

STATE STREET CORP  
Form 10-Q  
August 04, 2017  
Table of Contents

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

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934  
For the quarterly period ended June 30, 2017

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

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

STATE STREET CORPORATION

(Exact name of registrant as specified in its charter)

Massachusetts 04-2456637  
(State or other jurisdiction of incorporation) (I.R.S. Employer Identification No.)

One Lincoln Street 02111  
Boston, Massachusetts  
(Address of principal executive office) (Zip Code)

617-786-3000  
(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
Emerging growth company  (Do not check if a smaller reporting company)

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No   
The number of shares of the registrant's common stock outstanding as of July 31, 2017 was 373,955,415.



STATE STREET CORPORATION  
QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTERLY PERIOD ENDED  
June 30, 2017

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

<u>Table of Contents for Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>3</u>
Management's Discussion and Analysis of Financial Condition and Results of Operations	<u>4</u>
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>52</u>
<u>Controls and Procedures</u>	<u>52</u>
<u>Consolidated Statement of Income (Unaudited) for the three and six months ended June 30, 2017 and 2016</u>	<u>53</u>
<u>Consolidated Statement of Comprehensive Income (Unaudited) for the three and six months ended June 30, 2017 and 2016</u>	<u>54</u>
<u>Consolidated Statement of Condition as of June 30, 2017 (Unaudited) and December 31, 2016</u>	<u>55</u>
<u>Consolidated Statement of Changes in Shareholders' Equity (Unaudited) for the six months ended June 30, 2017 and 2016</u>	<u>56</u>
<u>Consolidated Statement of Cash Flows (Unaudited) for the six months ended June 30, 2017 and 2016</u>	<u>57</u>
<u>Condensed Notes to Consolidated Financial Statements (Unaudited)</u>	<u>58</u>
<u>Review Report of Independent Registered Public Accounting Firm</u>	<u>102</u>
PART II. OTHER INFORMATION	
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>105</u>
<u>Exhibits</u>	<u>105</u>
<u>Signatures</u>	<u>106</u>
<u>Exhibit Index</u>	<u>107</u>

---

Table of Contents

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

TABLE OF CONTENTS

<u>General</u>	<u>4</u>
<u>Overview of Financial Results</u>	<u>8</u>
<u>Consolidated Results of Operations</u>	<u>11</u>
<u>Total Revenue</u>	<u>11</u>
<u>Fee Revenue</u>	<u>11</u>
<u>Net Interest Income</u>	<u>13</u>
<u>Expenses</u>	<u>16</u>
<u>Income Tax Expense</u>	<u>18</u>
<u>Line of Business Information</u>	<u>18</u>
<u>Financial Condition</u>	<u>25</u>
<u>Investment Securities</u>	<u>26</u>
<u>Loans and Leases</u>	<u>29</u>
<u>Cross-Border Outstandings</u>	<u>29</u>
<u>Risk Management</u>	<u>30</u>
<u>Credit Risk Management</u>	<u>30</u>
<u>Liquidity Risk Management</u>	<u>30</u>
<u>Operational Risk Management</u>	<u>35</u>
<u>Market Risk Management</u>	<u>35</u>
<u>Model Risk Management</u>	<u>38</u>
<u>Capital</u>	<u>38</u>
<u>Off-Balance Sheet Arrangements</u>	<u>51</u>
<u>Recent Accounting Developments</u>	<u>51</u>

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

State Street Corporation | 3

---

Table of Contents

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

GENERAL

State Street Corporation, referred to as the Parent Company, is a financial holding company organized in 1969 under the laws of the Commonwealth of Massachusetts. Our executive offices are located at One Lincoln Street, Boston, Massachusetts 02111 (telephone (617) 786-3000). For purposes of this Form 10-Q, unless the context requires otherwise, references to "State Street," "we," "us," "our" or similar terms mean State Street Corporation and its subsidiaries on a consolidated basis. The Parent Company is a source of financial and managerial strength to our subsidiaries.

Through our subsidiaries, including our principal banking subsidiary, State Street Bank, we provide a broad range of financial products and services to institutional investors worldwide, with \$31.04 trillion of AUCA and \$2.61 trillion of AUM as of June 30, 2017.

As of June 30, 2017, we had consolidated total assets of \$238.27 billion, consolidated total deposits of \$181.42 billion, consolidated total shareholders' equity of \$22.07 billion and 35,606 employees. We operate in more than 100 geographic markets worldwide, including in the U.S., Canada, Europe, the Middle East and Asia.

Our operations are organized into two lines of business, Investment Servicing and Investment Management, which are defined based on products and services provided.

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

This Management's Discussion and Analysis is part of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2017, and updates the Management's Discussion and Analysis in our 2016 Form 10-K previously filed with the SEC. 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 2016 Form 10-K. Certain previously reported amounts presented in this Form 10-Q have been reclassified to conform to current-period presentation.

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

The significant accounting policies that require us to make judgments, estimates and assumptions that are difficult, subjective or complex about matters that are uncertain and may change in subsequent periods include:

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

These significant accounting policies require the most subjective or complex judgments, and underlying estimates and assumptions could be subject to revision as new information becomes available. For additional information about these significant accounting policies, refer to pages 119 - 122, "Significant Accounting Estimates" included under Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, in our 2016 Form 10-K. We did not change these significant accounting policies in the first six months of 2017.

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 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

currently applicable regulatory ratio or U.S. GAAP-basis measure.

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

We provide additional disclosures required by applicable bank regulatory standards, including supplemental qualitative and quantitative information with respect to regulatory capital (including market

State Street Corporation | 4

---

Table of Contents

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

risk associated with our trading activities) and the liquidity coverage ratio, summary results of semi-annual State Street-run stress tests which we conduct under the Dodd-Frank Act, and resolution plan disclosures required under the Dodd-Frank Act. These additional disclosures are accessible on the "Investor Relations" section of our corporate website at [www.statestreet.com](http://www.statestreet.com).

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

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

Forward-Looking Statements

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

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

Forward-looking statements are subject to various risks and uncertainties, which change over time, are based on management's expectations and assumptions at the time the statements are made, and are not guarantees of future results. Management's expectations and assumptions, and the continued validity of the forward-looking statements, are subject to change due to a broad range of factors affecting the national and global economies, regulatory environment and the equity,

debt, currency and other financial markets, as well as factors specific to State Street and its subsidiaries, including State Street Bank. Factors that could cause changes in the expectations or assumptions on which forward-looking statements are based cannot be foreseen with certainty and include, but are not limited to:

- the financial strength and continuing viability of the counterparties with which we or our clients do business and to which we have investment, credit or financial exposure, including, for example, the direct and indirect effects on counterparties of the sovereign-debt risks in the U.S., Europe and other regions;
- 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 the possibility that we may change the manner in which we fund those assets;
- the liquidity of the U.S. and international securities markets, particularly the markets for fixed-income securities and inter-bank credits, and the liquidity requirements of our clients;
- the level and volatility of interest rates, the valuation of the U.S. dollar relative to other currencies in which we record revenue or accrue expenses and the performance and volatility of securities, credit, currency and other markets in the U.S. and internationally; and the impact of monetary and fiscal policy in the United States and internationally on prevailing rates of interest and currency exchange rates in the markets in which we provide services to our clients;
- the credit quality, credit-agency ratings and fair values of the securities in our investment securities portfolio, a deterioration or downgrade of which could lead to other-than-temporary impairment of the respective securities and the recognition of an impairment loss in our consolidated statement of income;
-



our ability to attract deposits and other low-cost, short-term funding, our ability to manage levels of such deposits and the relative portion of our deposits that are determined to be operational under regulatory guidelines and our ability to deploy deposits in a profitable manner consistent with our liquidity needs, regulatory requirements and risk profile; the manner and timing with which the Federal Reserve and other U.S. and foreign regulators implement or reevaluate changes to the regulatory framework applicable to our operations, including implementation or

State Street Corporation | 5

---

Table of Contents

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

modification of the Dodd-Frank Act, the Basel III final rule and European legislation (such as the Alternative Investment Fund Managers Directive, Undertakings for Collective Investment in Transferable Securities Directives and Markets in Financial Instruments Directive II); among other consequences, these regulatory changes impact the levels of regulatory capital we must maintain, acceptable levels of credit exposure to third parties, margin requirements applicable to derivatives, and restrictions on banking and financial activities. In addition, our regulatory posture and related expenses have been and will continue to be affected by changes in regulatory expectations for global systemically important financial institutions applicable to, among other things, risk management, liquidity and capital planning, resolution planning, compliance programs, and changes in governmental enforcement approaches to perceived failures to comply with regulatory or legal obligations;

our resolution plan, submitted to the Federal Reserve and FDIC in June 2017, may not be considered to be sufficient by the Federal Reserve and the FDIC, due to a number of factors, including, but not limited to, challenges we may experience in interpreting and addressing regulatory expectations, failure to implement remediation in a timely manner, the complexities of development of a comprehensive plan to resolve a global custodial bank and related costs and dependencies. If we fail to meet regulatory expectations to the satisfaction of the Federal Reserve and the FDIC in our resolution plan submission filed in June 2017 or any future submission, we could be subject to more stringent capital, leverage or liquidity requirements, or restrictions on our growth, activities or operations;

adverse changes in the regulatory ratios that we are required or will be required to meet, whether arising under the Dodd-Frank Act or the Basel III final rule, 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 ratios that cause changes in those ratios as they are measured from period to period;

requirements to obtain the prior approval or non-objection of the Federal Reserve or other U.S. and non-U.S. regulators for the use, allocation or distribution of our capital or other specific capital actions or corporate activities, including,

without limitation, acquisitions, investments in subsidiaries, dividends and stock purchases, without which our growth plans, distributions to shareholders, share repurchase programs or other capital or corporate initiatives may be restricted;

changes in law or regulation, or the enforcement of law or regulation, that may adversely affect our business activities or those of our clients or our counterparties, and the products or services that we sell, including additional or increased taxes or assessments thereon, capital adequacy requirements, margin requirements and changes that expose us to risks related to the adequacy of our controls or compliance programs;

economic or financial market disruptions in the U.S. or internationally, including those which may result from recessions or political instability; for example, the U.K.'s decision to exit from the European Union may continue to disrupt financial markets or economic growth in Europe or, similarly, financial markets may react sharply or abruptly to actions taken by the new administration in the United States;

our ability to develop and execute State Street Beacon, our multi-year transformation program to digitize our business, deliver significant value and innovation for our clients and lower expenses across the organization, any failure of which, in whole or in part, may among other things, reduce our competitive position, diminish the cost-effectiveness of our systems and processes or provide an insufficient return on our associated investment;

our ability to promote a strong culture of risk management, operating controls, compliance oversight, ethical behavior and governance that meets our expectations and those of our clients and our regulators, and the financial, regulatory, reputation and other consequences of our failure to meet such expectations; the impact on our compliance and controls enhancement programs of the appointment of a monitor under the deferred prosecution agreement with the DOJ and compliance consultant expected to be appointed under a potential settlement with the SEC, including the potential for such monitor and compliance consultant to require changes to our programs or to identify other issues that require substantial expenditures, changes in our operations, or payments to clients or reporting to U.S. authorities;

the results of our review of our billing practices, including additional amounts we may be required to reimburse clients, as well as

State Street Corporation | 6

---

Table of Contents

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

potential consequences of such review, including damage to our client relationships and adverse actions by governmental authorities;

- the results of, and costs associated with, governmental or regulatory inquiries and investigations, litigation and similar claims, disputes, or civil or criminal proceedings;
- changes or potential changes in the amount of compensation we receive from clients for our services, and the mix of services provided by us that clients choose;
- the large institutional clients on which we focus are often able to exert considerable market influence, and this, combined with strong competitive market forces, subjects us to significant pressure to reduce the fees we charge, to potentially significant changes in our assets under custody and administration or our assets under management in the event of the acquisition or loss of a client, in whole or in part, and to potentially significant changes in our fee revenue in the event a client re-balances or changes its investment approach or otherwise re-directs assets to lower- or higher-fee asset classes;
- the potential for losses arising from our investments in sponsored investment funds;
- the possibility that our clients will incur substantial losses in investment pools for which we act as agent, and the possibility of significant reductions in the liquidity or valuation of assets underlying those pools;
- our ability to anticipate and manage the level and timing of redemptions and withdrawals from our collateral pools and other collective investment products;
- the credit agency ratings of our debt and depositary obligations and investor and client perceptions of our financial strength;
- adverse publicity, whether specific to State Street or regarding other industry participants or industry-wide factors, or other reputational harm;
- our ability to control operational risks, data security breach risks and outsourcing risks, our ability to protect our intellectual property rights, the possibility of errors in the quantitative models we use to manage our business and the possibility that our controls will prove insufficient, fail or be circumvented;
- our ability to expand our use of technology to enhance the efficiency, accuracy and reliability of our operations and our dependencies on information technology and our ability to control related risks, including cyber-crime and other threats to our information technology infrastructure and systems (including those of our third-party service providers) and their effective operation both independently and with external systems, and complexities and costs of protecting the security of such systems and data;
- our ability to grow revenue, manage expenses, attract and retain highly skilled people and raise the capital necessary to achieve our business goals and comply with regulatory requirements and expectations;
- changes or potential changes to the competitive environment, including changes due to regulatory and technological changes, the effects of industry consolidation and perceptions of State Street as a suitable service provider or counterparty;
- our ability to complete acquisitions, joint ventures and divestitures, including the ability to obtain regulatory approvals, the ability to arrange financing as required and the ability to satisfy closing conditions;
- the risks that our acquired businesses and joint ventures will not achieve their anticipated financial and operational benefits or will not be integrated successfully, or that the integration will take longer than anticipated, that expected synergies will not be achieved or unexpected negative synergies or liabilities will be experienced, that client and deposit retention goals will not be met, that other regulatory or operational challenges will be experienced, and that disruptions from the transaction will harm our relationships with our clients, our employees or regulators;
- our ability to recognize evolving needs of our clients and to develop products that are responsive to such trends and profitable to us, the performance of and demand for the products and services we offer, and the potential for new products and services to impose additional costs on us and expose us to increased operational risk;
- changes in accounting standards and practices; 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

State Street Corporation | 7

---

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

this Form 10-Q should not be relied on as representing our expectations or beliefs 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](http://www.sec.gov) or on the "Investor Relations" section of our corporate website at [www.statestreet.com](http://www.statestreet.com).

## OVERVIEW OF FINANCIAL RESULTS

TABLE 1: OVERVIEW OF FINANCIAL RESULTS

	Quarters Ended June 30,		
(Dollars in millions, except per share amounts)	2017	2016	% Change
Total fee revenue	\$2,235	\$2,053	9 %
Net interest income	575	521	10
Gains (losses) related to investment securities, net	—	(1 )	nm
Total revenue	2,810	2,573	9
Provision for loan losses	3	4	(25 )
Total expenses	2,031	1,860	9
Income before income tax expense	776	709	9
Income tax expense (benefit)	156	92	70
Net Income (loss) from non-controlling interest	—	2	nm
Net income	\$620	\$619	—
Adjustments to net income:			
Dividends on preferred stock <sup>(1)</sup>	(36 )	(33 )	9
Earnings allocated to participating securities <sup>(2)</sup>	—	(1 )	nm
Net income available to common shareholders	\$584	\$585	—
Earnings per common share:			
Basic	\$1.56	\$1.48	5
Diluted	1.53	1.47	4
Average common shares outstanding (in thousands):			
Basic	375,395	394,160	
Diluted	380,915	398,847	
Cash dividends declared per common share	\$.38	\$.34	
Return on average common equity	12.6 %	12.4 %	
	Six Months Ended June 30,		
(Dollars in millions, except per share amounts)	2017	2016	% Change
Total fee revenue	\$4,433	\$4,023	10 %
Net interest income	1,085	1,033	5

Edgar Filing: STATE STREET CORP - Form 10-Q

Gains (losses) related to investment securities, net	(40 )	1	nm
Total revenue	5,478	5,057	8
Provision for loan losses	1	8	(88 )
Total expenses	4,117	3,910	5
Income before income tax expense	1,360	1,139	19
Income tax expense (benefit)	238	154	55
Net income from non-controlling interest	—	2	nm
Net income	\$1,122	\$987	14
Adjustments to net income:			
Dividends on preferred stock <sup>(1)</sup>	\$(91 )	\$(82 )	11
Earnings allocated to participating securities <sup>(2)</sup>	(1 )	(1 )	nm
Net income available to common shareholders	\$1,030	\$904	14
Earnings per common share:			
Basic	\$2.72	\$2.28	19
Diluted	2.69	2.25	20
Average common shares outstanding (in thousands):			
Basic	378,293	396,790	
Diluted	383,489	401,113	
Cash dividends declared per common share	\$.76	\$.68	
Return on average common equity	11.3 %	9.6 %	

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

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

<sup>nm</sup> Not meaningful

State Street Corporation | 8

---

Table of Contents

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

The following "Highlights" and "Financial Results" sections provide information related to significant events, as well as highlights of our consolidated financial results for the quarter ended June 30, 2017 presented in Table 1: Overview of Financial Results. More detailed information about our consolidated financial results, including comparisons of our financial results for the quarter ended June 30, 2017 to those for the quarter ended June 30, 2016 and for the six months ended June 30, 2017 to those for the six months ended June 30, 2016, is provided under "Consolidated Results of Operations," which follows these sections. In this Management's Discussion and Analysis, where we describe the effects of changes in foreign exchange rates, those effects are determined by applying applicable weighted average foreign exchange rates from the relevant 2016 period to the relevant 2017 results.

Highlights

EPS of \$1.53 increased 4% in the second quarter of 2017 compared to \$1.47 in the second quarter of 2016, reflecting growth in fee revenue driven by higher global equity markets, new business wins and higher client volumes, the contribution of the acquired GEAM operations and savings associated with State Street Beacon. The growth in EPS also reflected higher NII as a result of the higher market interest rates in the U.S., disciplined liability pricing and improvement of our liability mix. These increases were partially offset by restructuring costs of \$62 million in the second quarter of 2017 as compared to \$13 million in the second quarter of 2016.

