | **(326** | | **)** |  | **455** | |  |
| Reclassification of certain tax effects(1) | **(6** | | **)** |  | **21** | |  |  | **(3** | | **)** |  | **(1** | | **)** |  | **(28** | | **)** |  | **(67** | | **)** |  | **(84** | | **)** |
| Amounts reclassified into (out of) earnings | **10** | |  |  | **—** | |  |  | **—** | |  |  | **(1** | | **)** |  | **(9** | | **)** |  | **—** | |  |  | **—** | |  |
| Other comprehensive income (loss) | **26** | |  |  | **699** | |  |  | **75** | |  |  | **1** | |  |  | **(37** | | **)** |  | **(393** | | **)** |  | **371** | |  |
| Balance as of September 30, 2019 | **$** | **(63** | **)** |  | **$** | **524** |  |  | **$** | **91** |  |  | **$** | **(1** | **)** |  | **$** | **(180** | **)** |  | **$** | **(1,356** | **)** |  | **$** | **(985** | **)** |

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|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Nine Months Ended September 30, 2018** | | | | | | | | | | | | | | | | | | | | | | | | | | |
| **(In millions)** | **Net Unrealized Gains (Losses) on Cash Flow Hedges** | | |  | **Net Unrealized Gains (Losses) on Available-for-Sale Securities** | | |  | **Net Unrealized Gains (Losses) on Hedges of Net Investments in Non-U.S. Subsidiaries** | | |  | **Other-Than-Temporary Impairment on Held-to-Maturity Securities** | | |  | **Net Unrealized Losses on Retirement Plans** | | |  | **Foreign Currency Translation** | | |  | **Total** | | |
| Balance as of December 31, 2017 | $ | (56 | ) |  | $ | 103 |  |  | $ | (65 | ) |  | $ | (6 | ) |  | $ | (170 | ) |  | $ | (815 | ) |  | $ | (1,009 | ) |
| Other comprehensive income (loss) before reclassifications | (42 | | ) |  | (452 | | ) |  | 54 | |  |  | 4 | |  |  | — | |  |  | (298 | | ) |  | (734 | | ) |
| Amounts reclassified into (out of) earnings | 15 | |  |  | 6 | |  |  | — | |  |  | (3 | | ) |  | 14 | |  |  | — | |  |  | 32 | |  |
| Other comprehensive income (loss) | (27 | | ) |  | (446 | | ) |  | 54 | |  |  | 1 | |  |  | 14 | |  |  | (298 | | ) |  | (702 | | ) |
| Balance as of September 30, 2018 | $ | (83 | ) |  | $ | (343 | ) |  | $ | (11 | ) |  | $ | (5 | ) |  | $ | (156 | ) |  | $ | (1,113 | ) |  | $ | (1,711 | ) |
|  | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  | | | | |  | | | |  | | | | |  | | | | |  | | | | | | | | |
|  | | | | |  | | | |  | | | | |  | | | | |  | | | | | | | | |

(1)Represents the reclassification from accumulated other comprehensive income into retained earnings as a result of our adoption of ASU 2018-02 - Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income in the first quarter of 2019.

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | |
|  | | |  |  |  |  |  |  |  |  |  | |
|  | | | **Three Months Ended September 30,** | | | | | | |  |  | |
|  | | | **2019** | | |  | **2018** | | |  |  | |
| **(In millions)** | | | **Amounts Reclassified into (out of) Earnings(1)** | | | | | | |  | **Affected Line Item in Consolidated Statement of Income** | |
| **Held-to-maturity securities:** | | |  | | |  |  | | |  |  | |
| Other-than-temporary impairment on held-to-maturity securities related to factors other than credit, net of related taxes of zero and zero, respectively | | | **—** | |  |  | (1 | | ) |  | Losses reclassified (from) to other comprehensive income | |
| **Cash flow hedges:** | | |  | | |  |  | | |  |  | |
| Gain or (loss) reclassified from accumulated other comprehensive income into Income, net of related taxes of $1 and $2 | | | **3** | |  |  | $ | 4 |  |  | Net interest income reclassified from other comprehensive income | |
| **Retirement plans:** | | |  | | |  |  | | |  |  | |
| Amortization of actuarial losses, net of related taxes of ($1) and $1, respectively | | | **(1** | | **)** |  | 1 | |  |  | Compensation and employee benefits expenses | |
| Total reclassifications out of Accumulated other comprehensive loss | | | **$** | **2** |  |  | $ | 4 |  |  |  | |
|  | | | | | | | | | | | | |
|  |  |  | | | |  | | | | | |  |
|  |  |  | | | |  | | | | | |  |

(1) We had no net realized gains or losses from sales of AFS securities that were reclassified into (out of) earnings in both the three months ended September 30, 2019 and 2018.

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |
|  | **Nine Months Ended September 30,** | | | | | | |  |  |
|  | **2019** | | |  | **2018** | | |  |  |
| **(In millions)** | **Amounts Reclassified into (out of) Earnings** | | | | | | |  | **Affected Line Item in Consolidated Statement of Income** |
| **Available-for-sale securities:** |  | | |  |  | | |  |  |
| Net realized gains (losses) from sales of available-for-sale securities, net of related taxes of zero and ($2), respectively | **$** | **—** |  |  | $ | 6 |  |  | 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, net of related taxes of zero and $1, respectively | **(1** | | **)** |  | (3 | | ) |  | Losses reclassified (from) to other comprehensive income |
| **Cash flow hedges:** |  | | |  |  | | |  |  |
| Gain reclassified from accumulated other comprehensive income into Income, net of related taxes of $4 and $6 | **10** | |  |  | 15 | |  |  | Net interest income reclassified from other comprehensive income |
| **Retirement plans:** |  | | |  |  | | |  |  |
| Amortization of actuarial losses, net of related taxes of ($5) and $5, respectively | **(9** | | **)** |  | 14 | |  |  | Compensation and employee benefits expenses |
| Total reclassifications (into) out of Accumulated other comprehensive loss | **$** | **—** |  |  | $ | 32 |  |  |  |

**Note 13.    Regulatory Capital**

For additional information on our regulatory capital, including the regulatory capital requirements administered by federal banking agencies, and to which we are subject, refer to page 70 in Note 16 to the consolidated financial statements included under Item 8, Financial Statements and Supplementary Data, in the 2018 Annual Financial Statements.

As of September 30, 2019, we and State Street Bank exceeded all regulatory capital adequacy requirements to which we were subject. As of September 30, 2019, State Street Bank was categorized as “well capitalized” under the applicable regulatory capital adequacy framework, and exceeded all “well capitalized” ratio guidelines to which it was subject. Management believes that no conditions or events have occurred since September 30, 2019 that have changed the capital categorization of State Street Bank.