Second quarter 2017 ROE of 12.6% increased 20 bps compared to 12.4% in the second quarter of 2016, reflecting strong earnings and capital return via stock purchases and dividend payouts, partially offset by the aforementioned restructuring charges.

Strength in equity markets and new business drove increases in both AUCA and AUM.

AUCA increased 12% in the second quarter of 2017 compared to the second quarter of 2016, primarily due to higher global equity markets, net new business and client flows. The AUCA growth contributed to revenue growth across the geographic regions we serve and across a range of products and client segments. In the second quarter of 2017, we secured new asset servicing mandates of approximately \$135 billion. Our AUCA

pipeline of asset servicing mandates that have been won but not yet installed as of June 30, 2017 totaled approximately \$370 billion.

AUM increased 13% in the second quarter of 2017 compared to the second quarter of 2016, primarily due to higher global equity markets, the impact of the acquired GEAM operations and positive ETF flows, partially offset by continuing institutional net outflows.

Additional information about AUCA and AUM is provided in "Servicing Fees" and "Management Fees," respectively, in "Line of Business - Investment Servicing" and "Line of Business - Investment Management," respectively, in this Management's Discussion and Analysis in this Form 10-Q.

We declared a quarterly common stock dividend of \$0.38 per share, totaling approximately \$142 million, in the second quarter of 2017, compared to \$0.34 per share, totaling \$133 million in the second quarter of 2016.

In the second quarter of 2017, we acquired approximately 2.7 million shares of common stock at an average per-share cost of \$83.84 and an aggregate cost of approximately \$227 million under the common stock purchase program approved by our Board in June 2016.

Subsequent to the Federal Reserve's June 2017 non-objection to our capital plan under its 2017 CCAR process, our Board approved a new common stock purchase program, authorizing the purchase of up to \$1.4 billion of common stock from July 1, 2017 through June 30, 2018 and, in July 2017, approved a third quarter quarterly common stock dividend of \$0.42 per share, an increase of approximately 11% over the second quarter of 2017 quarterly common stock dividend.

Additional information with respect to our common stock purchase program and stock dividends are provided under "Capital" in "Financial Condition" in this Management's Discussion and Analysis in this Form 10-Q.

In May 2017, we issued \$750 million of fixed-to-floating rate senior notes due on May 15, 2023.





Table of Contents

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

Financial Results

Total revenue in the second quarter of 2017 increased 9% compared to the second quarter of 2016, reflecting growth in total fee revenue and NII. The increase was primarily due to higher global equity markets, the acquired GEAM business, higher market interest rates in the U.S. and net new business. The second quarter of 2016 also included a revenue reduction of \$48 million to servicing fees related to reimbursements to our clients related to the manner in which we invoiced certain expenses to our clients, as further discussed within "Investment Servicing" in "Line of Business Information" in this Management's Discussion and Analysis.

Servicing fee revenue increased 8% in the second quarter of 2017 compared to the second quarter of 2016, primarily due to higher global equity markets, net new business and higher client volumes.

Management fee revenue increased 36% in the second quarter of 2017 compared to the second quarter of 2016, primarily due to approximately \$72 million from the acquired GEAM business, higher global equity markets and higher revenue-yielding ETF flows.

Processing and other fee revenue decreased 68% in the second quarter of 2017 compared to the second quarter of 2016, primarily due to a pre-tax gain of approximately \$53 million related to the sale of the WM/Reuters business in the second quarter of 2016 and unfavorable foreign exchange swap costs in the second quarter of 2017.

NII increased 10% in the second quarter of 2017 compared to the second quarter of 2016, primarily due to higher market interest rates in the U.S. and disciplined liability pricing as well as improved liability mix, partially offset by lower investment portfolio securities balances.

In the second quarter of 2017, we recorded restructuring charges of \$62 million related to State Street Beacon, our multi-year transformation program to digitize our business, deliver significant value and innovation for our clients and lower expenses across the organization. We expect to achieve estimated annual pre-tax net run-rate expense savings of \$550 million by the end of 2020, relative to 2015, all else equal, for full effect in 2021. We expect to generate at least \$140 million in annual pre-tax expense savings in 2017. Actual expenses may

increase or decrease in the future due to other factors.

Total expenses increased 9% in the second quarter of 2017 compared to the second quarter of 2016, primarily driven by costs to support new business (including technology infrastructure), expenses associated with the acquired GEAM operations, increases in restructuring expenses related to State Street Beacon as well as incentive compensation and annual merit increases. The increases to total expenses were partially offset by savings associated with State Street Beacon.

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

## CONSOLIDATED RESULTS OF OPERATIONS

This section discusses our consolidated results of operations for the second quarter and first six months ended June 30, 2017 compared to the same periods in 2016, and should be read in conjunction with the consolidated financial statements and accompanying condensed notes to the consolidated financial statements included in this Form 10-Q.

## Total Revenue

TABLE 2: TOTAL REVENUE

(Dollars in millions)	Quarters Ended		% Change
	2017	2016	
Fee revenue:			
Servicing fees	\$1,339	\$1,239	8 %
Management fees	397	293	36
Trading services:			
Foreign exchange trading	178	157	13
Brokerage and other trading services	111	110	1
Total trading services	289	267	8
Securities finance	179	156	15
Processing fees and other	31	98	(68 )
Total fee revenue	2,235	2,053	9
Net interest income:			
Interest income	700	620	13
Interest expense	125	99	26
Net interest income	575	521	10
Gains (losses) related to investment securities, net	—	(1 )	nm
Total revenue	\$2,810	\$2,573	9

(Dollars in millions)	Six Months		% Change
	2017	2016	
Fee revenue:			
Servicing fees	\$2,635	\$2,481	6 %
Management fees	779	563	38
Trading services:			
Foreign exchange trading	342	313	9
Brokerage and other trading services	222	226	(2 )
Total trading services	564	539	5
Securities finance	312	290	8
Processing fees and other	143	150	(5 )
Total fee revenue	4,433	4,023	10
Net interest income:			
Interest income	1,350	1,249	8
Interest expense	265	216	23
Net interest income	1,085	1,033	5
Gains (losses) related to investment securities, net	(40 )	1	nm
Total revenue	\$5,478	\$5,057	8

<sup>nm</sup> Not meaningful

#### Fee Revenue

Table 2: Total Revenue, provides the breakout of fee revenue for the quarters and six months ended June 30, 2017 and 2016.

Servicing and management fees collectively made up approximately 78% and 77% of total fee revenue in the second quarter and first six months of 2017, respectively, compared to approximately 75% and 76% in the second quarter and first six months of 2016, respectively. The level of these fees is influenced by several factors, including the mix and volume of our AUCA and our AUM, the value and type of securities positions held (with respect to assets under custody), the volume of portfolio transactions, and the types of products and services used by our clients, and is generally affected by changes in worldwide equity and fixed-income security valuations and trends in market asset class preferences.

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

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

Asset-based management fees for actively managed products are generally charged at a higher percentage of assets under management than for passive products. Actively managed products may also include performance fee arrangements which are recorded when the performance period is complete. Performance fees are generated when the performance of certain managed portfolios exceeds benchmarks specified in the management agreements. Generally, we experience more volatility

State Street Corporation | 11

---

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

with performance fees than with more traditional management fees.

In light of the above, we estimate, using relevant information as of June 30, 2017 and assuming that all other factors remain constant, that:

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

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

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

Daily averages, month-end averages, and quarter-end indices demonstrate worldwide changes in equity and debt markets that affect our servicing and management fee revenue. Quarter-end indices affect the values of AUCA and AUM as of those dates. The index names listed in the table are service marks of their respective owners.

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

TABLE 3: DAILY, MONTH-END AND QUARTER-END EQUITY INDICES

	Daily Averages of Indices			Averages of Month-End Indices			Quarter-End Indices		
	Quarters Ended June 30,			Quarters Ended June 30,			As of June 30,		
	2017	2016	% Change	2017	2016	% Change	2017	2016	% Change
S&P 500®	2,398	2,075	16 %	2,406	2,087	15 %	2,423	2,099	15 %
MSCI EAFE®	1,856	1,648	13	1,869	1,656	13	1,883	1,608	17
MSCI® Emerging Markets	993	819	21	998	827	21	1,011	834	21
HFRI Asset Weighted Composite®	N/A	N/A	N/A	1,339	1,250	7	1,336	1,250	7

	Daily Averages of Indices			Averages of Month-End Indices		
	Six Months Ended June 30,			Six Months Ended June 30,		
	2017	2016	% Change	2017	2016	% Change
S&P 500®	2,362	2,015	17 %	2,371	2,032	17 %
MSCI EAFE®	1,802	1,621	11	1,814	1,629	11
MSCI® Emerging Markets	960	788	22	966	800	21
HFRI Asset Weighted Composite®	N/A	N/A	N/A	1,331	1,245	7

TABLE 4: QUARTER-END DEBT INDICES

	Quarter-End Indices		
	As of June 30,		
	2017	2016	% Change
Barclays Capital U.S. Aggregate Bond Index®	2,021	2,028	— %
Barclays Capital Global Aggregate Bond Index®	471	482	(2 )



Table of Contents

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

Net Interest Income

See Table 2: Total Revenue, for the breakout of interest income and interest expense for the quarters and six months ended June 30, 2017 and 2016.

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

Net interest margin represents the relationship between annualized fully taxable-equivalent NII and average total interest-earning assets for the period. It is calculated by dividing fully taxable-equivalent NII by average interest-earning assets. Revenue that is exempt from income taxes, mainly that earned from certain investment securities (state and political subdivisions), is adjusted to a fully taxable-equivalent basis using a federal statutory income tax rate of 35%, adjusted for applicable state income taxes, net of the related federal tax benefit.

State Street Corporation | 13

---

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

TABLE 5: AVERAGE BALANCES AND INTEREST RATES - FULLY TAXABLE-EQUIVALENT BASIS

(Dollars in millions; fully taxable-equivalent basis)	Quarters Ended June 30,						
	2017				2016		
	Average Balance	Interest Revenue/Expense	Rate	%	Average Balance	Interest Revenue/Expense	Rate
Interest-bearing deposits with banks	\$53,146	\$ 41	.31	%	\$51,084	\$ 30	.24 %
Securities purchased under resale agreements <sup>(1)</sup>	2,352	69	11.77		2,673	35	5.32
Trading account assets	941	—	—		870	—	—
Investment securities	94,637	466	1.97		102,391	492	1.92
Loans and leases	21,070	122	2.31		18,662	93	2.00
Other interest-earning assets	23,141	44	.76		22,563	10	.18
Average total interest-earning assets	\$ 195,287	\$ 742	1.52		\$ 198,243	\$ 660	1.34
Interest-bearing deposits:							
U.S.	\$25,770	\$ 24	.38	%	\$30,363	\$ 31	.41 %
Non-U.S. <sup>(2)</sup>	99,389	(10 )	(.04 )		96,446	(15 )	(.06 )
Securities sold under repurchase agreements <sup>(3)</sup>	4,028	—	—		4,103	—	—
Federal funds purchased	2	—	—		61	—	—
Other short-term borrowings	1,322	3	.80		1,928	2	.38
Long-term debt	11,515	75	2.61		10,998	62	2.24
Other interest-bearing liabilities	5,355	33	2.44		5,054	19	1.54
Average total interest-bearing liabilities	\$ 147,381	\$ 125	.34		\$ 148,953	\$ 99	.27
Interest-rate spread			1.18	%			1.07 %
Net interest income—fully taxable-equivalent basis		\$ 617				\$ 561	
Net interest margin—fully taxable-equivalent basis			1.27	%			1.14 %
Tax-equivalent adjustment		(42 )				(40 )	
Net interest income—GAAP basis		\$ 575				\$ 521	
	Six Months Ended June 30,						
	2017				2016		
(Dollars in millions; fully taxable-equivalent basis)	Average Balance	Interest Revenue/Expense	Rate	%	Average Balance	Interest Revenue/Expense	Rate
Interest-bearing deposits with banks	\$51,031	\$ 76	.30	%	\$49,815	\$ 73	.29 %
Securities purchased under resale agreements <sup>(1)</sup>	2,205	115	10.52		2,581	71	5.58
Trading account assets	928	(1 )	(.13 )		865	1	.12
Investment securities	95,921	936	1.95		101,645	980	1.93
Loans and leases	20,607	230	2.25		18,639	184	1.98
Other interest-earning assets	22,882	78	.69		22,617	22	.20
Average total interest-earning assets	\$ 193,574	\$ 1,434	1.49		\$ 196,162	\$ 1,331	1.37
Interest-bearing deposits:							
U.S.	\$25,849	\$ 56	.44	%	\$28,729	\$ 58	.40 %
Non-U.S. <sup>(2)</sup>	97,201	1	—		94,708	(4 )	(.01 )
Securities sold under repurchase agreements	3,961	1	.04		4,173	1	.03
Federal funds purchased	1	—	—		38	—	—
Other short-term borrowings	1,332	5	.71		1,808	2	.24



Edgar Filing: STATE STREET CORP - Form 10-Q

Long-term debt	11,469	148	2.58	11,013	122	2.22
Other interest-bearing liabilities	5,298	54	2.04	5,502	37	1.37
Average total interest-bearing liabilities	\$145,111	\$265	.37	\$145,971	\$216	.30
Interest-rate spread			1.12 %			1.07 %
Net interest income—fully taxable-equivalent basis		\$1,169			\$1,115	
Net interest margin—fully taxable-equivalent basis			1.22 %			1.14 %
Tax-equivalent adjustment		(84 )			(82 )	
Net interest income—GAAP basis		\$1,085			\$1,033	

(1) Reflects the impact of balance sheet netting under enforceable netting agreements of approximately \$33 billion and \$32 billion for the second quarter and first six months of 2017, respectively, and \$32 billion for both the second quarter and first six months of 2016, respectively. Excluding the impact of netting, the average interest rates would be approximately 0.79% and 0.67% for the second quarter and first six months of 2017, respectively, and 0.41% for both the second quarter and six months of 2016, respectively.

(2) Average rate includes the impact of FX swap expense of approximately \$13 million and \$45 million for the second quarter and first six months of 2017, respectively, and \$5 million and \$21 million for the same periods in 2016, respectively.

(3) Interest for the second quarter of 2016 and 2017 was less than \$1 million, representing average interest rates of 0.03% and 0.04%, respectively.

State Street Corporation | 14

---

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

See Table 5: Average Balances and Interest Rates - Fully Taxable-Equivalent Basis, for the breakout of NII on a fully taxable-equivalent basis for the quarters and six months ended June 30, 2017 and 2016. NII on a fully taxable-equivalent basis increased in the second quarter of 2017 compared to the same period in 2016, as benefits due to a higher domestic rate environment and improvements in our liability mix were offset by lower investment portfolio securities balances and a smaller amount of discount accretion related to the asset-backed commercial paper conduits. Average balances in the second quarter of 2017 reflect management actions to reduce the usage of wholesale deposit funding of our balance sheet. Though average interest and non-interest bearing deposits were approximately \$1.40 billion lower in the second quarter of 2017 compared to the second quarter of 2016, these management actions contributed to a \$9.87 billion reduction in wholesale deposits and were offset by an increase in less expensive client deposits.

We recorded aggregate discount accretion in interest income of \$6 million and \$10 million for the second quarter and first six months of 2017, respectively, related to the assets we consolidated onto our balance sheet in 2009 from our asset-backed commercial paper conduits. Assuming that we hold the former conduit securities remaining in our investment portfolio until they mature or are sold, we expect to generate aggregate discount accretion in future periods of approximately \$127 million over their remaining terms.

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

Average total interest-earning assets were \$2.59 billion lower in the six months ended June 30, 2017 compared to the same period in 2016, primarily due to a smaller investment portfolio.

Interest-bearing deposits with banks averaged \$53.15 billion and \$51.03 billion for the second quarter and first six months of 2017, respectively, compared to \$51.08 billion and \$49.82 billion for the same periods in 2016. These deposits reflected our maintenance of cash balances at the Federal Reserve, the ECB and other non-U.S. central banks. Loans and leases averaged \$21.07 billion and \$20.61 billion for the second quarter and first six months of 2017, respectively, compared to \$18.66 billion and \$18.64 billion for the same periods in 2016. The increase in average loans and leases resulted from growth in loans to municipalities,

alternative financing, mutual fund lending, and continued investment in senior secured loans.

TABLE 6: U.S. AND NON-U.S. SHORT-DURATION ADVANCES

(Dollars in millions)	Quarters Ended	
	June 30,	
	2017	2016
Average U.S. short-duration advances	\$2,087	\$2,144
Average non-U.S. short-duration advances	1,450	1,471
Average total short-duration advances	\$3,537	\$3,615
Average short-duration advances to average loans and leases	17	% 19

(Dollars in millions)	Six Months Ended	
	June 30,	
	2017	2016
Average U.S. short-duration advances	\$2,173	\$2,187
Average non-U.S. short-duration advances	1,336	1,368
Average total short-duration advances	\$3,509	\$3,555
Average short-duration advances to average loans and leases	17	% 19

Average loans and leases also includes short-duration advances. The decline in the proportion of average short-duration advances to average loans and leases is primarily due to growth in the other segments of the loan and lease portfolio. Short-duration advances provide liquidity to clients in support of their investment activities.

Average other interest-earning assets increased to \$23.14 billion and \$22.88 billion for the second quarter and first six months of 2017, respectively, from \$22.56 billion and \$22.62 billion for the same periods in 2016. Our average other interest-earning assets, largely associated with our enhanced custody business, comprised approximately 12% of our average total interest-earning assets for both the second quarter and first six months of 2017, compared to approximately 11% and 12% of our average total interest-earning assets for the same periods in 2016. The enhanced custody business, which is our principal securities financing business for our custody clients, generates securities finance revenue. The NII earned on these transactions is generally lower than the interest earned on other alternative investments.