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | | | | **State Street Corporation** | | | | | | | | | | | | | | |  | **State Street Bank** | | | | | | | | | | | | | | |
| **(Dollars in millions)** | | | | | **Basel III Advanced Approaches September 30, 2019** | | |  | **Basel III Standardized Approach September 30, 2019(2)** | | |  | **Basel III Advanced Approaches December 31, 2018(1)** | | |  | **Basel III Standardized Approach December 31, 2018(2)** | | |  | **Basel III Advanced Approaches September 30, 2019** | | |  | **Basel III Standardized Approach September 30, 2019(2)** | | |  | **Basel III Advanced Approaches December 31, 2018(1)** | | |  | **Basel III Standardized Approach December 31, 2018(2)** | | |
| **Common shareholders' equity:** | | | | |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Common stock and related surplus | | | | | **$** | **10,621** |  |  | **$** | **10,621** |  |  | $ | 10,565 |  |  | $ | 10,565 |  |  | **$** | **12,878** |  |  | **$** | **12,878** |  |  | $ | 12,894 |  |  | $ | 12,894 |  |
| Retained earnings | | | | | **21,612** | |  |  | **21,612** | |  |  | 20,606 | |  |  | 20,606 | |  |  | **14,194** | |  |  | **14,194** | |  |  | 14,261 | |  |  | 14,261 | |  |
| Accumulated other comprehensive income (loss) | | | | | **(1,000** | | **)** |  | **(1,000** | | **)** |  | (1,332 | | ) |  | (1,332 | | ) |  | **(761** | | **)** |  | **(761** | | **)** |  | (1,112 | | ) |  | (1,112 | | ) |
| Treasury stock, at cost | | | | | **(9,729** | | **)** |  | **(9,729** | | **)** |  | (8,715 | | ) |  | (8,715 | | ) |  | **—** | |  |  | **—** | |  |  | — | |  |  | — | |  |
| **Total** | | | | | **21,504** | |  |  | **21,504** | |  |  | 21,124 | |  |  | 21,124 | |  |  | **26,311** | |  |  | **26,311** | |  |  | 26,043 | |  |  | 26,043 | |  |
| Regulatory capital adjustments: | | | | |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Goodwill and other intangible assets, net of associated deferred tax liabilities | | | | | **(9,117** | | **)** |  | **(9,117** | | **)** |  | (9,350 | | ) |  | (9,350 | | ) |  | **(8,845** | | **)** |  | **(8,845** | | **)** |  | (9,073 | | ) |  | (9,073 | | ) |
| Other adjustments(2) | | | | | **(158** | | **)** |  | **(158** | | **)** |  | (194 | | ) |  | (194 | | ) |  | **—** | |  |  | **—** | |  |  | (29 | | ) |  | (29 | | ) |
| **Common equity tier 1 capital** | | | | | **12,229** | |  |  | **12,229** | |  |  | 11,580 | |  |  | 11,580 | |  |  | **17,466** | |  |  | **17,466** | |  |  | 16,941 | |  |  | 16,941 | |  |
| Preferred stock | | | | | **3,690** | |  |  | **3,690** | |  |  | 3,690 | |  |  | 3,690 | |  |  | **—** | |  |  | **—** | |  |  | — | |  |  | — | |  |
| **Tier 1 capital** | | | | | **15,919** | |  |  | **15,919** | |  |  | 15,270 | |  |  | 15,270 | |  |  | **17,466** | |  |  | **17,466** | |  |  | 16,941 | |  |  | 16,941 | |  |
| Qualifying subordinated long-term debt | | | | | **607** | |  |  | **607** | |  |  | 778 | |  |  | 778 | |  |  | **604** | |  |  | **604** | |  |  | 776 | |  |  | 776 | |  |
| Allowance for loan and lease losses and other | | | | | **4** | |  |  | **86** | |  |  | 14 | |  |  | 83 | |  |  | **3** | |  |  | **86** | |  |  | 11 | |  |  | 83 | |  |
| **Total capital** | | | | | **$** | **16,530** |  |  | **$** | **16,612** |  |  | $ | 16,062 |  |  | $ | 16,131 |  |  | **$** | **18,073** |  |  | **$** | **18,156** |  |  | $ | 17,728 |  |  | $ | 17,800 |  |
| **Risk-weighted assets:** | | | | |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Credit risk(3) | | | | | **$** | **51,726** |  |  | **$** | **107,013** |  |  | $ | 47,738 |  |  | $ | 97,303 |  |  | **$** | **49,183** |  |  | **$** | **104,242** |  |  | $ | 45,565 |  |  | $ | 94,776 |  |
| Operational risk(4) | | | | | **46,913** | |  |  | **NA** | |  |  | 46,060 | |  |  | NA | |  |  | **44,125** | |  |  | **NA** | |  |  | 44,494 | |  |  | NA | |  |
| Market risk | | | | | **1,688** | |  |  | **1,688** | |  |  | 1,517 | |  |  | 1,517 | |  |  | **1,688** | |  |  | **1,688** | |  |  | 1,517 | |  |  | 1,517 | |  |
| **Total risk-weighted assets** | | | | | **$** | **100,327** |  |  | **$** | **108,701** |  |  | $ | 95,315 |  |  | $ | 98,820 |  |  | **$** | **94,996** |  |  | **$** | **105,930** |  |  | $ | 91,576 |  |  | $ | 96,293 |  |
| **Adjusted quarterly average assets** | | | | | **$** | **213,997** |  |  | **$** | **213,997** |  |  | $ | 211,924 |  |  | $ | 211,924 |  |  | **$** | **210,625** |  |  | **$** | **210,625** |  |  | $ | 209,413 |  |  | $ | 209,413 |  |
|  |  | |  | |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| **Capital Ratios:** | 2019 Minimum Requirements Including Capital Conservation Buffer and G-SIB Surcharge(5) | | 2018 Minimum Requirements Including Capital Conservation Buffer and G-SIB Surcharge(6) | |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Common equity tier 1 capital | **8.5** | **%** | 7.5 | % | **12.2** | | **%** |  | **11.3** | | **%** |  | 12.1 | | % |  | 11.7 | | % |  | **18.4** | | **%** |  | **16.5** | | **%** |  | 18.5 | | % |  | 17.6 | | % |
| Tier 1 capital | **10.0** |  | 9.0 |  | **15.9** | |  |  | **14.6** | |  |  | 16.0 | |  |  | 15.5 | |  |  | **18.4** | |  |  | **16.5** | |  |  | 18.5 | |  |  | 17.6 | |  |
| Total capital | **12.0** |  | 11.0 |  | **16.5** | |  |  | **15.3** | |  |  | 16.9 | |  |  | 16.3 | |  |  | **19.0** | |  |  | **17.1** | |  |  | 19.4 | |  |  | 18.5 | |  |
|  | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  | | | |  | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  | | | |  | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

(1) Under the applicable bank regulatory rules, we are not required to and, accordingly, did not revise previously-filed reported capital metrics and ratios following the change in accounting for LIHTC.

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

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

(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 RWA under the advanced approaches depending on the severity of the loss event and its categorization among the seven Basel-defined UOMs.

(5)Minimum requirements were phased in with full implementation beginning on January 1, 2019; minimum requirements listed are as of September 30, 2019.

(6)Minimum requirements were phased in with full implementation beginning on January 1, 2019; minimum requirements listed are as of December 31, 2018.

NANot applicable

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**Note 14.    Net Interest Income**

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Three Months Ended September 30,** | | | | | | |  | **Nine Months Ended September 30,** | | | | | | |
| **(In millions)** | **2019** | | |  | **2018** | | |  | **2019** | | |  | **2018** | | |
| **Interest income:** |  | | |  |  | | |  |  | | |  |  | | |
| Interest-bearing deposits with banks | **$** | **98** |  |  | $ | 94 |  |  | **$** | **326** |  |  | $ | 267 |  |
| Investment securities: |  | | |  |  | | |  |  | | |  |  | | |
| U.S. Treasury and federal agencies | **363** | |  |  | 300 | |  |  | **1,092** | |  |  | 835 | |  |
| State and political subdivisions | **12** | |  |  | 29 | |  |  | **37** | |  |  | 125 | |  |
| Other investments | **126** | |  |  | 136 | |  |  | **374** | |  |  | 434 | |  |
| Securities purchased under resale agreements | **101** | |  |  | 87 | |  |  | **289** | |  |  | 246 | |  |
| Loans and leases | **194** | |  |  | 173 | |  |  | **587** | |  |  | 498 | |  |
| Other interest-earning assets | **107** | |  |  | 97 | |  |  | **330** | |  |  | 275 | |  |
| Total interest income | **1,001** | |  |  | 916 | |  |  | **3,035** | |  |  | 2,680 | |  |
| **Interest expense:** |  | | |  |  | | |  |  | | |  |  | | |
| Interest-bearing deposits | **173** | |  |  | 84 | |  |  | **553** | |  |  | 236 | |  |
| Securities sold under repurchase agreements | **7** | |  |  | 4 | |  |  | **27** | |  |  | 11 | |  |
| Other short-term borrowings | **8** | |  |  | 4 | |  |  | **18** | |  |  | 12 | |  |
| Long-term debt | **99** | |  |  | 100 | |  |  | **312** | |  |  | 293 | |  |
| Other interest-bearing liabilities | **70** | |  |  | 52 | |  |  | **195** | |  |  | 154 | |  |
| Total interest expense | **357** | |  |  | 244 | |  |  | **1,105** | |  |  | 706 | |  |
| **Net interest income** | **$** | **644** |  |  | $ | 672 |  |  | **$** | **1,930** |  |  | $ | 1,974 |  |

**Note 15.    Expenses**

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Three Months Ended September 30,** | | | | | | |  | **Nine Months Ended September 30,** | | | | | | |
| **(In millions)** | **2019** | | |  | **2018** | | |  | **2019** | | |  | **2018** | | |
| Professional services | **$** | **70** |  |  | $ | 79 |  |  | **$** | **235** |  |  | $ | 247 |  |
| Sales advertising public relations | **29** | |  |  | 29 | |  |  | **83** | |  |  | 84 | |  |
| Regulatory fees and assessments | **18** | |  |  | 14 | |  |  | **54** | |  |  | 73 | |  |
| Bank operations | **9** | |  |  | 14 | |  |  | **30** | |  |  | 53 | |  |
| Insurance | **7** | |  |  | 7 | |  |  | **21** | |  |  | 22 | |  |
| Other | **135** | |  |  | 108 | |  |  | **394** | |  |  | 347 | |  |
| Total other expenses | **$** | **268** |  |  | $ | 251 |  |  | **$** | **817** |  |  | $ | 826 |  |

***Acquisition Costs***

We recorded $27 million and $50 million of acquisition costs in the three and nine months ended September 30, 2019, respectively, primarily related to our acquisition of CRD. As we integrate CRD into our business, we expect to incur approximately $200 million of acquisition costs, including merger and integration costs, through 2021.

***Restructuring and Repositioning Charges***

*Repositioning Charges*

In 2018, we initiated a new expense program to accelerate efforts to become a higher-performing organization and help navigate challenging market and industry conditions. In both the three months ended September 30, 2019 and 2018, we did not record any repositioning charges.

The following table presents aggregate activity for repositioning charges and activity related to previous Beacon restructuring charges for the periods indicated:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **(In millions)** | **Employee Related Costs** | | |  | **Real Estate Actions** | | |  | **Asset and Other Write-offs** | | |  | **Total** | | |
| **Accrual balance at December 31, 2017** | $ | 166 |  |  | $ | 32 |  |  | $ | 3 |  |  | $ | 201 |  |
| Payments and other adjustments | (22 | | ) |  | (4 | | ) |  | — | |  |  | (26 | | ) |
| **Accrual balance at March 31, 2018** | $ | 144 |  |  | $ | 28 |  |  | $ | 3 |  |  | $ | 175 |  |
| Accruals for repositioning charges | 61 | |  |  | 16 | |  |  | — | |  |  | 77 | |  |
| Payments and other adjustments | (36 | | ) |  | (3 | | ) |  | — | |  |  | (39 | | ) |
| **Accrual balance at June 30, 2018** | $ | 169 |  |  | $ | 41 |  |  | $ | 3 |  |  | $ | 213 |  |
| Accruals for Beacon | (1 | | ) |  | — | |  |  | — | |  |  | (1 | | ) |
| Payments and other adjustments | (18 | | ) |  | (4 | | ) |  | (1 | | ) |  | (23 | | ) |
| **Accrual balance at September 30, 2018** | $ | 150 |  |  | $ | 37 |  |  | $ | 2 |  |  | $ | 189 |  |
| **Accrual balance at December 31, 2018** | $ | 303 |  |  | $ | 37 |  |  | $ | 1 |  |  | $ | 341 |  |
| Accruals for Beacon | (4 | | ) |  | — | |  |  | — | |  |  | (4 | | ) |
| Payments and other adjustments | (53 | | ) |  | (25 | | ) |  | — | |  |  | (78 | | ) |
| **Accrual balance at March 31, 2019** | $ | 246 |  |  | $ | 12 |  |  | $ | 1 |  |  | $ | 259 |  |
| Accruals for Beacon | 2 | |  |  | — | |  |  | — | |  |  | 2 | |  |
| Payments and other adjustments | (51 | | ) |  | (1 | | ) |  | — | |  |  | (52 | | ) |
| **Accrual balance at June 30, 2019** | $ | 197 |  |  | $ | 11 |  |  | $ | 1 |  |  | $ | 209 |  |
| Payments and other adjustments | **(62** | | **)** |  | **(2** | | **)** |  | **—** | |  |  | **(64** | | **)** |
| **Accrual balance at September 30, 2019** | **$** | **135** |  |  | **$** | **9** |  |  | **$** | **1** |  |  | **$** | **145** |  |

**Note 16. Occupancy Expense and Information Systems and Communications Expense**

Upon adoption of Topic 842 on January 1, 2019, we recognized right-of-use assets of approximately $0.91 billion and lease liabilities of approximately $1.06 billion.

Occupancy expense and information systems and communications expense include depreciation of buildings, leasehold improvements, computer hardware and software, equipment, furniture and fixtures, and amortization of lease right-of-use assets. Total depreciation and amortization was $214 million and $625 million in the three and nine months ended September 30, 2019, respectively.

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We use our incremental borrowing rate to determine the present value of the lease payments for finance and operating leases described below. Additionally, we do not separate nonlease components such as real estate taxes and common area maintenance from base lease payments.

As of September 30, 2019, an aggregate net book value of $84 million for the finance lease related to our One Lincoln Street Boston headquarters is recorded in premises and equipment, with the related lease liability of $144 million recorded in long-term debt, in our consolidated statement of condition.

Finance lease right-of-use asset amortization is recorded in occupancy expense on a straight-line basis in our consolidated statement of income over the respective lease term. As of September 30, 2019, accumulated amortization of the finance lease right-of-use asset was $51 million. Lease payments are recorded as a reduction of the liability, with a portion recorded as imputed interest expense. In the three and nine months ended September 30, 2019, interest expense related to the finance lease obligation reflected in NII was $3 million and $9 million, respectively.