Aggregate average U.S. and non-U.S. interest-bearing deposits decreased to \$125.16 billion and \$123.05 billion for the second quarter and first six months of 2017, respectively, from \$126.81 billion and \$123.44 billion for the same periods in 2016. The relatively flat levels in the first six months of 2017 compared to the prior year period were a result of higher U.S. and non-U.S. client deposit levels during the year, offset by management's actions to reduce more expensive wholesale certificates of deposit. Future deposit levels will be influenced by the underlying asset servicing business, client deposit behavior, as well as market conditions, including the general levels of U.S. and non-U.S. interest rates.

State Street Corporation | 15

---

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

Average other short-term borrowings declined to \$1.32 billion and \$1.33 billion for the second quarter and first six months of 2017, respectively, from \$1.93 billion and \$1.81 billion for the same periods in 2016, as bonds matured in the Tax-Exempt Investment program.

Average long-term debt increased to \$11.52 billion and \$11.47 billion for the second quarter and first six months of 2017, respectively, from \$11.00 billion and \$11.01 billion for the same periods in 2016. The increases primarily reflected the issuance of \$1.5 billion of senior debt in May 2016 and \$750 million of senior debt in May 2017, which was partially offset by the maturity of \$400 million of senior debt in January 2016, \$1.0 billion of senior debt in March 2016, and \$450 million of senior debt in April 2017.

Average other interest-bearing liabilities were \$5.36 billion and \$5.30 billion for the second quarter and first six months of 2017, respectively, compared to \$5.05 billion and \$5.50 billion for the same periods in 2016, primarily the result of changes in the level of cash collateral received from clients in connection with our enhanced custody business, which is presented on a net basis in accordance with enforceable netting agreements.

Several factors could affect future levels of our NII and net interest margin, including the volume and mix of client liabilities; actions of various central banks; changes in U.S. and non-U.S. interest rates; changes in the various yield curves around the world; revised or proposed regulatory capital or liquidity standards, or interpretations of those standards; the amount of discount accretion generated by the former conduit securities that remain in our investment securities portfolio; the yields earned on securities purchased compared to the yields earned on securities sold or matured; changes in the type and amount of credit or other loans we extend; and changes in our enhanced custody business.

Based on market conditions and other factors, including regulatory requirements, we continue to reinvest the majority of the proceeds from pay-downs and maturities of investment securities in highly-rated securities, such as U.S. Treasury and agency securities, municipal securities, federal agency mortgage-backed securities and U.S. and non-U.S. mortgage- and asset-backed securities. The pace at which we continue to reinvest and the types of investment securities purchased will depend on the impact of market conditions, the implementation of regulatory standards, and other factors over time. We expect these factors and the levels of global interest rates to influence what effect our reinvestment program will have on future levels of our NII and net interest margin.

## Expenses

Table 7: Expenses provides the breakout of expenses for the quarters and six months ended June 30, 2017 and 2016.

TABLE 7: EXPENSES

(Dollars in millions)	Quarters Ended June 30,			% Change
	2017	2016		
Compensation and employee benefits	\$1,071	\$989	8	%
Information systems and communications	283	270	5	
Transaction processing services	207	201	3	
Occupancy	116	111	5	
Acquisition costs	9	7	29	
Restructuring charges, net	62	13	377	
Other:				
Professional services	97	82	18	
Amortization of other intangible assets	54	49	10	
Securities processing costs	9	6	50	
Regulatory fees and assessments	18	18	—	
Other	105	114	(8)	)
Total other	283	269	5	

Edgar Filing: STATE STREET CORP - Form 10-Q

Total expenses	\$2,031	\$1,860	9
Number of employees at quarter-end	35,606	32,636	9

(Dollars in millions)	Six Months Ended June 30,		
	2017	2016	% Change
Compensation and employee benefits	\$2,237	\$2,096	7 %
Information systems and communications	570	542	5
Transaction processing services	404	401	1
Occupancy	226	224	1
Acquisition costs	21	14	50
Restructuring charges, net	79	110	(28 )
Other:			
Professional services	191	175	9
Amortization of other intangible assets	106	98	8
Securities processing costs	16	10	60
Regulatory fees and assessments	45	38	18
Other	222	202	10
Total other	580	523	11
Total expenses	\$4,117	\$3,910	5

Compensation and employee benefits expenses increased 8% in the second quarter of 2017 compared to the same period of 2016, primarily due to increased costs to support new business, higher incentive compensation and annual merit increases, costs related to the acquired GEAM operations and regulatory initiatives, partially offset by State Street Beacon savings.

Compensation and employee benefits expenses increased 7% in the first six months of 2017 compared to the same period of 2016, primarily due to increased costs to support new business, higher incentive compensation and annual merit increases, costs related to the acquired GEAM operations and higher first quarter seasonal deferred incentive compensation expense for retirement-eligible employees in the first quarter of 2017 compared to

Table of Contents

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

the first quarter of 2016. These increases were partially offset by State Street Beacon savings.

Headcount increased 9% in second quarter of 2017 compared to the same period of 2016. New business, including the impact of large client lift outs and new client ramp-ups, as well as regulatory initiatives and contractor conversions to full-time employees contributed to this growth. The growth was primarily within low cost locations. These increases were partially offset by reductions from State Street Beacon initiatives.

Information systems and communications expenses increased 5% in each of the second quarter and first six months of 2017 compared to the same periods of 2016. The increases were primarily related to State Street Beacon and investments supporting new business.

Other expenses increased 5% in the second quarter of 2017 compared to the same period of 2016. The increase was primarily due to higher security processing costs and professional services, partially offset by a release of litigation reserves in the second quarter of 2017.

Other expenses increased 11% in the six months ended June 30, 2017 compared to the same period in 2016. The increase was primarily due to higher securities processing costs and regulatory fees and assessments.

As a systemically important financial institution, we are subject to enhanced supervision and prudential standards. Our status as a G-SIB has also resulted in heightened prudential and conduct expectations of our U.S. and international regulators with respect to our capital and liquidity management and our compliance and risk oversight programs. These heightened expectations have increased our regulatory compliance costs, including personnel and systems, as well as significant additional implementation and related costs to enhance our regulatory compliance programs. We anticipate that these evolving regulatory compliance requirements and expectations will continue to affect our expenses.

**Acquisition Costs**

We recorded acquisition costs of \$9 million and \$7 million in the second quarter of 2017 and 2016, respectively, and \$21 million and \$14 million in the first six months of 2017 and 2016, respectively. Costs incurred in the second quarter and first six months of 2017 related to the acquired GEAM operations. For additional information about the GEAM acquisition, refer to page 132 in Note 1 to the consolidated financial statements included under Item 8, Financial Statements and Supplementary Data, in our 2016 Form 10-K.

**Restructuring Charges**

In October 2015, we announced State Street Beacon, a multi-year program to create cost efficiencies through changes in our operational processes and to further digitize our processes and interfaces with our clients. In connection with State Street Beacon, we expect to incur aggregate pre-tax restructuring charges of approximately \$300 million to \$400 million beginning in 2016 through December 31, 2020 to implement State Street Beacon. We estimate those charges will include approximately \$250 million to \$300 million in severance and benefits costs associated with targeted staff reductions (a substantial portion of which will result in future cash expenditures) and approximately \$50 million to \$100 million in information technology application rationalization and real estate actions. We expect to achieve estimated annual pre-tax net run-rate expense savings of \$550 million by the end of 2020, relative to 2015, all else equal, for full effect in 2021. Actual expenses may increase or decrease in the future due to other factors.

In the second quarter and first six months of 2017, we recorded restructuring charges of \$62 million and \$79 million, respectively, compared to \$13 million and \$110 million in the same periods of 2016, primarily related to State Street Beacon.

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

**TABLE 8: RESTRUCTURING CHARGES**

(In millions)	Employee Related Costs	Real Estate Consolidation	Asset and Other Write-offs	Total
Accrual Balance at December 31, 2015	\$ 9	\$ 11	\$ 3	\$23
Accruals for State Street Beacon	86	—	11	97

Edgar Filing: STATE STREET CORP - Form 10-Q

Payments and Other Adjustments	(4 )	(1 )	(7 )	(12 )
Accrual Balance at March 31, 2016	\$ 91	\$ 10	\$ 7	\$108
Accruals for State Street Beacon	(1 )	15	(1 )	13
Payments and Other Adjustments	(35 )	(3 )	(1 )	(39 )
Accrual Balance at June 30, 2016	\$ 55	\$ 22	\$ 5	\$82
Accrual Balance at December 31, 2016	\$ 37	\$ 17	\$ 2	\$56
Accruals for State Street Beacon	14	—	2	16
Payments and Other Adjustments	(13 )	(3 )	(2 )	(18 )
Accrual Balance at March 31, 2017	\$ 38	\$ 14	\$ 2	\$54
Accruals for State Street Beacon	60	—	2	62
Payments and Other Adjustments	(11 )	(3 )	(2 )	(16 )
Accrual Balance at June 30, 2017	\$ 87	\$ 11	\$ 2	\$100

State Street Corporation | 17

---

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

## Income Tax Expense

Income tax expense was \$156 million in the second quarter of 2017 compared to \$92 million in the second quarter of 2016. In the first six months of 2017 and 2016, income tax expense was \$238 million and \$154 million, respectively. Our effective tax rate for the second quarter and first six months of 2017 was 20.1% and 17.5%, respectively, compared to 12.9% and 13.5% for the same periods in 2016. The effective tax rate for the second quarter and first six months of 2017 reflect a decrease in alternative energy investments.

## LINE OF BUSINESS INFORMATION

Our operations are organized into two lines of business: Investment Servicing and Investment Management, which are defined based on products and services provided. The results of operations for these lines of business are not necessarily comparable with those of other companies, including companies in the financial services industry. Investment Servicing provides services for institutional clients, including mutual funds, collective investment funds and other investment pools, corporate and public retirement plans, insurance companies, investment managers, foundations and endowments worldwide. Products include custody; product- and participant-level accounting; daily pricing and administration; master trust and master custody;

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

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

For information about our two lines of business, as well as the revenues, expenses and capital allocation methodologies associated with them, refer to pages 188 to 189 provided in Note 24 to the consolidated financial statements under Item 8, Financial Statements and Supplementary Data, in our 2016 Form 10-K and Note 17 to the consolidated financial statements included in this Form 10-Q.

## Investment Servicing

TABLE 9: INVESTMENT SERVICING LINE OF BUSINESS RESULTS

(Dollars in millions)	Quarters Ended			Six Months Ended		
	June 30,	June 30,	%	June 30,	June 30,	%
	2017	2016	Change	2017	2016	Change
Servicing fees	\$1,339	\$1,239	8 %	\$2,635	\$2,481	6 %
Trading services	272	254	7	529	512	3
Securities finance	179	156	15	312	290	8
Processing fees and other	32	103	(69 )	138	152	(9 )
Total fee revenue	1,822	1,752	4	3,614	3,435	5
Net interest income	576	520	11	1,085	1,032	5
Gains (losses) related to investment securities, net	—	(1 )	nm	(40 )	1	nm
Total revenue	2,398	2,271	6	4,659	4,468	4
Provision for loan losses	3	4	nm	1	8	nm
Total expenses	1,649	1,599	3	3,377	3,286	3
Income before income tax expense	\$746	\$668	12	\$1,281	\$1,174	9
Pre-tax margin	31	% 29	%	27	% 26	%



<sup>nm</sup> Not meaningful

Total revenue, as presented in Table 9: Investment Servicing Line of Business Results, increased 6% and 4% in the second quarter and first six months of 2017, respectively, compared to the same periods in 2016 due to increases in servicing fees, trading services, securities finance and NII, offset by a decrease in processing fees and other revenue as further described below.

Total fee revenue increased 4% and 5% in the second quarter and first six months of 2017, respectively, compared to the same periods in 2016, primarily due to higher global equity markets, net new business and higher client volumes as well as growth in our enhanced custody business. The second quarter and first six months of 2016 included a revenue reduction of \$48 million related to reimbursements to our clients related to the manner

State Street Corporation | 18

---

Table of Contents

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

in which we invoiced certain expenses to our clients as discussed below. The increases were partially offset by a pre-tax gain of approximately \$53 million related to the sale of the WM/Reuters business in the second quarter of 2016.

NII increased 11% and 5% in the second quarter and first six months of 2017, respectively, compared to the same periods in 2016, as discussed under "Net Interest Income" in "Consolidated Results of Operations - Total Revenue" in this Management's Discussion and Analysis.

Total expenses increased 3% in the second quarter of 2017 compared to the same period in 2016, primarily due to increased costs to support new business (including technology infrastructure), incentive compensation and annual merit increases.

Total expenses increased 3% in the first six months of 2017 compared to the same period in 2016, primarily due to net new business (including technology infrastructure), incentive compensation and annual merit increases, regulatory initiatives and an increase of approximately \$28 million associated with the first quarter seasonal deferred incentive compensation expense for retirement-eligible employees and payroll taxes.

The increases in total expenses were partially offset by savings related to State Street Beacon.

Additional information about expenses is provided under "Expenses" in this Management's Discussion and Analysis in this Form 10-Q.

In December 2015, we announced a review of the manner in which we invoiced certain expenses to certain of our Investment Servicing clients, primarily in the United States, during a period going back to 1998. We have informed our clients that we will pay to them the expenses we concluded were incorrectly invoiced to them, plus interest. The process of reimbursing clients these amounts is substantially complete. In conjunction with the review announced in December 2015, which is ongoing, we are implementing enhancements to our billing processes and reviewing the conduct of our employees and have taken appropriate steps to address conduct inconsistent with our standards, including, in some cases, termination of employment. We are also evaluating other aspects of invoicing relating to billing our Investment Servicing clients, including calculation of asset-based fees. Additional information about the invoicing matter is provided in Note 10 to the consolidated financial statements included in this Form 10-Q.

**Servicing Fees**

Servicing fees increased 8% and 6% in the second quarter and first six months of 2017, respectively, compared to the same periods in 2016,

primarily due to higher global equity markets, net new business and higher client volumes. The second quarter and first six months of 2016 included a revenue reduction of \$48 million related to reimbursements to our clients related to the manner in which we invoiced certain expenses to our clients as further discussed above within "Investment Servicing" in our "Line of Business Information" section of this Management's Discussion and Analysis.

Servicing fees generated outside the U.S. was approximately 44% of total servicing fees in both the second quarter and first six months of 2017 compared to approximately 43% and 42% for the same periods in 2016, respectively.

**TABLE 10: ASSETS UNDER CUSTODY AND ADMINISTRATION BY PRODUCT**

(In billions)	June 30, 2017	December 31, 2016	June 30, 2016
Mutual funds	\$7,123	\$ 6,841	\$6,734
Collective funds	8,560	7,501	7,234
Pension products	5,937	5,584	5,496
Insurance and other products	9,417	8,845	8,322
Total	\$31,037	\$ 28,771	\$27,786

**TABLE 11: ASSETS UNDER CUSTODY AND ADMINISTRATION BY ASSET CLASS**

(In billions)

	June 30, 2017	December 31, 2016	June 30, 2016
Equities	\$17,304	\$ 15,833	\$14,960
Fixed-income	10,117	9,665	9,530
Short-term and other investments	3,616	3,273	3,296
Total	\$31,037	\$ 28,771	\$27,786

TABLE 12: GEOGRAPHIC MIX OF ASSETS UNDER CUSTODY AND ADMINISTRATION<sup>(1)</sup>

(In billions)	June 30, 2017	December 31, 2016	June 30, 2016
North America	\$23,020	\$ 21,544	\$21,072
Europe/Middle East/Africa	6,464	5,734	5,356
Asia/Pacific	1,553	1,493	1,358
Total	\$31,037	\$ 28,771	\$27,786

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

The increase in total AUCA as of June 30, 2017 compared to December 31, 2016 primarily resulted from higher global equity markets. Asset levels as of June 30, 2017 do not reflect the approximately \$370 billion of new business in assets to be serviced, which was awarded to us in the first six months of 2017 and prior periods but not installed prior to June 30, 2017. This new business will be reflected in AUCA in future periods after installation and will generate servicing fee revenue in subsequent periods. This does not include the loss of business which occurs from time to time or changes in AUCA, usually from changes in market values of customer assets, subscriptions or redemptions from our customer investment products.

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

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

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

## Trading Services

TABLE 13: TRADING SERVICES REVENUE

(Dollar in millions)	Quarters Ended June 30,		
	2017	2016	% Change
Foreign exchange trading:			
Direct sales and trading	\$100	\$87	15 %
Indirect foreign exchange trading	78	70	11
Total foreign exchange trading	178	157	13
Brokerage and other trading services:			
Electronic foreign exchange services	39	43	(9 )
Other trading, transition management and brokerage	55	54	2
Total brokerage and other trading services	94	97	(3 )
Total trading services revenue	\$272	\$254	7

(Dollars in millions)	Six Months Ended June 30,		
	2017	2016	% Change
Foreign exchange trading:			
Direct sales and trading	\$198	\$177	12 %
Indirect foreign exchange trading	144	136	6
Total foreign exchange trading	342	313	9
Brokerage and other trading services:			
Electronic foreign exchange services	80	87	(8 )
Other trading, transition management and brokerage	107	112	(4 )
Total brokerage and other trading services	187	199	(6 )
Total trading services revenue	\$529	\$512	3

Trading services revenue is composed of revenue generated by FX trading, as well as revenue generated by brokerage and other trading services as noted in Table 13: Trading Services Revenue.

## Foreign Exchange Trading Revenue

We primarily earn FX trading revenue by acting as a principal market-maker. We offer a range of FX products, services and execution models. Most of our FX products and execution services can be grouped into three broad categories, which are further explained below: "direct sales and trading," "indirect FX trading" and "electronic FX services." With respect to electronic FX services, we provide an execution venue, but do not act as agent or principal.

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

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

Total FX trading revenue increased 13% and 9% in the second quarter and first six months of 2017, respectively, compared to the same periods in 2016, primarily due to higher volumes. Total FX trading revenue comprises: Direct sales and trading: We enter into FX transactions with clients and investment managers that contact our trading desk directly. These trades are all executed at negotiated rates. We refer to this activity, and our principal market-making activities, as “direct sales and trading” and it includes many transactions for funds serviced by third party custodians or prime brokers, as well as those funds under custody at State Street. Direct sales and trading revenue represents all of the FX trading revenue other than the revenue attributed to indirect FX trading. Direct sales and trading revenue represented 56% and 58% of total foreign exchange trading revenue in the second quarter and first six months of 2017, respectively,

State Street Corporation | 20

---

Table of Contents

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

compared to 55% and 57% for the same periods in 2016. Our direct sales and trading revenue increased by 15% and 12% in the second quarter and first six months of 2017, respectively, compared to the same periods in 2016. The increases were primarily due to higher volumes.