As of September 30, 2019, an aggregate net book value of $834 million for the operating lease right-of-use assets is recorded in other assets, with the related lease liability of $977 million recorded in accrued expenses and other liabilities in our consolidated statement of condition.

We have entered into non-cancellable operating leases for premises and equipment. Nearly all of these leases include renewal options, and only those reasonably certain of being exercised are included in the term of the lease. Costs for operating leases are recorded on a straight-line basis which includes both interest expense and right-of-use asset amortization. Operating lease costs for office space are recorded in occupancy expense. Costs related to operating leases for equipment are recorded in information systems and communications expense.

As of September 30, 2019, we have additional operating leases, primarily for office space, that have not yet commenced of approximately $508 million of undiscounted future minimum lease payments. These leases will commence between fiscal year 2019 and fiscal year 2023 with lease terms of 11 to 15 years. The majority of these future payments relate to the new Boston headquarters lease executed in the first quarter of 2019, replacing the One Lincoln Street Boston property.

None of our leases contain residual value guarantees.

The following table presents lease costs, sublease rental income, cash flows and new leases arising from lease transactions for the three and nine months ended September 30, 2019:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
| **(In millions)** | **Three Months Ended September 30, 2019** | | |  | **Nine Months Ended September 30, 2019** | | |
| **Finance lease:** |  | | |  |  | | |
| Amortization of right-of-use assets | **$** | **5** |  |  | **$** | **16** |  |
| Interest on lease liabilities | **3** | |  |  | **9** | |  |
| Total finance lease expense | **8** | |  |  | **25** | |  |
| Sublease income | **(2** | | **)** |  | **(7** | | **)** |
| Net finance lease expense | **6** | |  |  | **18** | |  |
| **Operating lease:** |  | | |  |  | | |
| Operating lease expense | **43** | |  |  | **132** | |  |
| Sublease income | **(1** | | **)** |  | **(4** | | **)** |
| Net operating lease expense | **42** | |  |  | **128** | |  |
| **Net lease expense** | **$** | **48** |  |  | **$** | **146** |  |
|  |  | | |  |  | | |
| **Cash paid for amounts included in the measurement of lease liabilities:** |  | | |  |  | | |
| Operating cash flows from finance leases | **$** | **2** |  |  | **$** | **8** |  |
| Operating cash flows from operating leases | **43** | |  |  | **142** | |  |
| Financing cash flows from finance leases | **8** | |  |  | **47** | |  |
| **Right-of-use assets obtained in exchange for new lease obligations:** |  | | |  |  | | |
| Operating leases | **$** | **21** |  |  | **$** | **54** |  |
| Finance leases | **—** | |  |  | **—** | |  |

The following table presents future minimum lease payments under non-cancellable leases as of September 30, 2019:

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |
| **(In millions)** | **Operating Leases** | | |  | **Finance Leases** | | |  | **Total** | | |
| 2019 (excluding the first nine months ended 2019) | **$** | **48** |  |  | **$** | **10** |  |  | **$** | **58** |  |
| 2020 | **182** | |  |  | **42** | |  |  | **224** | |  |
| 2021 | **175** | |  |  | **42** | |  |  | **217** | |  |
| 2022 | **153** | |  |  | **42** | |  |  | **195** | |  |
| 2023 | **133** | |  |  | **30** | |  |  | **163** | |  |
| Thereafter | **393** | |  |  | **—** | |  |  | **393** | |  |
| Total future minimum lease payments | **1,084** | |  |  | **166** | |  |  | **1,250** | |  |
| Less imputed interest | **(107** | | **)** |  | **(22** | | **)** |  | **(129** | | **)** |
| Total | **$** | **977** |  |  | **$** | **144** |  |  | **$** | **1,121** |  |

The following table presents details related to remaining lease terms and discount rate as of September 30, 2019

|  |  |  |
| --- | --- | --- |
|  | | |
|  |  |  |
|  | **September 30, 2019** | |
| **Weighted-average remaining lease term (in years):** |  | |
| Finance leases | **4** |  |
| Operating leases | **7** |  |
| **Weighted-average discount rate:** | | |
| Finance leases | **7** | **%** |
| Operating leases | **3** |  |

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**Note 17. Earnings Per Common Share**

For additional information on our earnings per share calculation methodologies, refer to page 78 in Note 23 to the consolidated financial statements included under Item 8, Financial Statements and Supplementary Data, in the 2018 Annual Financial Statements.

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | |
|  | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | **Three Months Ended September 30,** | | | | | | |  | **Nine Months Ended September 30,** | | | | | | |
| **(Dollars in millions, except per share amounts)** | | **2019** | | |  | **2018** | | |  | **2019** | | |  | **2018** | | |
| **Net income** | | **$** | **583** |  |  | $ | 764 |  |  | **$** | **1,678** |  |  | $ | 2,156 |  |
| Less: | |  | | |  |  | | |  |  | | |  |  | | |
| Preferred stock dividends | | **(55** | | **)** |  | (55 | | ) |  | **(160** | | **)** |  | (146 | | ) |
| Dividends and undistributed earnings allocated to participating securities(1) | | **—** | |  |  | (1 | | ) |  | **(1** | | **)** |  | (2 | | ) |
| Net income available to common shareholders | | **$** | **528** |  |  | $ | 708 |  |  | **$** | **1,517** |  |  | $ | 2,008 |  |
| **Average common shares outstanding (In thousands):** | |  | | |  |  | | |  |  | | |  |  | | |
| Basic average common shares | | **366,732** | |  |  | 374,963 | |  |  | **372,766** | |  |  | 369,368 | |  |
| Effect of dilutive securities: equity-based awards | | **3,863** | |  |  | 4,420 | |  |  | **3,595** | |  |  | 4,696 | |  |
| Diluted average common shares | | **370,595** | |  |  | 379,383 | |  |  | **376,361** | |  |  | 374,064 | |  |
| Anti-dilutive securities(2) | | **3,037** | |  |  | 1,360 | |  |  | **2,559** | |  |  | 871 | |  |
| **Earnings per common share:** | |  | | |  |  | | |  |  | | |  |  | | |
| Basic | | **$** | **1.44** |  |  | $ | 1.89 |  |  | **$** | **4.07** |  |  | $ | 5.44 |  |
| Diluted(3) | | **1.42** | |  |  | 1.87 | |  |  | **4.03** | |  |  | 5.37 | |  |
|  | | | | | | | | | | | | | | | | |
|  |  | | | | | | | | | | | | | | | |
|  |  | | | | | | | | | | | | | | | |

(1)Represents the portion of net income available to common equity allocated to participating securities, composed of unvested and fully vested SERP (Supplemental executive retirement plans) 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.

(2)Represents equity-based awards outstanding but not included in the computation of diluted average common shares, because their effect was anti-dilutive. Additional information about equity-based awards is provided on pages 72 to 74 in Note 18 to the consolidated financial statements in the 2018 Annual Financial Statements.

(3)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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**Note 18.    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 78 to 79 in Note 24 to the consolidated financial statements included under Item 8, Financial Statements and Supplementary Data, in the 2018 Annual Financial Statements.

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Three Months Ended September 30,** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  | **Investment Servicing** | | | | | | |  | **Investment Management** | | | | | | |  | **Other** | | | | | | |  | **Total** | | | | | | |
| **(Dollars in millions)** | **2019** | | |  | **2018** | | |  | **2019** | | |  | **2018** | | |  | **2019** | | |  | **2018** | | |  | **2019** | | |  | **2018** | | |
| Servicing fees | **$** | **1,272** |  |  | $ | 1,333 |  |  | **$** | **—** |  |  | $ | — |  |  | **$** | **—** |  |  | $ | — |  |  | **$** | **1,272** |  |  | $ | 1,333 |  |
| Management fees | **—** | |  |  | — | |  |  | **445** | |  |  | 474 | |  |  | **—** | |  |  | — | |  |  | **445** | |  |  | 474 | |  |
| Foreign exchange trading services | **249** | |  |  | 255 | |  |  | **35** | |  |  | 33 | |  |  | **—** | |  |  | — | |  |  | **284** | |  |  | 288 | |  |
| Securities finance | **114** | |  |  | 128 | |  |  | **2** | |  |  | — | |  |  | **—** | |  |  | — | |  |  | **116** | |  |  | 128 | |  |
| Processing fees and other | **140** | |  |  | 87 | |  |  | **2** | |  |  | 8 | |  |  | **—** | |  |  | — | |  |  | **142** | |  |  | 95 | |  |
| Total fee revenue | **1,775** | |  |  | 1,803 | |  |  | **484** | |  |  | 515 | |  |  | **—** | |  |  | — | |  |  | **2,259** | |  |  | 2,318 | |  |
| Net interest income | **649** | |  |  | 680 | |  |  | **(5** | | **)** |  | (8 | | ) |  | **—** | |  |  | — | |  |  | **644** | |  |  | 672 | |  |
| Gains (losses) related to investment securities, net | **—** | |  |  | (1 | | ) |  | **—** | |  |  | — | |  |  | **—** | |  |  | — | |  |  | **—** | |  |  | (1 | | ) |
| **Total revenue** | **2,424** | |  |  | 2,482 | |  |  | **479** | |  |  | 507 | |  |  | **—** | |  |  | — | |  |  | **2,903** | |  |  | 2,989 | |  |
| Provision for loan losses | **2** | |  |  | 5 | |  |  | **—** | |  |  | — | |  |  | **—** | |  |  | — | |  |  | **2** | |  |  | 5 | |  |
| **Total expenses** | **1,762** | |  |  | 1,705 | |  |  | **373** | |  |  | 386 | |  |  | **45** | |  |  | — | |  |  | **2,180** | |  |  | 2,091 | |  |
| **Income before income tax expense** | **$** | **660** |  |  | $ | 772 |  |  | **$** | **106** |  |  | $ | 121 |  |  | **$** | **(45** | **)** |  | $ | — |  |  | **$** | **721** |  |  | $ | 893 |  |
| Pre-tax margin | **27** | | **%** |  | 31 | | % |  | **22** | | **%** |  | 24 | | % |  |  | | |  |  | | |  | **25** | | **%** |  | 30 | | % |
|  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
|  | **Nine Months Ended September 30,** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  | **Investment Servicing** | | | | | | |  | **Investment Management** | | | | | | |  | **Other** | | | | | | |  | **Total** | | | | | | |
| **(Dollars in millions)** | **2019** | | |  | **2018** | | |  | **2019** | | |  | **2018** | | |  | **2019** | | |  | **2018** | | |  | **2019** | | |  | **2018** | | |
| Servicing fees | **$** | **3,775** |  |  | $ | 4,135 |  |  | **$** | **—** |  |  | $ | — |  |  | **$** | **—** |  |  | $ | — |  |  | **$** | **3,775** |  |  | $ | 4,135 |  |
| Management fees | **—** | |  |  | — | |  |  | **1,306** | |  |  | 1,411 | |  |  | **—** | |  |  | — | |  |  | **1,306** | |  |  | 1,411 | |  |
| Foreign exchange trading services | **735** | |  |  | 810 | |  |  | **102** | |  |  | 97 | |  |  | **—** | |  |  | — | |  |  | **837** | |  |  | 907 | |  |
| Securities finance | **353** | |  |  | 423 | |  |  | **7** | |  |  | — | |  |  | **—** | |  |  | — | |  |  | **360** | |  |  | 423 | |  |
| Processing fees and other | **483** | |  |  | 243 | |  |  | **18** | |  |  | 9 | |  |  | **—** | |  |  | — | |  |  | **501** | |  |  | 252 | |  |
| Total fee revenue | **5,346** | |  |  | 5,611 | |  |  | **1,433** | |  |  | 1,517 | |  |  | **—** | |  |  | — | |  |  | **6,779** | |  |  | 7,128 | |  |
| Net interest income | **1,951** | |  |  | 1,991 | |  |  | **(21** | | **)** |  | (17 | | ) |  | **—** | |  |  | — | |  |  | **1,930** | |  |  | 1,974 | |  |
| Gains (losses) related to investment securities, net | **(1** | | **)** |  | 6 | |  |  | **—** | |  |  | — | |  |  | **—** | |  |  | — | |  |  | **(1** | | **)** |  | 6 | |  |
| **Total revenue** | **7,296** | |  |  | 7,608 | |  |  | **1,412** | |  |  | 1,500 | |  |  | **—** | |  |  | — | |  |  | **8,708** | |  |  | 9,108 | |  |
| Provision for loan losses | **7** | |  |  | 7 | |  |  | **—** | |  |  | — | |  |  | **—** | |  |  | — | |  |  | **7** | |  |  | 7 | |  |
| **Total expenses** | **5,391** | |  |  | 5,279 | |  |  | **1,156** | |  |  | 1,173 | |  |  | **80** | |  |  | 77 | |  |  | **6,627** | |  |  | 6,529 | |  |
| **Income before income tax expense** | **$** | **1,898** |  |  | $ | 2,322 |  |  | **$** | **256** |  |  | $ | 327 |  |  | **$** | **(80** | **)** |  | $ | (77 | ) |  | **$** | **2,074** |  |  | $ | 2,572 |  |
| Pre-tax margin | **26** | | **%** |  | 31 | | % |  | **18** | | **%** |  | 22 | | % |  |  | | |  |  | | |  | **24** | | **%** |  | 28 | | % |

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**STATE STREET CORPORATION**

**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(UNAUDITED)**

**Note 19.  Revenue from Contracts with Customers**

For additional information on our revenue from contracts with customers, including revenues associated with both our Investment Servicing and Investment Management lines of business, refer to pages 80 to 81 in Note 25 to the consolidated financial statements included under Item 8, Financial Statements and Supplementary Data, in the 2018 Annual Financial Statements.