Indirect FX trading: Clients or their investment managers may elect to route FX transactions to our FX desk through our asset-servicing operation; we refer to this activity as "indirect FX trading" and, in all cases, we are the funds' custodian. We execute indirect FX trades as a principal at rates disclosed to our clients. Estimated indirect sales and trading revenue represented 44% and 42% of total foreign exchange trading revenue in the second quarter and first six months of 2017, respectively, compared to 45% and 43% for the same periods in 2016. We calculate revenue for indirect FX trading using an attribution methodology. This methodology takes into consideration estimated mark-ups/downs and observed client volumes. Our estimated indirect FX trading revenue increased 11% and 6% in the second quarter and first six months of 2017, respectively, compared to the same periods in 2016, primarily due to higher volumes.

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 continue to expect that some clients may choose, over time, to reduce their level of indirect FX trading transactions in favor of other execution methods, including either direct sales and trading transactions or electronic FX services which we provide. To the extent that clients shift to other execution methods that we provide, our FX trading revenue may decrease, even if volumes remain constant.

Total brokerage and other trading services revenue decreased 3% and 6% in the second quarter and first six months of 2017, respectively, compared to the same periods in 2016, primarily due to lower electronic foreign exchange trading revenue as well as the absence of revenue associated with the WM/

Reuters business, which we disposed of in the second quarter of 2016. Total brokerage and other trading services revenue comprises:

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. Revenue from such electronic FX services decreased 9% and 8% in the second quarter and first six months of 2017, respectively, compared to the same periods in 2016.

Other trading, transition management and brokerage revenue: Revenue remained flat in the second quarter of 2017 compared to the same period in 2016. Revenue decreased 4% in the first six months of 2017 compared to the same period in 2016, primarily due to the disposition of the WM/Reuters business.

In recent years, our transition management revenue was adversely affected by compliance issues in our U.K. business during 2010 and 2011, including settlements with the FCA in 2014 and the DOJ in 2017, the latter including a deferred prosecution agreement. The reputational and regulatory impact of those compliance issues continues and may adversely affect our results in future periods. Information about contingencies is provided in Note 10 to the consolidated financial statements included in this Form 10-Q.

Securities Finance

Our securities finance business consists of three components:

- (1) an agency lending program for SSGA-managed investment funds with a broad range of investment objectives, which we refer to as the SSGA lending funds;
- (2) an agency lending program for third-party investment managers and asset owners, which we refer to as the agency lending funds; and
- (3) security lending transactions which we enter into as principal, which we refer to as our enhanced custody business.

See Table 9: Investment Servicing Line of Business Results, for the comparison of securities finance revenue in the second quarter and first six months of 2017 compared to the same periods in 2016.

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.

State Street Corporation | 21

---

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

As principal, our enhanced custody business borrows securities from the lending client and then lends such securities to the subsequent borrower, either a State Street 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 our assets under custody and administration from clients who have designated State Street as an eligible borrower.

Securities finance revenue increased 15% and 8% in the second quarter and first six months of 2017, respectively, compared to the same periods in 2016, primarily the result of higher revenue in our enhanced custody business.

Market influences may continue to affect client demand for securities finance, and as a result our revenue from, and the profitability of, our securities lending activities in future periods. In addition, the constantly evolving regulatory environment may affect the volume of our securities lending activity and related revenue and profitability in future periods.

**Processing Fees and Other**

Processing fees and other revenue includes diverse types of fees and revenue, including fees from our structured products business, fees from software licensing and maintenance, equity income from our joint venture investments, gains and losses on sales of leased equipment and other assets, derivative financial instruments to support our clients' needs and to manage our interest-rate and currency risk, and amortization of our tax-advantaged investments.

Processing fees and other revenue, presented in Table 9: Investment Servicing Line of Business Results, decreased 69% and 9% in the second quarter and first six months of 2017, respectively, compared to the same periods in 2016. The decrease in the second quarter of 2017 compared to the second quarter of 2016 is primarily due to a pre-tax gain of approximately \$53 million related to the sale of WM/Reuters in the second quarter of 2016 as well as unfavorable foreign exchange swap costs in the second quarter of 2017. The decrease in the first six months of 2017 is primarily due to the aforementioned pre-tax gain on the sale of WM/Reuters in 2016, partially offset by a pre-tax gain of \$30 million on the dispositions of our joint venture interests in IFDS U.K. and BFDS in the first quarter of 2017.

**Investment Management**TABLE 14: INVESTMENT MANAGEMENT LINE OF  
BUSINESS RESULTS

(Dollars in millions)	Quarters Ended June 30,			Six Months Ended June 30,		
	2017	2016	% Change	2017	2016	% Change
Management fees	\$397	\$293	35 %	\$779	\$563	38 %
Trading services <sup>(1)</sup>	17	13	31	35	27	30
Processing fees and other	(1 )	(5 )	nm	5	(2 )	nm
Total fee revenue	413	301	37	819	588	39
Net interest income	(1 )	1	nm	—	1	nm
Total revenue	412	302	36	819	589	39
Total expenses	311	244	27	640	500	28
Income before income tax expense	\$101	\$58	74	\$179	\$89	101
Pre-tax margin	25 %	19 %		22 %	15 %	

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

nm Not meaningful



Total revenue, as presented in Table 14: Investment Management Line of Business Results, increased 36% and 39% in the second quarter and first six months of 2017, respectively, compared to the same periods in 2016, primarily due to approximately \$72 million and \$143 million, respectively, from the acquired GEAM operations, higher global equity markets and higher revenue-yielding ETF flows.

Total expenses increased 27% and 28% in the second quarter and first six months of 2017, respectively, compared to the same periods in 2016 primarily due to approximately \$51 million and \$102 million, respectively, in incremental costs related to the acquired GEAM operations, as well as higher incentive compensation and annual merit increases. These increases were partially offset by savings related to State Street Beacon.

State Street Corporation | 22

---

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

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

In July 2016, we completed our acquisition of GEAM, including \$110 billion of acquired AUM. AUM associated with the acquired GEAM operations totaled \$125 billion as of June 30, 2017, including the impact of global equity markets, assets from acquired clients and new business from these clients since the acquisition date. Our consolidated financial statements include the operating results for the acquired business from the date of acquisition, July 1, 2016.

**Management Fees**

Through SSGA, we provide a broad range of investment management strategies, specialized investment management advisory services, OCIO and other financial services for corporations, public funds, and other sophisticated investors. SSGA offers an array of investment management strategies, including passive and active, such as enhanced indexing, using quantitative and fundamental methods for both U.S. and global equity and fixed income securities. SSGA also offers ETFs, such as the SPDR® ETF brand. While certain management fees are directly determined by the values of assets under management and the investment strategies employed, management fees reflect other factors as well, including our relationship pricing for clients who use multiple services, and the benchmarks specified in the respective management agreements related to performance fees.

Management fees increased 35% and 38% in the second quarter and first six months 2017, respectively, compared to the same periods in 2016, primarily due to approximately \$72 million and \$143 million, respectively, from the acquired GEAM operations, higher global equity markets, and higher revenue-yielding ETF flows.

Management fees generated outside the U.S. was approximately 28% of total management fees in both the second quarter and first six months of 2017, respectively, compared to 34% and 35% in the same periods in 2016, respectively.

**TABLE 15: ASSETS UNDER MANAGEMENT BY ASSET CLASS AND INVESTMENT APPROACH**

(In billions)	June 30, December 31, June 30,		
	2017	2016	2016
Equity:			
Active	\$ 82	\$ 73	\$ 32
Passive	1,512	1,401	1,275
Total Equity	1,594	1,474	1,307
Fixed-Income:			
Active	71	70	17
Passive	327	308	318
Total Fixed-Income	398	378	335
Cash <sup>(1)</sup>	334	333	380
Multi-Asset-Class Solutions:			
Active	18	19	17
Passive	113	107	100
Total Multi-Asset-Class Solutions	131	126	117
Alternative Investments <sup>(2)</sup> :			
Active	27	28	18
Passive	122	129	144
Total Alternative Investments	149	157	162
Total	\$ 2,606	\$ 2,468	\$ 2,301

<sup>(1)</sup> 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 ETF and SPDR® Long Dollar Gold Trust ETF. State Street is not the investment manager for the SPDR® Gold ETF and SPDR® Long Dollar Gold Trust ETF, but acts as the marketing agent.

TABLE 16: EXCHANGE - TRADED FUNDS BY ASSET CLASS<sup>(1)</sup>

(In billions)	June 30, December 31, June 30,		
	2017	2016	2016
Alternative Investments <sup>(2)</sup>	\$ 46	\$ 42	\$ 54
Cash	2	2	2
Equity	460	426	348
Fixed-income	58	51	48
Total Exchange-Traded Funds	\$ 566	\$ 521	\$ 452

(1) ETFs are a component of AUM presented in the preceding table.

(2) Includes real estate investment trusts, currency and commodities, including SPDR® Gold ETF and SPDR® Long Dollar Gold Trust ETF. State Street is not the investment manager for the SPDR® Gold ETF and SPDR® Long Dollar Gold Trust ETF, but acts as the marketing agent.

TABLE 17: GEOGRAPHIC MIX OF ASSETS UNDER MANAGEMENT<sup>(1)</sup>

(In billions)	June 30, December 31, June 30,		
	2017	2016	2016
North America	\$ 1,802	\$ 1,691	\$ 1,501
Europe/Middle East/Africa	496	482	492
Asia/Pacific	308	295	308
Total	\$ 2,606	\$ 2,468	\$ 2,301

(1) Geographic mix is based on client location or fund management location.

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

TABLE 18: ACTIVITY IN ASSETS UNDER MANAGEMENT BY PRODUCT CATEGORY

(In billions)	Equity	Fixed-Income	Cash <sup>(2)</sup>	Multi-Asset-Class Solutions	Alternative Investments <sup>(3)</sup>	Total
Balance as of June 30, 2016	\$1,307	\$ 335	\$ 380	\$ 117	\$ 162	\$2,301
Long-term institutional inflows <sup>(1)</sup>	138	54	—	27	7	226
Long-term institutional outflows <sup>(1)</sup>	(157 )	(56 )	—	(17 )	(16 )	(246 )
Long-term institutional flows, net	(19 )	(2 )	—	10	(9 )	(20 )
ETF flows, net	49	4	1	—	(6 )	48
Cash fund flows, net	—	—	(49 )	—	—	(49 )
Total flows, net	30	2	(48 )	10	(15 )	(21 )
Market appreciation	118	(7 )	(1 )	(1 )	2	111
Foreign exchange impact	(19 )	(8 )	(2 )	(3 )	(3 )	(35 )
Total market/foreign exchange impact	99	(15 )	(3 )	(4 )	(1 )	76
Acquisitions and transfers <sup>(4)</sup>	38	56	4	3	11	112
Balance as of December 31, 2016	\$1,474	\$ 378	\$ 333	\$ 126	\$ 157	\$2,468
Long-term institutional inflows <sup>(1)</sup>	134	45	—	21	12	212
Long-term institutional outflows <sup>(1)</sup>	(163 )	(45 )	—	(23 )	(29 )	(260 )
Long-term institutional flows, net	(29 )	—	—	(2 )	(17 )	(48 )
ETF flows, net	1	5	—	—	2	8
Cash fund flows, net	—	—	1	—	—	1
Total flows, net	(28 )	5	1	(2 )	(15 )	(39 )
Market appreciation	131	8	(2 )	3	4	144
Foreign exchange impact	17	7	2	4	3	33
Total market/foreign exchange impact	148	15	—	7	7	177
Balance as of June 30, 2017	\$1,594	\$ 398	\$ 334	\$ 131	\$ 149	\$2,606

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

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

(3) Includes real estate investment trusts, currency and commodities, including SPDR® Gold ETF and SPDR® Long Dollar Gold Trust ETF. State Street is not the investment manager for the SPDR® Gold ETF and SPDR® Long Dollar Gold Trust ETF, but acts as the marketing agent.

(4) Includes AUM acquired as part of the acquisition of GEAM on July 1, 2016.

The preceding table does not include approximately \$14 billion of new asset management business which was awarded but not installed as of June 30, 2017. 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 June 30, 2017 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. This timing can vary significantly.

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

## FINANCIAL CONDITION

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

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

TABLE 19: AVERAGE STATEMENT OF CONDITION<sup>(1)</sup>

	Six Months Ended	
	June 30,	
	2017	2016
(In millions)	Average Balance	Average Balance
Assets:		
Interest-bearing deposits with banks	\$51,031	\$49,815
Securities purchased under resale agreements	2,205	2,581
Trading account assets	928	865
Investment securities	95,921	101,645
Loans and leases	20,607	18,639
Other interest-earning assets	22,882	22,617
Average total interest-earning assets	193,574	196,162
Cash and due from banks	3,224	3,317
Other non-interest-earning assets	24,779	26,932
Average total assets	\$221,577	\$226,411
Liabilities and shareholders' equity:		
Interest-bearing deposits:		
U.S.	\$25,849	\$28,729
Non-U.S.	97,201	94,708
Total interest-bearing deposits	123,050	123,437
Securities sold under repurchase agreements	3,961	4,173
Federal funds purchased	1	38
Other short-term borrowings	1,332	1,808
Long-term debt	11,469	11,013
Other interest-bearing liabilities	5,298	5,502
Average total interest-bearing liabilities	145,111	145,971
Non-interest-bearing deposits	43,241	43,495
Other non-interest-bearing liabilities	11,539	15,049
Preferred shareholders' equity	3,197	2,923

Edgar Filing: STATE STREET CORP - Form 10-Q

Common shareholders' equity	18,489	18,973
Average total liabilities and shareholders' equity	\$221,577	\$226,411

(1) Additional information about our average statement of condition, primarily our interest-earning assets and interest-bearing liabilities, is provided in "Net Interest Income" in this Management's Discussion and Analysis included in this Form 10-Q.

State Street Corporation | 25

---

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

## Investment Securities

TABLE 20: CARRYING VALUES OF INVESTMENT  
SECURITIES

(In millions)	June 30, 2017	December 31, 2016
Available-for-sale:		
U.S. Treasury and federal agencies:		
Direct obligations	\$633	\$ 4,263
Mortgage-backed securities	11,414	13,257
Asset-backed securities:		
Student loans <sup>(1)</sup>	5,887	5,596
Credit cards	1,556	1,351
Sub-prime	243	272
Other	1,160	905
Total asset-backed securities	8,846	8,124
Non-U.S. debt securities:		
Mortgage-backed securities	6,962	6,535
Asset-backed securities	2,891	2,516
Government securities	6,600	5,836
Other	6,276	5,613
Total non-U.S. debt securities	22,729	20,500
State and political subdivisions	10,038	10,322
Collateralized mortgage obligations	2,443	2,593
Other U.S. debt securities	2,799	2,469
U.S. equity securities	45	42
Non-U.S. equity securities	1	3
U.S. money-market mutual funds	77	409
Non-U.S. money-market mutual funds	—	16
Total	\$59,025	\$ 61,998
Held-to-maturity <sup>(2)</sup> :		
U.S. Treasury and federal agencies:		
Direct obligations	\$17,479	\$ 17,527
Mortgage-backed securities	11,937	10,334
Asset-backed securities:		
Student loans <sup>(1)</sup>	2,738	2,883
Credit cards	858	897
Other	5	35
Total asset-backed securities	3,601	3,815
Non-U.S. debt securities:		
Mortgage-backed securities	1,084	1,150
Asset-backed securities	365	531
Government securities	357	286
Other	122	113
Total non-U.S. debt securities	1,928	2,080
Collateralized mortgage obligations	1,285	1,413
Total	\$36,230	\$ 35,169

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

(2) At amortized cost or fair value on the date of transfer from available-for-sale.

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

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

In the first quarter of 2017, we sold \$2.7 billion of AFS, primarily Agency MBS and U.S. Treasury securities in our investment portfolio, in response to the current interest rate environment resulting in a pre-tax loss of \$40 million. Approximately 91% of the carrying value of the portfolio was rated “AAA” or “AA” as of June 30, 2017 and December 31, 2016.

TABLE 21: INVESTMENT PORTFOLIO BY EXTERNAL CREDIT RATING

	June 30, December 31,			
	2017		2016	
AAA <sup>(1)</sup>	77	%	78	%
AA	14		13	
A	5		5	
BBB	3		3	
Below BBB 1			1	
	100	%	100	%

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

As of June 30, 2017, the investment portfolio of 11,517 securities was diversified with respect to asset class. Approximately 53% of the aggregate carrying value of the portfolio as of June 30, 2017 was composed of mortgage-backed and asset-backed securities, compared to 52% as of December 31, 2016. The asset-backed securities portfolio, of which approximately 95% and 93% of the carrying value as of June 30, 2017 and December 31, 2016, respectively, was floating-rate, consisted primarily of student loan-backed and credit card-backed securities. Mortgage-backed securities were composed of securities issued by the Federal National Mortgage Association and Federal Home Loan Mortgage Corporation, as well as U.S. and non-U.S. large-issuer collateralized mortgage obligations.



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

## Non-U.S. Debt Securities

Approximately 26% of the aggregate carrying value of our investment securities portfolio was non-U.S. debt securities as of June 30, 2017, compared to approximately 23% as of December 31, 2016.