***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.

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|  | **Three Months Ended September 30, 2019** | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  | **Investment Servicing** | | | | | | | | | | |  | **Investment Management** | | | | | | | | | | |  | **Total** | | |
| **(Dollars in millions)** | **Topic 606 revenue** | | |  | **All other revenue** | | |  | **Total** | | |  | **Topic 606 revenue** | | |  | **All other revenue** | | |  | **Total** | | |  | **2019** | | |
| Servicing fees | **$** | **1,272** |  |  | **$** | **—** |  |  | **$** | **1,272** |  |  | **$** | **—** |  |  | **$** | **—** |  |  | **$** | **—** |  |  | **$** | **1,272** |  |
| Management fees | **—** | |  |  | **—** | |  |  | **—** | |  |  | **445** | |  |  | **—** | |  |  | **445** | |  |  | **445** | |  |
| Foreign exchange trading services | **90** | |  |  | **159** | |  |  | **249** | |  |  | **35** | |  |  | **—** | |  |  | **35** | |  |  | **284** | |  |
| Securities finance | **64** | |  |  | **50** | |  |  | **114** | |  |  | **—** | |  |  | **2** | |  |  | **2** | |  |  | **116** | |  |
| Processing fees and other | **97** | |  |  | **43** | |  |  | **140** | |  |  | **—** | |  |  | **2** | |  |  | **2** | |  |  | **142** | |  |
| **Total fee revenue** | **1,523** | |  |  | **252** | |  |  | **1,775** | |  |  | **480** | |  |  | **4** | |  |  | **484** | |  |  | **2,259** | |  |
| Net interest income | **—** | |  |  | **649** | |  |  | **649** | |  |  | **—** | |  |  | **(5** | | **)** |  | **(5** | | **)** |  | **644** | |  |
| Gains (losses) related to investment securities, net | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |
| **Total revenue** | **$** | **1,523** |  |  | **$** | **901** |  |  | **$** | **2,424** |  |  | **$** | **480** |  |  | **$** | **(1** | **)** |  | **$** | **479** |  |  | **$** | **2,903** |  |
|  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
|  | **Three Months Ended September 30, 2018** | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  | **Investment Servicing** | | | | | | | | | | |  | **Investment Management** | | | | | | | | | | |  | **Total** | | |
| **(Dollars in millions)** | **Topic 606 revenue** | | |  | **All other revenue** | | |  | **Total** | | |  | **Topic 606 revenue** | | |  | **All other revenue** | | |  | **Total** | | |  | **2018** | | |
| Servicing fees | $ | 1,333 |  |  | $ | — |  |  | $ | 1,333 |  |  | $ | — |  |  | $ | — |  |  | $ | — |  |  | $ | 1,333 |  |
| Management fees | — | |  |  | — | |  |  | — | |  |  | 474 | |  |  | — | |  |  | 474 | |  |  | 474 | |  |
| Foreign exchange trading services | 89 | |  |  | 166 | |  |  | 255 | |  |  | 33 | |  |  | — | |  |  | 33 | |  |  | 288 | |  |
| Securities finance | 73 | |  |  | 55 | |  |  | 128 | |  |  | — | |  |  | — | |  |  | — | |  |  | 128 | |  |
| Processing fees and other | 27 | |  |  | 60 | |  |  | 87 | |  |  | — | |  |  | 8 | |  |  | 8 | |  |  | 95 | |  |
| **Total fee revenue** | 1,522 | |  |  | 281 | |  |  | 1,803 | |  |  | 507 | |  |  | 8 | |  |  | 515 | |  |  | 2,318 | |  |
| Net interest income | — | |  |  | 680 | |  |  | 680 | |  |  | — | |  |  | (8 | | ) |  | (8 | | ) |  | 672 | |  |
| Gains (losses) related to investment securities, net | — | |  |  | (1 | | ) |  | (1 | | ) |  | — | |  |  | — | |  |  | — | |  |  | (1 | | ) |
| **Total revenue** | $ | 1,522 |  |  | $ | 960 |  |  | $ | 2,482 |  |  | $ | 507 |  |  | $ | — |  |  | $ | 507 |  |  | $ | 2,989 |  |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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|  | **Nine Months Ended September 30, 2019** | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  | **Investment Servicing** | | | | | | | | | | |  | **Investment Management** | | | | | | | | | | |  | **Total** | | |
| **(Dollars in millions)** | **Topic 606 revenue** | | |  | **All other revenue** | | |  | **Total** | | |  | **Topic 606 revenue** | | |  | **All other revenue** | | |  | **Total** | | |  | **2019** | | |
| Servicing fees | **$** | **3,775** |  |  | **$** | **—** |  |  | **$** | **3,775** |  |  | **$** | **—** |  |  | **$** | **—** |  |  | **$** | **—** |  |  | **$** | **3,775** |  |
| Management fees | **—** | |  |  | **—** | |  |  | **—** | |  |  | **1,306** | |  |  | **—** | |  |  | **1,306** | |  |  | **1,306** | |  |
| Foreign exchange trading services | **258** | |  |  | **477** | |  |  | **735** | |  |  | **102** | |  |  | **—** | |  |  | **102** | |  |  | **837** | |  |
| Securities finance | **209** | |  |  | **144** | |  |  | **353** | |  |  | **—** | |  |  | **7** | |  |  | **7** | |  |  | **360** | |  |
| Processing fees and other | **317** | |  |  | **166** | |  |  | **483** | |  |  | **—** | |  |  | **18** | |  |  | **18** | |  |  | **501** | |  |
| **Total fee revenue** | **4,559** | |  |  | **787** | |  |  | **5,346** | |  |  | **1,408** | |  |  | **25** | |  |  | **1,433** | |  |  | **6,779** | |  |
| Net interest income | **—** | |  |  | **1,951** | |  |  | **1,951** | |  |  | **—** | |  |  | **(21** | | **)** |  | **(21** | | **)** |  | **1,930** | |  |
| Gains (losses) related to investment securities, net | **—** | |  |  | **(1** | | **)** |  | **(1** | | **)** |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **(1** | | **)** |
| **Total revenue** | **$** | **4,559** |  |  | **$** | **2,737** |  |  | **$** | **7,296** |  |  | **$** | **1,408** |  |  | **$** | **4** |  |  | **$** | **1,412** |  |  | **$** | **8,708** |  |
|  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
|  | **Nine Months Ended September 30, 2018** | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  | **Investment Servicing** | | | | | | | | | | |  | **Investment Management** | | | | | | | | | | |  | **Total** | | |
| **(Dollars in millions)** | **Topic 606 revenue** | | |  | **All other revenue** | | |  | **Total** | | |  | **Topic 606 revenue** | | |  | **All other revenue** | | |  | **Total** | | |  | **2018** | | |
| Servicing fees | $ | 4,135 |  |  | $ | — |  |  | $ | 4,135 |  |  | $ | — |  |  | $ | — |  |  | $ | — |  |  | $ | 4,135 |  |
| Management fees | — | |  |  | — | |  |  | — | |  |  | 1,411 | |  |  | — | |  |  | 1,411 | |  |  | 1,411 | |  |
| Foreign exchange trading services | 275 | |  |  | 535 | |  |  | 810 | |  |  | 97 | |  |  | — | |  |  | 97 | |  |  | 907 | |  |
| Securities finance | 240 | |  |  | 183 | |  |  | 423 | |  |  | — | |  |  | — | |  |  | — | |  |  | 423 | |  |
| Processing fees and other | 69 | |  |  | 174 | |  |  | 243 | |  |  | — | |  |  | 9 | |  |  | 9 | |  |  | 252 | |  |
| **Total fee revenue** | 4,719 | |  |  | 892 | |  |  | 5,611 | |  |  | 1,508 | |  |  | 9 | |  |  | 1,517 | |  |  | 7,128 | |  |
| Net interest income | — | |  |  | 1,991 | |  |  | 1,991 | |  |  | — | |  |  | (17 | | ) |  | (17 | | ) |  | 1,974 | |  |
| Gains (losses) related to investment securities, net | — | |  |  | 6 | |  |  | 6 | |  |  | — | |  |  | — | |  |  | — | |  |  | 6 | |  |
| **Total revenue** | $ | 4,719 |  |  | $ | 2,889 |  |  | $ | 7,608 |  |  | $ | 1,508 |  |  | $ | (8 | ) |  | $ | 1,500 |  |  | $ | 9,108 |  |

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**STATE STREET CORPORATION**

**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(UNAUDITED)**

**Contract balances and contract costs**

As of both September 30, 2019 and December 31, 2018, net receivables of $2.75 billion are included in accrued interest and fees receivable, representing amounts billed or currently billable related to revenue from contracts with customers. As performance obligations are satisfied, we have an unconditional right to payment and billing is generally performed monthly; therefore, we do not have significant contract assets or liabilities.

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

**Note 20.    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:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
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|  | | **Three Months Ended September 30,** | | | | | | | | | | | | | | | | | | | | | | |
|  | | **2019** | | | | | | | | | | |  | **2018** | | | | | | | | | | |
| **(In millions)** | | **Non-U.S.(1)** | | |  | **U.S.** | | |  | **Total** | | |  | **Non-U.S.(1)** | | |  | **U.S.** | | |  | **Total** | | |
| Total revenue | | **$** | **1,254** |  |  | **$** | **1,649** |  |  | **$** | **2,903** |  |  | $ | 1,286 |  |  | $ | 1,703 |  |  | $ | 2,989 |  |
| Income before income tax expense | | **344** | |  |  | **377** | |  |  | **721** | |  |  | 405 | |  |  | 488 | |  |  | 893 | |  |
|  | |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
|  | | **Nine Months Ended September 30,** | | | | | | | | | | | | | | | | | | | | | | |
|  | | **2019** | | | | | | | | | | |  | **2018** | | | | | | | | | | |
| **(In millions)** | | **Non-U.S.(1)** | | |  | **U.S.** | | |  | **Total** | | |  | **Non-U.S.(1)** | | |  | **U.S.** | | |  | **Total** | | |
| Total revenue | | **$** | **3,733** |  |  | **$** | **4,975** |  |  | **$** | **8,708** |  |  | $ | 3,928 |  |  | $ | 5,180 |  |  | $ | 9,108 |  |
| Income before income tax expense | | **911** | |  |  | **1,163** | |  |  | **2,074** | |  |  | 1,031 | |  |  | 1,541 | |  |  | 2,572 | |  |
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(1)Geographic mix is generally based on the domicile of the entity servicing the funds and is not necessarily representative of the underlying asset mix.

Non-U.S. assets were $81.62 billion and $83.14 billion as of September 30, 2019 and 2018, respectively.

**Note 21.    Subsequent Events**

On October 21, 2019, we announced the commencement of a cash tender offer by our principal banking subsidiary, State Street Bank, for any and all of our $800 million aggregate principal amount of outstanding floating rate junior subordinated debentures due 2047.  We also announced that we will redeem $50.1 million of our $150 million aggregate principal amount outstanding of floating rate junior subordinated deferrable interest debentures, Series A, due May 15, 2028, at a redemption price equal to the outstanding principal amount of the 2028 debentures to be redeemed, plus accrued and unpaid interest.

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**Report of Ernst & Young LLP, Independent Registered Public Accounting Firm**

The Shareholders and Board of Directors of State Street Corporation

**Results of Review of Interim Financial Statements**

We have reviewed the accompanying consolidated statement of condition of State Street Corporation (the “Corporation”) as of September 30, 2019, and the related consolidated statements of income, comprehensive income and changes in shareholders' equity for the three- and nine-month periods ended September 30, 2019 and 2018, changes in cash flows for the nine-month periods ended September 30, 2019 and 2018, 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, 2018, 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 21, 2019, except for the change of its method of accounting for investments in low income housing tax credits from the equity method of accounting to the proportional amortization method of accounting described in Note 1 therein as to which the date is May 2, 2019, 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, 2018, is fairly stated, in all material respects, in relation to the consolidated statement of condition from which it has been derived.

**Basis for Review Results**

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

/s/ Ernst & Young LLP

Boston, Massachusetts

October 25, 2019

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| **ACRONYMS** | | | | |
|  |  | |  |  |
| ABS | Asset-backed securities | | G-SIB | Global systemically important bank |
| AFS | Available-for-sale | | HQLA | High-quality liquid assets |
| ALLL | Allowance for loans and leases losses | | HTM | Held-to-maturity |
| AOCI | Accumulated other comprehensive income (loss) | | LCR | Liquidity coverage ratio |
| ASU | Accounting Standards Update | | LIHTC | Low income housing tax credits |
| AUC/A | Assets under custody and/or administration | | LTD | Long-term debt |
| AUM | Assets under management | | MBS | Mortgage-backed securities |
| bps | Basis points | | NII | Net interest income |
| CCAR | Comprehensive Capital Analysis and Review | | NIM | Net interest margin |
| CET1 | Common equity tier 1 | | OCI | Other comprehensive income (loss) |
| CVA | Credit valuation adjustment | | OTTI | Other-than-temporary-impairment |
| DOJ | Department of Justice | | PCAOB | Public Company Accounting Oversight Board |
| EPS | Earnings per share | | RWA(1) | Risk-weighted assets |
| ETF | Exchange-traded fund | | SEC | Securities and Exchange Commission |
| EVE | Economic value of equity | | SLR | Supplementary leverage ratio |
| FDIC | Federal Deposit Insurance Corporation | | SPDR | Spider; Standard and Poor's depository receipt |
| FHLB | Federal Home Loan Bank of Boston | | SPOE Strategy | Single Point of Entry Strategy |
| FICC | Fixed Income Clearing Corporation | | TLAC | Total loss-absorbing capacity |
| FTE | Fully taxable-equivalent | | UOM | Unit of measure |
| FX | Foreign exchange | | VaR | Value-at-Risk |
| GAAP | Generally accepted accounting principles | |  |  |
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(1) As defined by the applicable U.S. regulations.

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| **GLOSSARY** | |
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| **2018 Annual Financial Statements:**Financial statements of State Street Corporation for the year ended December 31, 2018 included in Exhibit 99.2 to the State Street Corporation Form 8-K dated May 2, 2019.  **2018 Form 10-K:**State Street Corporation Form 10-K for the year ended December 31, 2018.  **Asset-backed securities:** A financial security backed by collateralized assets, other than real estate or mortgage backed securities.  **Assets under custody and/or administration:**Assets that we hold directly or indirectly on behalf of clients under a safekeeping or custody arrangement or for which we provide administrative services for clients. To the extent that we provide more than one AUC/A service (including back and middle office services) for a client’s assets, the value of the asset is only counted once in the total amount of AUC/A.  **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. CRE loans are term loans secured by commercial and multifamily properties. We seek CRE loans with strong competitive positions in major domestic markets, stable cash flows, modest leverage and experienced institutional ownership.  **Deposit beta:** A measure of how much of an interest rate increase is expected to be passed on to client interest-bearing accounts, on average.  **Depot bank:** A German term, specified by the country's law on investment companies, which essentially corresponds to 'custodian'.  **Doubtful:** Doubtful loans and leases meet the same definition of substandard loans and leases (i.e., well-defined weaknesses that jeopardize repayment with the possibility that we will sustain some loss) with the added characteristic that the weaknesses make collection or liquidation in full highly questionable and improbable.  **Economic value of equity:** A 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 interest in that investment pool. ETF shares are traded on a national stock exchange and at market prices that may or may not be the same as the net asset value.  **Exposure-at-default:** A measure used in the calculation of regulatory capital under Basel III. It can be defined as the expected amount of loss a bank may be exposed to upon default of an obligor.  **Global systemically important bank:**A financial institution whose distress or disorderly failure, because of its size, complexity and systemic interconnectedness, would cause significant disruption to the wider financial system and economic activity, which will be subject to additional capital requirements.  **Held-to-maturity investment securities:** We classify investments in debt securities as held-to-maturity only if we have the positive intent and ability to hold those securities to maturity. Investments in debt securities classified as held-to-maturity are measured subsequently at amortized cost in the statement of financial position. | **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.  **Investment grade:**A rating of loans and leases to counterparties with strong credit quality and low expected credit risk and probability of default. It applies to counterparties with a strong capacity to support the timely repayment of any financial commitment.  **Liquidity coverage ratio:** The ratio of encumbered high-quality liquid assets divided by expected total net cash outflows over a 30-day stress period. 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.  **Net asset value:** The amount of net assets attributable to each share/unit of the fund at a specific date or time.  **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:** A measure of the likelihood that a credit obligor will enter into default status.  **Qualified financial contracts:**Securities contracts, commodity contracts, forward contracts, repurchase agreements, swap agreements and any other contract determined by the FDIC to be a qualified financial contract.  **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**