TABLE 22: NON-U.S. DEBT  
SECURITIES

(In millions)	June 30, 2017	December 31, 2016
Available-for-sale:		
United Kingdom	\$5,593	\$ 5,093
Australia	4,607	4,272
Canada	3,646	2,989
France	1,575	1,013
Netherlands	1,302	1,283
Japan	1,149	1,388
Italy	795	676
Belgium	745	360
Hong Kong	616	664
Germany	566	713
Norway	543	508
Spain	431	266
Sweden	430	188
Finland	213	223
South Korea	201	634
Ireland	140	85
Other <sup>(1)</sup>	177	145
Total	\$22,729	\$ 20,500
Held-to-maturity:		
United Kingdom	\$468	\$ 504
Netherlands	455	473
Australia	337	374
Singapore	242	180
Germany	201	329
Spain	102	98
Other <sup>(2)</sup>	123	122
Total	\$1,928	\$ 2,080

<sup>(1)</sup> Included approximately \$93 million and \$79 million as of June 30, 2017 and December 31, 2016, respectively, related to Portugal and Austria, all of which were related to mortgage-backed securities and auto loans.

<sup>(2)</sup> Included approximately \$76 million and \$80 million as of June 30, 2017 and December 31, 2016, respectively, related to Italy, Portugal and Norway, all of which were related to mortgage-backed securities and auto loans.

Approximately 89% and 88% of the aggregate carrying value of these non-U.S. debt securities was rated "AAA" or "AA" as of June 30, 2017 and December 31, 2016, respectively. The majority of these securities comprised senior positions within the security structures; these positions have a level of protection provided through subordination and other forms of credit protection. As of June 30, 2017 and December 31, 2016, approximately 65% of the aggregate carrying value of these non-U.S. debt securities was floating-rate, and accordingly, we consider these securities to have minimal interest-rate risk.

As of June 30, 2017, our non-U.S. debt securities had an average market-to-book ratio of 100.5%, and an aggregate pre-tax net unrealized gain of approximately \$132 million, composed of gross unrealized gains of \$170 million and gross unrealized losses of \$38 million. These unrealized amounts included a pre-tax net unrealized gain of \$59 million, composed of gross unrealized gains of \$87 million and gross unrealized losses of \$28 million, associated with non-U.S. debt securities available-for-sale.

As of June 30, 2017, the underlying collateral for non-U.S. mortgage- and asset-backed securities primarily included Australian, Dutch, Italian and U.K. prime mortgages and German automobile loans. 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 automobile loans, prime mortgages, and corporate debt and covered bonds. The securities listed under “Japan” were substantially composed of Japanese government securities and corporate debt. The securities listed under “South Korea” were composed of South Korean government securities.

#### Municipal Obligations

We carried approximately \$10.04 billion of municipal securities classified as state and political subdivisions in our investment securities portfolio as of June 30, 2017 as shown in Table 20: Carrying Values of Investment Securities, all of which were classified as AFS. As of the same date, we also provided approximately \$9.69 billion of credit and liquidity facilities to municipal issuers.

TABLE 23: STATE AND MUNICIPAL OBLIGORS<sup>(1)</sup>

(Dollars in millions)	Total Municipal Securities	Credit and Liquidity Facilities <sup>(2)</sup>	Total	% of Total Municipal Exposure
As of June 30, 2017				
State of Issuer:				
Texas	\$ 1,745	\$ 1,764	\$3,509	18 %
California	488	2,268	2,756	14
New York	759	1,288	2,047	10
Massachusetts	903	1,093	1,996	10
Washington	686	333	1,019	5
Total	\$ 4,581	\$ 6,746	\$11,327	
As of December 31, 2016				
State of Issuer:				
Texas	\$ 1,781	\$ 1,685	\$3,466	18 %
California	523	2,298	2,821	14
New York	740	1,293	2,033	10
Massachusetts	916	1,071	1,987	10
Washington	708	234	942	5
Maryland	488	411	899	5
Total	\$ 5,156	\$ 6,992	\$12,148	

<sup>(1)</sup> Represented 5% or more of our aggregate municipal credit exposure of approximately \$19.73 billion and \$19.57 billion across our businesses as of June 30, 2017 and December 31, 2016, respectively.

<sup>(2)</sup> Includes municipal loans which are also presented within Table 25.

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

Our aggregate municipal securities exposure presented in Table 23: State and Municipal Obligors, was concentrated primarily with highly-rated counterparties, with approximately 92% of the obligors rated "AAA" or "AA" as of June 30, 2017. As of that date, approximately 38% and 58% of our aggregate municipal securities exposure was associated with general obligation and revenue bonds, respectively. In addition, we had no exposures associated with industrial development or land development bonds. The portfolios are also diversified geographically, with the states that represent our largest exposures widely dispersed across the U.S.

**Impairment**

Impairment exists when the fair value of an individual security is below its amortized cost basis. Impairment of a security is further assessed to determine whether such impairment is other-than-temporary. When the impairment is deemed to be other-than-temporary, we record the loss in our consolidated statement of income. In addition, 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).

The change in the net unrealized gain/(loss) position as of June 30, 2017 compared to December 31, 2016, presented in Table 24: Amortized Cost, Fair Value and Net Unrealized Gains (Losses) of Investment Securities, was primarily attributable to higher interest rates.

TABLE 24: AMORTIZED COST, FAIR VALUE AND NET  
UNREALIZED GAINS (LOSSES) OF INVESTMENT  
SECURITIES

(In millions)	June 30, 2017		
	Amortized Cost	Net Unrealized Gains (Losses)	Fair Value
Available-for-sale <sup>(1)</sup>	\$58,714	\$ 311	\$59,025
Held-to-maturity <sup>(1)</sup>	36,230	(61 )	36,169
Total investment securities	\$94,944	\$ 250	\$95,194
Net after-tax unrealized gain (loss)		\$ 150	
	December 31, 2016		
(In millions)	Net		
	Amortized Cost	Unrealized Gains (Losses)	Fair Value
Available-for-sale <sup>(1)</sup>	\$62,056	\$ (58 )	\$61,998
Held-to-maturity <sup>(1)</sup>	35,169	(175 )	34,994
Total investment securities	\$97,225	\$ (233 )	\$96,992
Net after-tax unrealized gain (loss)		\$ (140 )	

<sup>(1)</sup> AFS securities are carried at fair value, with after-tax net unrealized gains and losses recorded in AOCI. HTM securities are carried at amortized cost, and unrealized gains and losses are not recorded in our consolidated financial statements.

We conduct periodic reviews of individual securities to assess whether OTTI exists. Our assessment of OTTI involves an evaluation of economic and security-specific factors. Such factors are based on estimates, derived by management, which contemplate current market conditions and security-specific performance. To the extent that market conditions

are worse than management's expectations or due to idiosyncratic bond performance, OTTI could increase, in particular the credit-related component that would be recorded in our consolidated statement of income.

We recorded less than \$1 million of OTTI in the second quarter of 2017 and \$1 million in the second quarter of 2016.

Management considers the aggregate decline in fair value of the remaining investment securities and the resulting gross unrealized losses of \$527 million as of June 30, 2017 to be temporary and not the result of any material changes in the credit characteristics of the securities. Additional information with respect to OTTI, net impairment losses and gross unrealized losses is provided in Note 3 to the consolidated financial statements included in this Form 10-Q.

Our evaluation of potential OTTI of structured credit securities with collateral in the U.K. and Italy takes into account the outcome from the Brexit referendum and the Italian constitutional referendum, and assumes no disruption of payments on these securities.

Our evaluation of potential OTTI of mortgage-backed securities with collateral in Spain, Italy, Ireland, and Portugal takes into account slow economic growth, austerity measures, and government intervention in the corresponding mortgage markets and assumes a conservative baseline macroeconomic environment. Our baseline view assumes a recessionary period characterized by high unemployment and by additional declines in housing prices between 3% and 23%. Our evaluation of OTTI in our base case does not assume a disorderly sovereign debt restructuring or a break-up of the Eurozone.

State Street Corporation | 28

---

Table of Contents

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

## Loans and Leases

TABLE 25: U.S. AND NON- U.S. LOANS AND LEASES

(In millions)	June 30, 2017	December 31, 2016
Domestic:		
Commercial and financial	\$19,227	\$ 16,412
Commercial real estate	—	27
Lease financing	297	338
Total domestic	19,524	16,777
Non-U.S.:		
Commercial and financial	4,374	2,476
Lease financing	463	504
Total non-U.S.	4,837	2,980
Total loans and leases	\$24,361	\$ 19,757

The increase in loans in the commercial and financial segment as of June 30, 2017 compared to December 31, 2016 was primarily driven by higher levels of loans to investment funds and loans to municipalities.

As of June 30, 2017 and December 31, 2016, our investment in senior secured loans totaled approximately \$3.8 billion and \$3.5 billion, respectively. In addition, we had binding unfunded commitments as of June 30, 2017 and December 31, 2016 of \$349 million and \$76 million, respectively, to participate in such syndications.

These senior secured loans, which are primarily rated "speculative" under our internal risk-rating framework, are externally rated "BBB," "BB" or "B," with approximately 91% of the loans rated "BB" or "B" as of June 30, 2017 and December 31, 2016. Information about our internal risk-rating framework is provided in Note 4 to the consolidated financial statements included in this Form 10-Q. Our investment strategy involves generally limiting our investment to larger, more liquid credits underwritten by major global financial institutions, applying our internal credit analysis process to each potential investment, and diversifying our exposure by counterparty and industry segment. However, these loans have significant exposure to credit losses relative to higher-rated loans.

Loans to municipalities included in the commercial and financial segment were \$1.9 billion and \$1.4 billion as of June 30, 2017 and December 31, 2016, respectively.

As of June 30, 2017 and December 31, 2016, unearned income deducted from our investment in leveraged lease financing was \$78 million and \$94 million, respectively, for U.S. leases and \$165 million and \$192 million, respectively, for non-U.S. leases.

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

No loans were modified in troubled debt restructurings during the six months ended June 30, 2017 and the year ended December 31, 2016.

TABLE 26: ALLOWANCE FOR LOAN AND LEASE LOSSES

(In millions)	Six Months Ended June 30, 2017	2016
Allowance for loan and lease losses:		
Beginning balance	\$53	\$46
Provision for loan and lease losses <sup>(1)</sup>	1	8

Charge-offs <sup>(2)</sup>	—	(3)
Ending balance	\$54	\$51

<sup>(1)</sup> The provision for loan and lease losses is related to commercial and financial loans in the quarters ended June 30, 2017 and 2016.

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

As of June 30, 2017 approximately \$46 million of our allowance for loan and lease losses were related to senior secured loans included in the commercial and financial segment. As this portfolio grows and matures, our allowance for loan and lease losses related to these loans may increase through additional provisions for credit losses. The remaining \$8 million was related to other components of commercial and financial loans.

#### Cross-Border Outstandings

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

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

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

The cross-border outstandings presented in Table 27: Cross-Border Outstandings, represented approximately 28% of our consolidated total assets as of June 30, 2017 and December 31, 2016.

TABLE 27: CROSS-BORDER OUTSTANDINGS<sup>(1)</sup>

(In millions)	Investment Securities and Other Assets	Derivatives and Securities on Loan	Total Cross-Border Outstandings
June 30, 2017			
United Kingdom	\$ 19,110	\$ 1,560	\$ 20,670
Germany	16,336	465	16,801
Japan	10,845	544	11,389
Australia	5,450	319	5,769
Canada	4,250	929	5,179
Luxembourg	3,766	597	4,363
France	2,106	487	2,593
December 31, 2016			
United Kingdom	\$ 18,712	\$ 1,761	\$ 20,473
Japan	17,922	1,171	19,093
Germany	13,812	484	14,296
Australia	5,122	986	6,108
Luxembourg	3,389	762	4,151
Canada	3,179	781	3,960

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

As of June 30, 2017, aggregate cross-border outstandings in countries which amounted to between 0.75% and 1% of our consolidated assets totaled approximately \$2.20 billion to Switzerland. As of December 31, 2016, aggregate cross-border outstandings in countries which amounted to between 0.75% and 1% of our consolidated assets totaled approximately \$1.84 billion and \$2.38 billion to France and the Netherlands, respectively.

**Risk Management**

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

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

Many of these risks, as well as certain of the factors underlying each of these risks that could affect our businesses and our consolidated financial statements, are discussed in detail included under Item 1A, Risk Factors, in our 2016 Form 10-K.

For additional information about our risk management, including our risk appetite framework and risk governance committee structure, refer to pages 80 to 85 included under Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, in our 2016 Form 10-K.

#### Credit Risk Management

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

For additional information about our credit risk management, including our core policies and principles, structure and organization, credit ratings, risk parameter estimates, credit risk mitigation, credit limits, reporting, monitoring, controls and reserve for credit losses, refer to pages 85 to 90 included under Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, in our 2016 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.

State Street Corporation | 30

---



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

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. Our Parent Company is managed to a more conservative liquidity profile, reflecting narrower market access. Our Parent Company typically holds, or has direct access to, primarily through SSIF 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. As of June 30, 2017, the value of our Parent Company's net liquid assets decreased to \$1.10 billion from \$3.64 billion as of December 31, 2016. The decrease was due to the funding of SSIF in connection with our SPOE Strategy as discussed in the "Uses of Liquidity" section of this Management's Discussion and Analysis. As of June 30, 2017, our Parent Company and State Street Bank had approximately \$1 billion of senior notes and junior subordinated debentures outstanding that will mature in the next twelve months.

For additional information on our liquidity risk management, as well as liquidity risk metrics, refer to page 91 included under Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operation, in our 2016 Form 10-K. For additional information on our liquidity ratios, including LCR and NSFR, refer to pages 7 and 8 in "Supervision and Regulation" included under Item 1, Business, in our 2016 Form 10-K.

Asset Liquidity

Central to the management of our liquidity is asset liquidity, which consists primarily of unencumbered highly liquid securities, cash and cash equivalents reported on our consolidated statement of condition. We restrict the eligibility of securities to be characterized as asset liquidity to U.S. Government and federal agency securities (including mortgage-backed securities), selected non-U.S. Government and supranational securities as well as certain other high-quality securities which generally are more liquid than other types of assets even in times of stress. In 2014, U.S. banking regulators issued a final rule to implement the BCBS' LCR in the United States. The LCR is intended to promote the short-term resilience of internationally active banking organizations, like State Street, to improve the banking industry's ability to absorb shocks arising from market stress over a 30 calendar day period and improve the measurement and management of liquidity risk. The LCR measures an institution's HQLA against its net cash outflows.

The LCR was fully implemented beginning on January 1, 2017. We report LCR to the Federal Reserve daily. In addition, in December 2016, the Federal Reserve issued a final rule requiring large banking organizations, including us, to publicly disclose certain qualitative and quantitative information about their LCR. We were required to comply with the disclosure requirements beginning on April 1, 2017. As of June 30, 2017 and December 31, 2016, our LCR was in excess of 100%. With the release of the new disclosure requirements, we are now presenting average quarterly HQLA balances versus our historical presentation of the period end balances. Our average HQLA under the LCR final rule definition was \$78.44 billion and \$87.20 billion, post-prescribed haircuts, as of June 30, 2017 and December 31, 2016, respectively.

TABLE 28: COMPONENTS OF AVERAGE HQLA  
BY TYPE OF ASSET

(In millions)	Quarters Ended	
	June 30, 2017	December 31, 2016
Excess Central Bank Balances	\$47,464	\$ 48,407
U.S. Treasuries	13,022	17,770
Other Investment securities	12,612	15,442
Foreign government	5,344	5,585
Total	\$78,442	\$ 87,204

With respect to highly liquid short-term investments presented in the preceding table, we maintained cash balances in excess of regulatory requirements governing deposits with the Federal Reserve of approximately \$47.46 billion at the Federal Reserve, the ECB and other non-U.S. central banks, compared to \$48.41 billion as of December 31, 2016.

The lower levels of deposits with central banks as of quarter-end June 30, 2017 compared to quarter-end December 31, 2016 was due to normal deposit volatility. The decrease in other investment securities as of June 30, 2017 compared to December 31, 2016, presented in the table above, was primarily associated with repositioning the investment portfolio in light of the liquidity requirements of the LCR.

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

Access to primary, intra-day and contingent liquidity provided by these utilities is an important source of contingent liquidity with utilization subject to underlying conditions. As of June 30, 2017 and December 31, 2016, we had no outstanding primary

State Street Corporation | 31

---

Table of Contents

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

credit borrowings from the FRBB discount window or any other central bank facility, and as of the same dates, no FHLB advances were outstanding.

In addition to the securities included in our asset liquidity, we have significant amounts of other unencumbered investment securities. The aggregate fair value of those securities was \$45.77 billion as of June 30, 2017, compared to \$65.64 billion as of December 31, 2016. These securities are available sources of liquidity, although not as rapidly deployed as those included in our asset liquidity.

Uses of Liquidity

Significant uses of our liquidity could result from the following: withdrawals of client deposits; draw-downs by our custody clients of lines of credit; advances to clients to settle securities transactions; or other permitted purposes. Such circumstances would generally arise under stress conditions including deterioration in credit ratings. We had unfunded commitments to extend credit with gross contractual amounts totaling \$26.71 billion and \$26.99 billion as of June 30, 2017 and December 31, 2016, respectively. These amounts do not reflect the value of any collateral. As of June 30, 2017, approximately 72% of our unfunded commitments to extend credit expire within one year. Since many of our commitments are expected to expire or renew without being drawn upon, the gross contractual amounts do not necessarily represent our future cash requirements.

Resolution Planning

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

We submitted our 2017 resolution plan to the Federal Reserve and FDIC on June 30, 2017.

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 in "Business-Supervision and Regulation-Resolution Planning" included under Item 1, Business, in our 2016 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 (a recently formed direct subsidiary of the Parent Company), State Street's Beneficiary Entities (as defined below) and certain other State Street entities, SSIF is obligated, up to its available resources, to recapitalize and/or provide liquidity to State Street Bank and the other State Street 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 other State Street 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 State Street to continue to meet its obligations throughout the period prior to the occurrence of a "Recapitalization Event" (as defined below). The support agreement does not contemplate that SSIF is obligated to maintain any specific level of resources and SSIF may not have sufficient resources to implement the SPOE Strategy.

In the event a Recapitalization Event occurs, the obligations outstanding under the Parent Company Funding Notes would automatically convert into or be exchanged for capital contributed to SSIF. The obligations of the Parent Company and SSIF under the support agreement are secured through a security agreement that grants a lien on the assets that the

State Street Corporation | 32

---

Table of Contents

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

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, State Street is 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, State Street has 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 State Street's financial condition occur. In the event that State Street experiences material financial distress, the support agreement requires State Street 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) the Parent Company would be expected to commence Chapter 11 proceedings under the U.S. Bankruptcy Code; and (4) SSIF would be required to provide capital and liquidity support to the Beneficiary Entities to support such entities' continued operation. No person or entity, other than a party to the support agreement, should rely, including in evaluating any State Street entity from a creditor's perspective or determining whether to enter into a contractual relationship with any State Street entity, on any State Street affiliate 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 State Street's losses will be imposed on the Parent

Company shareholders and the holders of long-term debt and other forms of TLAC securities currently outstanding or issued in the future by the Parent Company, as well as on any other Parent Company creditors, before any of its losses are imposed on the holders of the debt securities of the Parent Company's operating subsidiaries or any of their depositors or creditors, or before U.S. taxpayers are put at risk.

There can be no assurance that credit rating agencies, in response to our 2017 resolution plan or the support agreement, will not downgrade, place on negative watch or change their outlook on our debt credit ratings, generally or on specific debt securities. Any such downgrade, placement on negative watch or change in outlook could adversely affect our cost of borrowing, limit our access to the capital markets or result in restrictive covenants in future debt agreements and could also adversely impact the trading prices, or the liquidity, of our outstanding debt securities.

State Street Bank is also required to submit annually to the FDIC a plan for resolution in the event of its failure, referred to as an IDI plan. State Street Bank's next IDI plan is due in October 2017.

Funding

Deposits

We provide products and services including custody, accounting, administration, daily pricing, foreign exchange services, cash management, financial asset management, securities finance and investment advisory services. As a provider of these products and services, we generate client deposits, which have generally provided a stable, low-cost source of funds. As a global custodian, clients place deposits with State Street entities in various currencies. We invest these client deposits in a combination of investment securities and short-duration financial instruments whose mix is determined by the characteristics of the deposits.



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

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

TABLE 29: CLIENT DEPOSITS

	June 30,		Average Balance Six Months Ended June 30,	
	2017	2016	2017	2016
(In millions)				
Client deposits <sup>(1)</sup>	\$179,743	\$177,065	\$159,664	\$152,143

<sup>(1)</sup> Balances as of June 30, 2017 and 2016 excluded term wholesale CDs of \$1.67 billion and \$16.06 billion, respectively; average balances for the quarters ended June 30, 2017 and 2016 excluded average CDs of \$6.63 billion and \$14.79 billion, respectively.

**Short-Term Funding**

Our on-balance sheet liquid assets are also an integral component of our liquidity management strategy. These assets provide liquidity through maturities of the assets, but more importantly, they provide us with the ability to raise funds by pledging the securities as collateral for borrowings or through outright sales. In addition, our access to the global capital markets gives us the ability to source incremental funding at reasonable rates of interest from wholesale investors. As discussed earlier under "Asset Liquidity," State Street Bank's membership in the FHLB allows for advances of liquidity with varying terms against high-quality collateral.

Short-term secured funding also comes in the form of securities lent or sold under agreements to repurchase. These transactions are short-term in nature, generally overnight, and are collateralized by high-quality investment securities. These balances were \$3.86 billion and \$4.40 billion as of June 30, 2017 and December 31, 2016, respectively. State Street Bank currently maintains a line of credit with a financial institution of CAD 1.40 billion, or approximately \$1.07 billion as of June 30, 2017, 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 June 30, 2017, there was no balance outstanding on this line of credit.

**Long-Term Funding**

As of June 30, 2017, State Street Bank had Board authority to issue unsecured senior debt securities from time to time, provided that the aggregate principal amount of such unsecured senior debt outstanding at any one time does not exceed \$5 billion. As of June 30, 2017, \$3.25 billion was available for issuance pursuant to this authority. As of June 30, 2017, State Street Bank also had Board

authority to issue an additional \$500 million of subordinated debt.

State Street Corporation maintains an effective universal shelf registration that allows for the public offering and sale of debt securities, capital securities, common stock, depositary shares and preferred stock, and warrants to purchase such securities, including any shares into which the preferred stock and depositary shares may be convertible, or any combination thereof. We have issued in the past, and we may issue in the future, securities pursuant to our shelf registration. The issuance of debt or equity securities will depend on future market conditions, funding needs and other factors.

**Agency Credit Ratings**

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

- diverse and stable core earnings;
- relative market position;
- strong risk management;

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

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

A majority of our derivative contracts have been entered into under bilateral agreements with counterparties who may require us to post collateral or terminate the transactions based on changes in



Table of Contents

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

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

Operational Risk Management

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk encompasses fiduciary risk and legal risk. Fiduciary risk is defined as the risk that State Street fails to properly exercise its fiduciary duties in its 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 State Street's activities.

For additional information about our operational risk framework, refer to pages 95 to 98 included under Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, in our 2016 Form 10-K.

Market Risk Management

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

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

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

98 to 99 included under Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, in our 2016 Form 10-K.

As part of our trading activities, we assume positions in the foreign exchange and interest-rate markets by buying and selling cash instruments and entering into derivative instruments, including foreign exchange forward contracts, foreign exchange and interest-rate options and interest-rate swaps, interest-rate forward contracts, and interest-rate futures. As of June 30, 2017, the notional amount of these derivative contracts was \$1.61 trillion, of which \$1.59 trillion was composed of foreign exchange forward, swap and spot contracts. We seek to match positions closely with the objective of minimizing related currency and interest-rate risk. All foreign exchange contracts are valued daily at current market rates.

Value-at-Risk, Stress Testing and Stressed VaR

We use a variety of risk measurement tools and methodologies, including VaR, which is an estimate of potential loss for a given period within a stated statistical confidence interval. We use a risk measurement methodology to measure trading-related VaR daily. We have adopted standards for measuring trading-related VaR, and we maintain regulatory capital for market risk associated with our trading activities in conformity with currently applicable bank regulatory market risk requirements.

For additional information about our VaR measurement tools and methodologies, refer to pages 101 to 104 included under Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, in our 2016 Form 10-K.

Stress Testing and Stressed VaR

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

State Street Corporation | 35

---

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

significant financial stress. The stressed VaR model identifies the second-worst outcome occurring in the worst continuous one-year rolling period since July 2007. This stressed VaR meets the regulatory requirement as the rolling ten-day period with an outcome that is worse than 99% of other outcomes during that twelve-month period of financial stress. For each portfolio, the stress period is determined algorithmically by seeking the one-year time horizon that produces the largest ten-business-day VaR from within the available historical data. This historical data set includes the financial crisis of 2008, the highly volatile period surrounding the Eurozone sovereign debt crisis and the Standard & Poor's downgrade of U.S. Treasury debt in August 2011. As the historical data set used to determine the stress period expands over time, future market stress events will be automatically incorporated.

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

**Validation and Back-Testing**

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

Our VaR definition of trading losses excludes items that are not specific to the price movement of the trading assets and liabilities themselves, such as fees, commissions, changes to reserves and gains or losses from intra-day activity. We had no back-testing exceptions in the quarters ended June 30, 2017 and March 31, 2017.

The following tables present VaR and stressed VaR associated with our trading activities for covered positions held during the quarters ended June 30, 2017 and March 31, 2017, and as of June 30, 2017 and March 31, 2017, as measured by our VaR methodology:

**TABLE 30: TEN-DAY VaR ASSOCIATED WITH TRADING ACTIVITIES FOR COVERED POSITIONS**

	Quarter Ended June 30, 2017			Quarter Ended March 31, 2017			As of June 30, 2017	As of March 31, 2017
(In thousands)	Average	Maximum	Minimum	Average	Maximum	Minimum	VaR	VaR
Global Markets	\$7,759	\$ 16,160	\$ 4,590	\$6,614	\$ 13,090	\$ 2,566	\$7,577	\$8,599
Global Treasury	433	1,408	89	645	832	421	528	421
Total VaR	\$7,740	\$ 16,119	\$ 4,598	\$6,595	\$ 12,971	\$ 2,544	\$7,481	\$8,475

**TABLE 31: TEN-DAY STRESSED VaR ASSOCIATED WITH TRADING ACTIVITIES FOR COVERED POSITIONS**

	Quarter Ended June 30, 2017			Quarter Ended March 31, 2017			As of June 30, 2017	As of March 31, 2017
(In thousands)	Average	Maximum	Minimum	Average	Maximum	Minimum	Stressed VaR	Stressed VaR
Global Markets	\$26,691	\$ 44,875	\$ 14,301	\$31,676	\$ 43,001	\$ 13,704	\$15,192	\$32,115
Global Treasury	4,814	12,329	1,321	10,892	17,019	6,609	6,223	7,396
Total Stressed VaR	\$26,934	\$ 43,754	\$ 14,646	\$34,846	\$ 46,895	\$ 18,119	\$14,943	\$33,745

The three month average of our stressed VaR-based measure was approximately \$27 million for the quarter ended June 30, 2017, compared to an average of approximately \$35 million for the quarter ended March 31, 2017. The decrease in the total stressed VaR-based measures as of June 30, 2017, compared to March 31, 2017, was mainly driven by lower interest rate risk in emerging market currencies as of June 30, 2017 as compared to March 31, 2017. The VaR-based measures presented in the preceding tables are primarily a reflection of the overall level of market volatility and our appetite for taking market risk in our trading activities. Overall

levels of volatility have been low both on an absolute basis and relative to the historical information observed at the beginning of the period used for the calculations. Both the ten-day VaR-based measures and the stressed VaR-based measures are based on historical changes observed during rolling ten-day periods for the portfolios as of the close of business each day over the past one-year period.

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

State Street Corporation | 36

---

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

The following tables present the VaR and stressed-VaR associated with our trading activities attributable to foreign exchange risk, interest-rate risk and volatility risk as of June 30, 2017 and March 31, 2017. The totals of the VaR-based and stressed VaR-based measures for the three attributes in total exceeded the related total VaR and total stressed VaR presented in the foregoing tables as of each period-end, primarily due to the benefits of diversification across risk types.

TABLE 32: TEN-DAY VaR ASSOCIATED WITH TRADING  
ACTIVITIES BY RISK FACTOR<sup>(1)</sup>

(In thousands)	As of June 30, 2017			As of March 31, 2017		
	Foreign Interest		Volatility	Foreign Interest		Volatility
	Exchange	Rate		Exchange	Rate	
	Risk	Risk	Risk	Risk	Risk	Risk
By component:						
Global Markets	\$6,167	\$3,042	\$ 506	\$6,107	\$3,682	\$ 263
Global Treasury	59	552	—	53	436	—
Total VaR	\$6,186	\$3,035	\$ 506	\$6,134	\$3,579	\$ 263

TABLE 33: TEN-DAY STRESSED VaR ASSOCIATED WITH  
TRADING ACTIVITIES BY RISK FACTOR<sup>(1)</sup>

(In thousands)	As of June 30, 2017			As of March 31, 2017		
	Foreign Interest		Volatility	Foreign Interest		Volatility
	Exchange	Rate		Exchange	Rate	
	Risk	Risk	Risk	Risk	Risk	Risk
By component:						
Global Markets	\$10,514	\$13,872	\$ 520	\$6,750	\$34,006	\$ 324
Global Treasury	104	6,439	—	78	7,489	—
Total Stressed VaR	\$10,570	\$15,036	\$ 520	\$6,770	\$35,574	\$ 324

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

#### Asset-and-Liability Management Activities

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

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

For additional information about our Asset-and-Liability Management Activities, refer to pages 104 to 105 included under Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, in our 2016

Form 10-K.

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

We also routinely measure NII sensitivity to non-parallel rate shocks to isolate the impact of short-term or long-term market rates. In the up 100 basis point instantaneous shock, approximately 80% of the benefit stems from the short-end of the yield curve. Additionally, we quantify how much of the change is a result of shifts in U.S. and non-U.S. rates. In the up 100 basis point instantaneous shock, approximately 50% of the benefit is driven by U.S. rates.

TABLE 34: NII SENSITIVITY

(In millions)	June 30,	December 31,
	2017	2016
Rate change:	Benefit (Exposure)	
+100 bps shock	\$523	\$ 585
-100 bps shock	(356 )	(265 )
+100 bps ramp	228	284
-100 bps ramp	(146 )	(161 )

State Street Corporation | 37

---

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

As of June 30, 2017, NII sensitivity remains positioned to benefit from rising interest rates. Compared to December 31, 2016, the decreased benefit to the up 100 basis point instantaneous shock is driven by a mix shift in client deposits and the repricing characteristics of other wholesale liabilities, partially offset by investment portfolio activity. The increased exposure to the down 100 basis point instantaneous shock is driven by higher observed short-term interest rates relative to year-end and investment portfolio activity, partially offset by a mix shift in client deposits. Gradual rate shocks have a similar asset sensitive positioning, but are less impactful due to the severity and timing of the rate shift.

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

TABLE 35: EVE SENSITIVITY

(In millions)	June 30, 2017	December 31, 2016
Rate change:	Benefit (Exposure)	
+200 bps shock	\$ (945)	\$ (1,092)
-200 bps shock	135	877

As of June 30, 2017, economic value of equity sensitivity remains exposed to upward shifts in interest rates. The change in each scenario was primarily driven by investment portfolio repositioning and the level and mix of client deposits. The -200 basis point scenario is also impacted by the low level of interest rates, which limits the size of the rate shock.

**Model Risk Management**

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

For additional information about our model risk management, including our governance and model validation, refer to pages 105 to 106 included under Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, in our 2016 Form 10-K.

**Capital**

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

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

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

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

management of risk and capital. Our Capital Policy is reviewed and approved at least annually by the Board's RC. For additional information about our capital, refer to pages 107 to 117 included under Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, in our 2016 Form 10-K.

State Street Corporation | 38

---



Table of Contents

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

Global Systemically Important Bank

We are one among a group of 30 institutions worldwide that have been identified by the FSB and the BCBS as G-SIBs. Our designation as a G-SIB requires us to maintain an additional capital buffer above the Basel III final rule minimum common equity tier 1 capital ratio of 4.5%, based on a number of factors, as evaluated by banking regulators.

In addition to the U.S. Basel III final rule, the Dodd-Frank Act requires the Federal Reserve to establish more stringent capital requirements for large bank holding companies, including State Street. On August 14, 2015, the Federal Reserve published a final rule on the implementation of capital requirements that impose a capital surcharge on U.S. G-SIBs. The surcharge requirements within the final rule began to phase-in on January 1, 2016 and will be fully effective on January 1, 2019. The eight U.S. banks deemed to be G-SIBs, including State Street, are required to calculate the G-SIB surcharge according to two methods, and be bound by the higher of the two:

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

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

As part of the final rule, the Federal Reserve published estimated G-SIB surcharges for the eight U.S. G-SIBs based on relevant data from 2012 to 2014. Method 2 is identified as the binding methodology for State Street and the applicable surcharge on January 1, 2016 is calculated to be 1.5%. Assuming completion of the phase-in period for the capital conservation buffer, and a countercyclical buffer of 0%, the minimum capital ratios as of January 1, 2019, including a capital conservation buffer of 2.5% and G-SIB surcharge of 1.5% in 2019, would be 10.0% for tier 1 risk-based capital, 12.0% for total risk-based capital, and 8.5% for common equity tier 1 capital, in order for State Street to make capital distributions and discretionary bonus payments without limitation. Not all of our competitors have similarly been designated as systemically important, and therefore some of our competitors may not be subject to the same additional capital requirements.

Total Loss Absorbing Capacity

On December 15, 2016, the Federal Reserve released its final rule on TLAC, LTD and clean holding company requirements for U.S. domiciled G-SIBs, such as State Street, that are intended to improve the resiliency and resolvability of certain U.S. banking organizations through new enhanced prudential standards. The TLAC final rule imposes: (1) TLAC requirements (i.e., combined eligible tier 1 regulatory capital and eligible LTD); (2) separate eligible LTD requirements; and (3) clean holding company requirements designed to make short-term unsecured debt (including deposits) and most other ineligible liabilities structurally senior to eligible LTD.

Among other things, the TLAC final rule requires State Street to comply with minimum requirements for external TLAC and external LTD, plus an external TLAC buffer. Specifically, State Street must hold (1) combined eligible tier 1 regulatory capital and eligible LTD in the amount equal to at least 21.5% of total risk-weighted assets (using an estimated G-SIB method 1 surcharge of 1%) and 9.5% of total leverage exposure, as defined by the SLR final rule, and (2) qualifying external LTD equal to the greater of 7.5% of risk-weighted assets (using an estimated G-SIB method 2 surcharge of 1.5%) and 4.5% of total leverage exposure, as defined by the SLR final rule.

In forecasting our compliance with these requirements, we presently include our junior subordinated debentures maturing in 2047 and 2028 as TLAC eligible debt. Based upon current estimates, assumptions and guidance, we project that compliance with TLAC will result in increasing our outstanding TLAC eligible long-term debt by approximately \$1 billion at December 31, 2018 compared to the TLAC eligible debt outstanding at June 30, 2017. For additional information on our TLAC requirements, refer to page 7 under "Regulatory Capital Adequacy and Liquidity Standards" in "Total Loss-Absorbing Capacity (TLAC)" included under Item 1, Business, in our 2016 Form 10-K

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



Table of Contents

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

Regulatory Capital

We and State Street Bank, as advanced approaches banking organizations, are subject to the current Basel III minimum risk-based capital and leverage ratio guidelines. The Basel III final rule incorporates several multi-year transition provisions for capital components and minimum ratio requirements for common equity tier 1 capital, tier 1 capital and total capital. The transition period started in January 2014 and will be completed by January 1, 2019, which is concurrent with the full implementation of the Basel III final rule in the U.S.

Among other things, the Basel III final rule introduced a minimum common equity tier 1 risk-based capital ratio of 4.5% and raises the minimum tier 1 risk-based capital ratio from 4% to 6%. In addition, for advanced approaches banking organizations such as State Street, the Basel III final rule imposes a minimum supplementary tier 1 leverage ratio of 3%, the numerator of which is tier 1 capital and the denominator of which includes both on-balance sheet assets and certain off-balance sheet exposures.