In June 2019, our Board approved a common stock purchase program authorizing the purchase of up to $2.0 billion of our common stock from July 1, 2019 through June 30, 2020 (the 2019 Program).

Stock purchases may be made using various types of mechanisms, including open market purchases, accelerated share repurchases or transactions off market, and may be made under Rule 10b5-1 trading programs. The timing of stock purchases, types of transactions and number of shares purchased will depend on several factors, including market conditions and State Street’s capital positions, financial

performance and investment opportunities. Our common stock purchase programs do not have specific price targets and may be suspended at any time. We may employ third-party broker/dealers to acquire shares on the open market in connection with our common stock purchase programs. We repurchased $500 million of shares in the third quarter of 2019 under the 2019 Program.

The following table presents purchases of our common stock under the 2019 Program and related information for each of the months in the quarter ended September 30, 2019.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
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|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Total Number of Shares Purchased (In thousands)** | |  | **Average Price Paid Per Share** | | |  | **Total Number of Shares Purchased as Part of Publicly Announced Program (In thousands)** | |  | **Approximate Dollar Value of Shares That May Yet be Purchased Under Publicly Announced Program (In millions)** | | |
| **Period:** |  | |  |  | | |  |  | |  |  | | |
| July 1 - July 31, 2019 (1) | 6,708 |  |  | $ | 53.15 |  |  | 6,708 |  |  | $1,500(2) | |  |
| August 1 - August 31, 2019 (1) | 2,699 |  |  | 53.15 | |  |  | 2,699 |  |  | 1,500 | |  |
| September 1 - September 30, 2019 | — |  |  | — | |  |  | — |  |  | 1,500 | |  |
| Total | 9,407 |  |  | $ | 53.15 |  |  | 9,407 |  |  | $ | 1,500 |  |
|  | | | | | | | | | | | | | |
|  |  | | | | | | | | | | | | |
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(1) Inthe third quarter of 2019, we entered into an accelerated share repurchase agreement (ASR Agreement) with a third-party broker. Pursuant to the ASR Agreement and under the Board approved 2019 Program, we paid $500 million in July 2019 and received an initial delivery of approximately 6.7 million shares and upon final settlement of the agreement we received approximately 2.7 million additional shares. The Average Price Paid Per Share was calculated based on the volume weighted price of our common stock over the term of the agreement, less a negotiated discount.

(2) This amount takes into account the total number of shares repurchased pursuant to the ASR Agreement.

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**ITEM 6.    EXHIBITS**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | |
|  |  |  |  | | | |
| Exhibit No. | |  | Exhibit Description | | | |
|  |  |  |  | | | |
|  | [15](file:///D:\TMP\finance-docx\State%20Street\exhibit15acknowledgmen.htm) |  | [Acknowledgment Letter of Ernst & Young LLP, Independent Registered Public Accounting Firm](file:///D:\TMP\finance-docx\State%20Street\exhibit15acknowledgmen.htm) | | | |
|  |  |  |  | | | |
|  | [31.1](file:///D:\TMP\finance-docx\State%20Street\exhibit311-september30.htm) |  | [Rule 13a-14(a)/15d-14(a) Certification of President and Chief Executive Officer](file:///D:\TMP\finance-docx\State%20Street\exhibit311-september30.htm) | | | |
|  |  |  |  | | | |
|  | [31.2](file:///D:\TMP\finance-docx\State%20Street\exhibit312-september30.htm) |  | [Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer](file:///D:\TMP\finance-docx\State%20Street\exhibit312-september30.htm) | | | |
|  |  |  |  | | | |
|  | [32](file:///D:\TMP\finance-docx\State%20Street\exhibit32-september302.htm) |  | [Section 1350 Certifications](file:///D:\TMP\finance-docx\State%20Street\exhibit32-september302.htm) | | | |
|  |  |  |  | | | |
|  | 101.INS |  | The instance document does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document | | | |
|  |  |  |  | | | |
| \* | 101.SCH |  | Inline XBRL Taxonomy Extension Schema Document | | | |
|  |  |  |  | | | |
| \* | 101.CAL |  | Inline XBRL Taxonomy Calculation Linkbase Document | | | |
|  |  |  |  | | | |
| \* | 101.DEF |  | Inline XBRL Taxonomy Extension Definition Linkbase Document | | | |
|  |  |  |  | | | |
| \* | 101.LAB |  | Inline XBRL Taxonomy Label Linkbase Document | | | |
|  |  |  |  | | | |
| \* | 101.PRE |  | Inline XBRL Taxonomy Presentation Linkbase Document | | | |
|  |  |  |  | | | |
| \* | 104 |  | Cover Page Interactive Data File (formatted as Inline XBRL and included within the Exhibit 101 attachments) | | | |
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| \* |  | Submitted electronically herewith |

Attached as Exhibit 101 to this report are the following formatted in Inline XBRL (Extensible Business Reporting Language): (i) consolidated statement of income for the three and nine months ended September 30, 2019 and 2018, (ii) consolidated statement of comprehensive income for the three and nine months ended September 30, 2019 and 2018, (iii) consolidated statement of condition as of September 30, 2019 and December 31, 2018, (iv) consolidated statement of changes in shareholders' equity for the three and nine months ended September 30, 2019 and 2018, (v) consolidated statement of cash flows for the nine months ended September 30, 2019 and 2018, 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.

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|  |  |  |  |  | STATE STREET CORPORATION |
|  |  |  |  |  | (Registrant) |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
| Date: | October 25, 2019 |  | By: |  | /s/ ERIC W. ABOAF |
|  |  |  |  |  | Eric W. Aboaf, |
|  |  |  |  |  | *Executive Vice President and Chief Financial Officer (Principal Financial Officer)* |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
| Date: | October 25, 2019 |  | By: |  | /s/ IAN W. APPLEYARD |
|  |  |  |  |  | Ian W. Appleyard, |
|  |  |  |  |  | *Executive Vice President, Global Controller and Chief Accounting Officer*  *(Principal Accounting Officer)* |
|  |  |  |  |  |  |

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