The Basel III final rule also introduced a capital conservation buffer and a countercyclical capital buffer that add to the minimum risk-based capital ratios. Specifically, the final rule limits a banking organization's ability to make capital distributions and discretionary bonus payments to executive officers if it fails to maintain a common equity tier 1 capital conservation buffer of more than 2.5% of total risk-weighted assets and, if deployed during periods of excessive credit growth, a common equity tier 1 countercyclical capital buffer of up to 2.5% of total risk-weighted assets, above each of the minimum common equity tier 1, and tier 1 and total risk-based capital ratios. The countercyclical capital buffer is currently set at zero by U.S. banking regulators.

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

Under the Basel III final rule, certain new items are deducted from common equity tier 1 capital and certain regulatory capital deductions were modified as compared to the previously applicable capital regulations. Among other things, the final rule requires significant investments in the common stock of unconsolidated financial institutions, as defined, and certain deferred tax assets that exceed specified individual and aggregate thresholds to be deducted from common equity tier 1 capital. As an advanced

approaches banking organization, after-tax unrealized gains and losses on AFS investment securities flow through to and affect State Street's and State Street Bank's common equity tier 1 capital, subject to a phase-in schedule.

We are required to use the advanced approaches framework as provided in the Basel III final rule to determine our risk-based capital requirements. The Dodd-Frank Act applies a "capital floor" to advanced approaches banking organizations, such as State Street and State Street Bank. 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 the PCA framework.

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

The following table sets forth the transition to full implementation and the minimum risk-based capital ratio requirements under the Basel III final rule. This does not include the potential imposition of an additional countercyclical capital buffer.

TABLE 36: BASEL III FINAL RULES TRANSITION ARRANGEMENTS AND MINIMUM RISK-BASED CAPITAL RATIOS<sup>(1) (2)</sup>

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

<sup>(1)</sup> As part of the G-SIB Surcharge final rule, the Federal Reserve published estimated G-SIB surcharges for the eight U.S. G-SIBs based on relevant data from 2012-2014 and the estimated resulting G-SIB surcharge for State Street is 1.5%. Including the 1.5% surcharge, State Street's minimum risk-based capital ratio requirements, as of January 1, 2019 would be 8.5% for common equity tier 1, 10.0% for tier 1 capital and 12.0% for total capital.

<sup>(2)</sup> Minimum ratios shown above do not reflect the countercyclical buffer, currently set at zero by U.S. banking regulators.

<sup>(3)</sup> Minimum common equity tier 1 capital, minimum tier 1 capital and minimum total capital presented include the transitional capital conservation buffer as well as the estimated transitional G-SIB surcharge being phased-in beginning January 1, 2016 through January 1, 2019 based on an estimated 1.5% surcharge in all periods. The specific calculation of State Street's and State Street Bank's risk-based capital ratios will change as the provisions of the Basel III final rule related to the numerator (capital) and denominator (risk-weighted assets) are phased in, and as our risk-weighted assets calculated using the advanced approaches change due to potential changes in methodology. These ongoing methodological changes will result in differences in our reported capital ratios from one reporting period to the next that are independent of applicable changes to our capital base, our asset composition, our off-balance sheet exposures or our risk profile.

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

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

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

TABLE 37: REGULATORY CAPITAL STRUCTURE AND RELATED REGULATORY CAPITAL RATIOS

(In millions)	State Street				State Street Bank			
	Basel III Advanced Approaches June 30, 2017 <sup>(1)</sup>	Basel III Standardized Approach June 30, 2017 <sup>(2)</sup>	Basel III Advanced Approaches December 31, 2016 <sup>(1)</sup>	Basel III Standardized Approach December 31, 2016 <sup>(2)</sup>	Basel III Advanced Approaches June 30, 2017 <sup>(1)</sup>	Basel III Standardized Approach June 30, 2017 <sup>(2)</sup>	Basel III Advanced Approaches December 31, 2016 <sup>(1)</sup>	Basel III Standardized Approach December 31, 2016 <sup>(2)</sup>
Common shareholders' equity:								
Common stock and related surplus	\$10,307	\$10,307	\$10,286	\$10,286	\$11,382	\$11,382	\$11,376	\$11,376
Retained earnings	18,202	18,202	17,459	17,459	12,188	12,188	12,285	12,285
Accumulated other comprehensive income (loss)	(1,266 )	(1,266 )	(1,936 )	(1,936 )	(1,060 )	(1,060 )	(1,648 )	(1,648 )
Treasury stock, at cost	(8,367 )	(8,367 )	(7,682 )	(7,682 )	—	—	—	—
Total	18,876	18,876	18,127	18,127	22,510	22,510	22,013	22,013
Regulatory capital adjustments:								
Goodwill and other intangible assets, net of associated deferred tax liabilities <sup>(3)</sup>	(6,714 )	(6,714 )	(6,348 )	(6,348 )	(6,417 )	(6,417 )	(6,060 )	(6,060 )
Other adjustments	(155 )	(155 )	(155 )	(155 )	(91 )	(91 )	(148 )	(148 )
Common equity tier 1 capital	12,007	12,007	11,624	11,624	16,002	16,002	15,805	15,805
Preferred stock	3,196	3,196	3,196	3,196	—	—	—	—
Trust preferred capital securities subject to phase-out from tier 1 capital	—	—	—	—	—	—	—	—
Other adjustments	(38 )	(38 )	(103 )	(103 )	—	—	—	—
Tier 1 capital	15,165	15,165	14,717	14,717	16,002	16,002	15,805	15,805
Qualifying subordinated long-term debt	1,074	1,074	1,172	1,172	1,078	1,078	1,179	1,179
Trust preferred capital securities phased out of tier 1 capital	—	—	—	—	—	—	—	—
ALLL and other	4	75	19	77	—	75	15	77
Other adjustments	—	—	1	1	—	—	—	—
Total capital	\$16,243	\$16,314	\$15,909	\$15,967	\$17,080	\$17,155	\$16,999	\$17,061
Risk-weighted assets:								
Credit risk	\$52,755	\$105,785	\$50,900	\$98,125	\$50,010	\$102,642	\$47,383	\$94,413
Operational risk <sup>(4)</sup>	44,123	NA	44,579	NA	43,552	NA	44,043	NA
Market risk <sup>(5)</sup>	3,387	1,284	3,822	1,751	3,388	1,284	3,822	1,751
	\$100,265	\$107,069	\$99,301	\$99,876	\$96,950	\$103,926	\$95,248	\$96,164

Total risk-weighted assets		2017		2016		2017		2016		2017		2016	
Adjusted quarterly average assets		\$216,940	\$216,940	\$226,310	\$226,310	\$214,022	\$214,022	\$222,584	\$222,584				
Capital Ratios <sup>(1)</sup> :	Conservation Buffer and G-SIB Surcharge <sup>(6)</sup>	Minimum Requirements Including Capital Conservation Buffer and G-SIB Surcharge <sup>(7)</sup>		Minimum Requirements Including Capital Conservation Buffer and G-SIB Surcharge <sup>(7)</sup>		Minimum Requirements Including Capital Conservation Buffer and G-SIB Surcharge <sup>(7)</sup>		Minimum Requirements Including Capital Conservation Buffer and G-SIB Surcharge <sup>(7)</sup>		Minimum Requirements Including Capital Conservation Buffer and G-SIB Surcharge <sup>(7)</sup>		Minimum Requirements Including Capital Conservation Buffer and G-SIB Surcharge <sup>(7)</sup>	
		2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Common equity tier 1 capital	6.5%	5.5%	12.0%	11.2%	11.7%	11.6%	16.5%	15.4%	16.6%	16.4%			
Tier 1 capital	8.0	7.0	15.1	14.2	14.8	14.7	16.5	15.4	16.6	16.4			
Total capital	10.0	9.0	16.2	15.2	16.0	16.0	17.6	16.5	17.8	17.7			
Tier 1 leverage	4.0	4.0	7.0	7.0	6.5	6.5	7.5	7.5	7.1	7.1			

(1) Common equity tier 1 capital, tier 1 capital and total capital ratios as of June 30, 2017 and December 31, 2016 were calculated in conformity with the advanced approaches provisions of the Basel III final rule. Tier 1 leverage ratio as of June 30, 2017 and December 31, 2016 were calculated in conformity with the Basel III final rule.

(2) Common equity tier 1 capital, tier 1 capital and total capital ratios as of June 30, 2017 and December 31, 2016 were calculated in conformity with the standardized approach provisions of the Basel III final rule. Tier 1 leverage ratio as of June 30, 2017 and December 31, 2016 were calculated in conformity with the Basel III final rule.

(3) Amounts for State Street and State Street Bank as of June 30, 2017 consisted of goodwill, net of associated deferred tax liabilities, and 80% of other intangible assets, net of associated deferred tax liabilities. Amounts for State Street and State Street Bank as of December 31, 2016 consisted of goodwill, net of deferred tax liabilities and 60% of other intangible assets, net of associated deferred tax liabilities. Intangible assets, net of associated deferred tax liabilities is phased in as a deduction from capital, in conformity with the Basel III final rule.

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

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

(6) Minimum requirements will be phased in up to full implementation beginning on January 1, 2019; minimum requirements listed are as of June 30, 2017. See Table 36: Basel III Final Rules Transition Arrangements and

Minimum Risk Based Capital Ratios.

<sup>(7)</sup> Minimum requirements will be phased in up to full implementation beginning on January 1, 2019; minimum requirements listed are as of December 31, 2016. See Table 36: Basel III Final Rules Transition Arrangements and Minimum Risk Based Capital Ratios.

<sup>NA</sup> Not applicable

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

As of January 1, 2015 we used the standardized provisions of the Basel III final rule in addition to the advanced approaches provisions which were previously implemented in the second quarter of 2014, and the lower of our regulatory capital ratios calculated under the advanced approaches and those ratios calculated under the standardized approach are applied in the assessment of our capital adequacy for regulatory capital purposes. Beginning in the second quarter of 2014, until January 1, 2015, we used the advanced approaches provisions in the Basel III final rule, and transitional provisions of the Basel III final rule, and the lower of our regulatory capital ratios calculated under the advanced approaches and those ratios calculated under the transitional provisions were applied in the assessment of our capital adequacy for regulatory capital purposes.

Our common equity tier 1 capital increased \$383 million as of June 30, 2017 compared to December 31, 2016 primarily due to net income of \$1.12 billion and an increase in accumulated other comprehensive income of \$670 million. The increases in common equity tier 1 capital were partially offset by capital distributions of \$1.13 billion from common stock purchases and dividends, and the impact from the 2017 phase-in of the deduction of intangibles (80% in 2017 compared to 60% in 2016). In the same comparative period, our tier 1 capital increased \$448 million, due to the increase in common equity tier 1 capital. Total capital increased \$334 million under advanced approaches and increased \$347 million under standardized approach due to the changes to tier 1 capital. State Street Bank's tier 1 capital increased \$197 million, and total capital increased \$81 million and \$94 million under the advanced and standardized approaches, respectively, as of June 30, 2017, compared to December 31, 2016. The increase is a result of higher common equity tier 1.

The table below presents a roll-forward of common equity tier 1 capital, tier 1 capital and total capital for the quarter ended June 30, 2017 and for the year ended December 31, 2016.

TABLE 38: CAPITAL ROLL-FORWARD

(In millions)	State Street			
	Basel III Advanced Approach June 30, 2017	Basel III Standardized Approach June 30, 2017	Basel III Advanced Approaches December 31, 2016	Basel III Standardized Approach December 31, 2016
Common equity tier 1 capital:				
Common equity tier 1 capital balance, beginning of period	\$11,624	\$ 11,624	\$ 12,433	\$ 12,433
Net income	1,122	1,122	2,143	2,143
Changes in treasury stock, at cost	(685)	(685)	(1,225)	(1,225)
Dividends declared	(377)	(377)	(732)	(732)
Goodwill and other intangible assets, net of associated deferred tax liabilities	(366)	(366)	(421)	(421)
Effect of certain items in accumulated other comprehensive income (loss)	670	670	(514)	(514)
Other adjustments	19	19	(60)	(60)
Changes in common equity tier 1 capital	383	383	(809)	(809)
Common equity tier 1 capital balance, end of period	12,007	12,007	11,624	11,624
Additional tier 1 capital:				
Tier 1 capital balance, beginning of period	14,717	14,717	15,264	15,264
Change in common equity tier 1 capital	383	383	(809)	(809)
Net issuance of preferred stock	—	—	493	493
Trust preferred capital securities phased out of tier 1 capital	—	—	(237)	(237)
Other adjustments	65	65	6	6
Changes in tier 1 capital	448	448	(547)	(547)



Edgar Filing: STATE STREET CORP - Form 10-Q

Tier 1 capital balance, end of period	15,165	15,165	14,717	14,717
Tier 2 capital:				
Tier 2 capital balance, beginning of period	1,192	1,250	2,085	2,139
Net issuance and changes in long-term debt qualifying as tier 2	(98	)(98	)(186	)(186 )
Trust preferred capital securities phased into tier 2 capital	—	—	(713	)(713 )
Changes in ALLL and other	(15	)(2	)7	11
Change in other adjustments	(1	)(1	)(1	)(1 )
Changes in tier 2 capital	(114	)(101	)(893	)(889 )
Tier 2 capital balance, end of period	1,078	1,149	1,192	1,250
Total capital:				
Total capital balance, beginning of period	15,909	15,967	17,349	17,403
Changes in tier 1 capital	448	448	(547	)(547 )
Changes in tier 2 capital	(114	)(101	)(893	)(889 )
Total capital balance, end of period	\$16,243	\$ 16,314	\$ 15,909	\$ 15,967

State Street Corporation | 43

---

Table of Contents

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

The following table presents a roll-forward of the Basel III advanced approaches risk-weighted assets for the quarter ended June 30, 2017 and for the year ended December 31, 2016.

TABLE 39: ADVANCED APPROACHES RWA ROLL-FORWARD

(In millions)	State Street	
	June 30, 2017	December 31, 2016
Total risk-weighted assets, beginning of period	\$99,301	\$99,552
Changes in credit risk-weighted assets:		
Net increase (decrease) in investment securities-wholesale	1,268	(1,027 )
Net increase (decrease) in loans and leases	1,771	575
Net increase (decrease) in securitization exposures	391	(3,246 )
Net increase (decrease) in repo-style transaction exposures	468	606
Net increase (decrease) in OTC derivatives exposures	51	1,812
Net increase (decrease) in all other <sup>(1)</sup>	(2,094 )	447
Net increase (decrease) in credit risk-weighted assets	1,855	(833 )
Net increase (decrease) in credit valuation adjustment	32	512
Net increase (decrease) in market risk-weighted assets	(467 )	(627 )
Net increase (decrease) in operational risk-weighted assets	(456 )	697
Total risk-weighted assets, end of period	\$100,265	\$99,301

<sup>(1)</sup> Includes assets not in a definable category, cleared transactions, non-material portfolio, other wholesale, cash and due from, and interest-bearing deposits with banks, equity exposures, and 6% credit risk supervisory charge. As of June 30, 2017, total advanced approaches risk-weighted assets increased \$964 million compared to December 31, 2016, mainly due to an increase in credit risk, partially offset by a decrease in market risk and operational risk. The increase in credit risk was mainly due to an increase in leveraged loans stemming from a new LGD model being introduced, cash and overdrafts. Market risk reduction of \$467 million is resulting from a lower stressed VaR. Operational risk decreased approximately \$456 million due to a decrease in loss event frequency in the external fraud-investment loss category. The increase in credit valuation adjustment was driven by increased volatility in our FX derivative portfolios, leading to a higher positive market valuation.

As of December 31, 2016, total advanced approaches risk-weighted assets decreased \$251 million compared to December 31, 2015, mainly due to a decrease in credit risk and market risk, partially offset by an increase in operational risk and credit valuation adjustment. The decrease in credit risk was mainly due to a decrease in securitization exposures as a result of sell-offs and maturities as well as calls

of agency debt securities within our wholesale investment portfolio, partially offset by an increase in derivatives exposure from marked-to-market FX contracts stemming from a stronger dollar and an increase in securities finance agency lending. The market risk decrease was a result of reduced end of day positions in FX and interest rate risk. Operational risk increased approximately \$700 million mainly due to an increase in loss event frequency. The increase in credit valuation adjustment was driven by an increase in the market valuation FX contracts.

The following table presents a roll-forward of the Basel III standardized approach risk-weighted assets for the quarter ended June 30, 2017 and year ended December 31, 2016.

TABLE 40: STANDARDIZED APPROACH RWA ROLL-FORWARD

(In millions)	State Street	
	June 30, 2017	December 31, 2016
Total estimated risk-weighted assets, beginning of period <sup>(1)</sup>	\$99,876	\$95,893
Changes in credit risk-weighted assets:		

Edgar Filing: STATE STREET CORP - Form 10-Q

Net increase (decrease) in investment securities-wholesale	1,140	(1,471 )
Net increase (decrease) in loans and leases	3,943	998
Net increase (decrease) in securitization exposures	382	(3,144 )
Net increase (decrease) in repo-style transaction exposures	3,576	4,994
Net increase (decrease) in OTC derivatives exposures	(1,684 )	3,462
Net increase (decrease) in all other <sup>(2)</sup>	303	(229 )
Net increase (decrease) in credit risk-weighted assets	7,660	4,610
Net increase (decrease) in market risk-weighted assets	(467 )	(627 )
Total risk-weighted assets, end of period	\$107,069	\$99,876

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

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

As of June 30, 2017, total standardized approach risk-weighted assets increased \$7.19 billion compared to December 31, 2016, primarily the result of an increase in credit risk partially offset by a decrease in market risk resulting from a lower stressed VaR. The main drivers of the credit risk change are an increase in equities within the securities finance portfolio of \$3.20 billion, an increase in overdrafts of \$3.18 billion due to an increase in U.S. short-duration advances to clients and an increase in the investment portfolio offset by a decrease in FX contracts due to a mix shift to counterparties with a lower weighted-average risk-weight.

State Street Corporation | 44

---

Table of Contents

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

As of December 31, 2016, total standardized approach risk-weighted assets increased \$3.98 billion compared to December 31, 2015, primarily the result of an increase in securities finance agency lending, an increase in market values of FX contracts, partially offset by a decrease in securitization exposures, wholesale investments and market risk. The decrease in securitization was due to sell-offs and maturities while the decrease in wholesale investments was due to calls of agency debt securities. Market risk reduction is resulting from lower stressed VaR.

The regulatory capital ratios as of June 30, 2017, presented in Table 37: Regulatory Capital Structure and Related Regulatory Capital Ratios, are calculated under the standardized approach and advanced approaches in conformity with the Basel III final rule. The advanced approaches-based ratios (actual and estimated pro forma) reflect calculations and determinations with respect to our capital and related matters as of June 30, 2017, based on State Street and external data, quantitative formulae, statistical models, historical correlations and assumptions, collectively referred to as "advanced systems," in effect and used by State Street for those purposes as of the time we first reported such ratios in a quarterly report on Form 10-Q. Significant components of these advanced systems involve the exercise of judgment by us and our regulators, and our advanced systems may not, individually or collectively, precisely represent or calculate the scenarios, circumstances, outputs or other results for which they are designed or intended.

Our advanced systems are subject to update and periodic revalidation in response to changes in our business activities and our historical experiences, forces and events experienced by the market broadly or by individual financial institutions, changes in regulations and regulatory interpretations and other factors, and are also subject to continuing regulatory review and approval. For example, a significant operational loss experienced by another financial institution, even if we do not experience a related loss, could result in a material change in the output of our advanced systems and a corresponding material change in our risk exposures, our total risk-weighted assets and our capital ratios compared to prior periods. An operational loss that we experience could also result in a material change in our capital requirements for operational risk under the advanced approaches, depending on the severity of the loss event, its characterization among the seven Basel-defined UOMs, and the stability of the distributional approach for a particular UOM, and without direct correlation to the effects of the loss event, or the timing of such effects, on our results of operations.

Due to the influence of changes in these advanced systems, whether resulting from changes in data inputs, regulation or regulatory supervision or interpretation, State Street-specific or market activities or experiences or other updates or factors, we expect that our advanced systems and our capital ratios calculated in conformity with the Basel III final rule will change and may be volatile over time, and that those latter changes or volatility could be material as calculated and measured from period to period. Models implemented under the Basel III final rule, particularly those implementing the advanced approaches, remain subject to regulatory review and approval. The full effects of the Basel III final rule on State Street and State Street Bank are therefore subject to further evaluation and also to further regulatory guidance, action or rule-making.

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

## Estimated Basel III Fully Phased-in Capital Ratios

Table 41: Regulatory Capital Structure and Related Regulatory Capital Ratios - State Street, and Table 42: Regulatory Capital Structure and Related Regulatory Capital Ratios - State Street Bank, present our capital ratios for State Street and State Street Bank as of June 30, 2017, calculated in conformity with the advanced approaches provisions and standardized approach of the Basel III final rule on a pro forma basis under the fully phased-in provisions of the Basel III final rule.

TABLE 41: REGULATORY CAPITAL STRUCTURE AND RELATED REGULATORY CAPITAL RATIOS -  
STATE STREET

June 30, 2017 (In millions)	Basel III Advanced Approaches	Phase-In Provisions	Basel III Advanced Approaches Fully Phased-In Pro-Forma Estimate	Basel III Standardized Approach	Phase-In Provisions	Basel III Standardized Approach Fully Phased-In Pro-Forma Estimate
Total common shareholders' equity	\$ 18,876	\$ (3 )	\$ 18,873	\$ 18,876	\$ (3 )	\$ 18,873
Regulatory capital adjustments:						
Goodwill and other intangible assets, net of associated deferred tax liabilities	(6,714 )	(273 )	(6,987 )	(6,714 )	(273 )	(6,987 )
Other adjustments	(155 )	(39 )	(194 )	(155 )	(39 )	(194 )
Common equity tier 1 capital	12,007	(315 )	11,692	12,007	(315 )	11,692
Additional tier 1 capital:						
Preferred stock	3,196	—	3,196	3,196	—	3,196
Trust preferred capital securities	—	—	—	—	—	—
Other adjustments	(38 )	38	—	(38 )	38	—
Additional tier 1 capital	3,158	38	3,196	3,158	38	3,196
Tier 1 capital	15,165	(277 )	14,888	15,165	(277 )	14,888
Tier 2 capital:						
Qualifying subordinated long-term debt	1,074	—	1,074	1,074	—	1,074
Trust preferred capital securities	—	—	—	—	—	—
ALLL and other	4	—	4	75	—	75
Tier 2 capital	1,078	—	1,078	1,149	—	1,149
Total capital	\$ 16,243	\$ (277 )	\$ 15,966	\$ 16,314	\$ (277 )	\$ 16,037
Risk weighted assets	\$ 100,265	\$ 66	\$ 100,331	\$ 107,069	\$ 62	\$ 107,131
Adjusted average assets	216,940	(205 )	216,735	216,940	(205 )	216,735
Total assets for SLR	243,910	(205 )	243,705	243,910	(205 )	243,705
Capital ratios <sup>(1)</sup> :	Minimum Requirement	Minimum Requirement	Minimum Requirement	Minimum Requirement	Minimum Requirement	Minimum Requirement
	Including Capital Conservation Buffer	Including Capital Conservation Buffer	Including Capital Conservation Buffer	Including Capital Conservation Buffer	Including Capital Conservation Buffer	Including Capital Conservation Buffer

	and G-SIB Surcharge 2017		and G-SIB Surcharge 2019											
Common equity tier 1 capital <sup>(2)</sup>	4.5	%	6.5	%	8.5	%	12.0	%	11.7	%	11.2	%	10.9	%
Tier 1 capital	6.0		8.0		10.0		15.1		14.8		14.2		13.9	
Total capital	8.0		10.0		12.0		16.2		15.9		15.2		15.0	
Tier 1 leverage	4.0		NA		NA		7.0		6.9		7.0		6.9	
Supplementary leverage	5.0		NA		NA		6.2		6.1		6.2		6.1	

<sup>(1)</sup> Common equity tier 1 ratio is calculated by dividing common equity tier 1 capital (numerator) by risk-weighted assets (denominator); tier 1 capital ratio is calculated by dividing tier 1 capital (numerator) by risk-weighted assets (denominator); total capital ratio is calculated by dividing total capital (numerator) by risk-weighted assets (denominator); tier 1 leverage ratio is calculated by dividing tier 1 capital (numerator) by adjusted average assets (denominator); and supplementary leverage ratio, or SLR, is calculated by dividing tier 1 capital (numerator) by total assets for SLR (denominator).

<sup>(2)</sup> Common equity tier 1 ratios were calculated in conformity with the provisions of the Basel III final rule; refer to Table 37: Regulatory Capital Structure and Related Regulatory Capital Ratios.

<sup>NA</sup> Not applicable

Table of ContentsMANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONSTABLE 42: REGULATORY CAPITAL STRUCTURE AND RELATED REGULATORY CAPITAL RATIOS -  
STATE STREET BANK

June 30, 2017 (In millions)	Basel III Advanced Approaches	Phase-In Provisions	Basel III Advanced Approaches Fully Phased-In Pro-Forma Estimate	Basel III Standardized Approach	Phase-In Provisions	Basel III Standardized Approach Fully Phased-In Pro-Forma Estimate
Total common shareholders' equity	\$22,510	\$—	\$22,510	\$22,510	\$—	\$22,510
Regulatory capital adjustments:						
Goodwill and other intangible assets, net of associated deferred tax liabilities	(6,417 )	(264 )	(6,681 )	(6,417 )	(264 )	(6,681 )
Other adjustments	(91 )	—	(91 )	(91 )	—	(91 )
Common equity tier 1 capital	16,002	(264 )	15,738	16,002	(264 )	15,738
Additional tier 1 capital:						
Preferred stock	—	—	—	—	—	—
Other adjustments	—	—	—	—	—	—
Additional tier 1 capital	—	—	—	—	—	—
Tier 1 capital	16,002	(264 )	15,738	16,002	(264 )	15,738
Tier 2 capital:						
Qualifying subordinated long-term debt	1,078	—	1,078	1,078	—	1,078
ALLL and other	—	—	—	75	—	75
Tier 2 capital	1,078	—	1,078	1,153	—	1,153
Total capital	\$17,080	\$(264 )	\$16,816	\$17,155	\$(264 )	\$16,891
Risk weighted assets	\$96,950	\$(245 )	\$96,705	\$103,926	\$(232 )	\$103,694
Adjusted average assets	214,022	(197 )	213,825	214,022	(197 )	213,825
Total assets for SLR	240,919	(197 )	240,722	240,919	(197 )	240,722

Capital ratios <sup>(1)</sup> :	Minimum Requirement Including Capital				Minimum Requirement Including Capital			
	Minimum Requirement		Conservation Buffer and G-SIB Surcharge 2017		Minimum Requirement		Conservation Buffer and G-SIB Surcharge 2019	
Common equity tier 1 capital <sup>(2)</sup>	4.5 %	6.5 %	8.5 %	16.5 %	16.3 %	15.4 %	15.2 %	
Tier 1 capital	6.0	8.0	10.0	16.5	16.3	15.4	15.2	
Total capital	8.0	10.0	12.0	17.6	17.4	16.5	16.3	
Tier 1 leverage	4.0	NA	NA	7.5	7.4	7.5	7.4	
Supplementary leverage	6.0	NA	NA	6.6	6.5	6.6	6.5	

(1) Common equity tier 1 capital ratio is calculated by dividing common equity tier 1 capital (numerator) by risk-weighted assets (denominator); tier 1 capital ratio is calculated by dividing tier 1 capital (numerator) by risk-weighted assets (denominator); total capital ratio is calculated by dividing total capital (numerator) by risk-weighted assets (denominator); tier 1 leverage ratio is calculated by dividing tier 1 capital (numerator) by adjusted average assets (denominator); and supplementary leverage ratio is calculated by dividing tier 1 capital (numerator) by total assets for SLR (denominator).

(2) Common equity tier 1 ratios were calculated in conformity with the provisions of the Basel III final rule; refer to Table 37: Regulatory Capital Structure and Related Regulatory Capital Ratios.

<sup>NA</sup> Not applicable

Fully phased-in pro-forma estimates of common shareholders' equity include 100% of accumulated other comprehensive income, including accumulated other comprehensive income attributable to available-for-sale securities, cash flow hedges and defined benefit pension plans. Fully phased-in pro-forma estimates of common equity tier 1 capital reflect 100% of applicable deductions, including but not limited to, intangible assets net of deferred tax liabilities. Fully phased-in tier 1 capital reflects the transition of trust preferred capital securities from tier 1 capital to tier 2 capital. For both Basel III advanced and standardized approaches, fully phased-in pro-forma estimates of risk-weighted assets reflect the exclusion of intangible assets, offset by additions related to non-significant equity exposures and deferred tax assets related to temporary differences.

The Volcker rule, including the required capital deduction for investments in a covered fund, became effective on July 21, 2015, for investments in and relationships with a covered fund made after December 31, 2013. For legacy covered funds, the Volcker rule capital deduction became effective on July 21, 2017. For additional information on the Volcker rule, refer to pages 9 to 10 under "Regulatory Capital Adequacy and Liquidity Standards" in "Supervision and Regulation" included under Item 1, Business, in our 2016 Form 10-K.

State Street Corporation | 47

---



Table of Contents

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

## Supplementary Leverage Ratio

In 2014, U.S. banking regulators issued final rules implementing an SLR, for certain bank holding companies, like State Street, and their insured depository institution subsidiaries, like State Street Bank, which we refer to as the SLR final rule. Upon implementation, the SLR final rule requires that, as of January 1, 2018, (i) State Street Bank maintain an SLR of at least 6% to be well capitalized under the U.S. banking regulators' PCA framework and (ii) State Street maintain an SLR of at least 5% to avoid

limitations on capital distributions and discretionary bonus payments. In addition to the SLR, State Street is subject to a minimum tier 1 leverage ratio of 4%, which differs from the SLR primarily in that the denominator of the tier 1 leverage ratio is only a quarterly average of on-balance sheet assets and does not include any off-balance sheet exposures. Beginning with reporting for March 31, 2015, State Street was required to include SLR disclosures, calculated on a transitional basis, with its other Basel disclosures.

TABLE 43: SUPPLEMENTARY LEVERAGE RATIO

June 30, 2017

(Dollars in millions)	Transitional SLR	Phase-In Provisions	Fully Phased-in Pro-Forma SLR Estimate
State Street:			
Tier 1 capital	\$ 15,165	\$ (277 )	\$ 14,888
On-and off-balance sheet leverage exposure	250,543	—	250,543
Less: regulatory deductions	(6,633 )	(205 )	(6,838 )
Total assets for SLR	\$ 243,910	\$ (205 )	\$ 243,705
Supplementary leverage ratio	6.2	% (0.1 )%	6.1 %
State Street Bank:			
Tier 1 capital	\$ 16,002	\$ (264 )	\$ 15,738
On-and off-balance sheet leverage exposure	247,156	—	247,156
Less: regulatory deductions	(6,237 )	(197 )	(6,434 )
Total assets for SLR	\$ 240,919	\$ (197 )	\$ 240,722
Supplementary leverage ratio	6.6	% (0.1 )%	6.5 %

## Capital Actions

## Preferred Stock

The following table summarizes selected terms of each of the series of the preferred stock issued and outstanding as of June 30, 2017:

TABLE 44: PREFERRED STOCK ISSUED AND OUTSTANDING

Issuance Date	Depository Shares Issued	Ownership Interest Per Depository Share	Liquidation Preference Per Share	Liquidation Preference Per Depository Share	Net Proceeds of Offering (In millions)	Redemption Date <sup>(1)</sup>	
Preferred Stock <sup>(2)</sup> :							
Series C	August 2012	20,000,000	1/4,000th	\$ 100,000	\$ 25	\$ 488	September 15, 2017

Edgar Filing: STATE STREET CORP - Form 10-Q

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

(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.

State Street Corporation | 48

---

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

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

TABLE 45: PREFERRED STOCK DIVIDENDS QUARTERS TO DATE

	Quarters Ended June 30, 2017			2016		
	Dividends Declared per Share	Dividends Declared per Depository Share	Total (In millions) <sup>(1)</sup>	Dividends Declared per Share	Dividends Declared per Depository Share	Total (In millions)
Preferred Stock:						
Series C	\$1,313	\$ 0.33	\$ 7	\$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	—	—	—	—	—	—
Series G	1,338	0.33	7	951	0.24	5
Total			\$ 36			\$ 33

TABLE 46: PREFERRED STOCK DIVIDENDS

	Six Months Ended June 30, 2017			2016		
	Dividends Declared per Share	Dividends Declared per Depository Share	Total (In millions)	Dividends Declared per Share	Dividends Declared per Depository Share	Total (In millions)
Preferred Stock:						
Series C	\$2,626	\$ 0.66	\$ 13	\$2,626	\$ 0.66	\$ 13
Series D	2,950	0.74	22	2,950	0.74	22
Series E	3,000	0.76	22	3,000	0.76	22
Series F	2,625	26.25	20	2,625	26.25	20
Series G	2,676	0.66	14	951	0.24	5
Total			\$ 91			\$ 82

<sup>(1)</sup> Dividends were paid in June 2017.

In July 2017, we declared dividends on our Series C, D, E, F and G preferred stock of approximately \$1,313, \$1,475, \$1,500, \$2,625 and \$1,338, respectively, per share, or approximately \$0.33, \$0.37, \$0.38, \$26.25 and \$0.33, respectively, per depository share. These dividends total approximately \$6 million, \$11 million, \$11 million, \$20 million and \$7 million on our Series C, D, E, F and G preferred stock, respectively, which will be paid in September 2017.

**Common Stock**

In June 2017, our Board approved a common stock purchase program authorizing the purchase of up to \$1.4 billion of our common stock through June 30, 2018 (the 2017 Program). No shares were purchased by us under this program in the quarter ended June 30, 2017.

In June 2016, our Board approved a common stock purchase program authorizing the purchase of up to \$1.4 billion of our common stock through June 30, 2017 (the 2016 Program). The table below presents the activity under the 2016 Program during the periods indicated:

TABLE 47: SHARES REPURCHASED

Edgar Filing: STATE STREET CORP - Form 10-Q

	Quarter Ended June 30, 2017		Six Months Ended June 30, 2017	
	Shares Acquired (In millions)	Average Cost per Share (\$)	Total Acquired (In millions)	Average Cost per Share (\$)
2016 Program <sup>(1)</sup>	2.7	\$ 83.84	\$ 227	9.4 \$ 79.93 \$ 750

<sup>(1)</sup> Includes \$158 million relating to shares acquired in exchange for BFDS stock during the first quarter of 2017. Additional information about the exchange is provided in Note 1 to the consolidated financial statements included in this Form 10-Q.

State Street Corporation | 49

---

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

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

TABLE 48: COMMON STOCK DIVIDENDS

	Quarters Ended June 30,		Six Months Ended June 30,	
	Dividends Total Declared (In per Share 2017	Dividends Total Declared (In per Share 2016	Dividends Total Declared (In per Share 2017	Dividends Total Declared (In per Share 2016
Common Stock	\$0.38 \$ 142	\$0.34 \$ 133	\$0.76 \$ 286	\$0.68 \$ 268

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 49 to 50 in "Related Stockholder Matters" included under Item 5, Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities, and to Note 15 on pages 176 to 178 to the consolidated financial statements included under Item 8, Financial Statements and Supplementary Data, in our 2016 Form 10-K. Our common stock and preferred stock dividends, including the declaration, timing and amount thereof, are subject to consideration and approval by the Board at the relevant times.

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

Table of Contents

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

OFF-BALANCE SHEET ARRANGEMENTS

On behalf of clients enrolled in our securities lending program, we lend securities to banks, broker/dealers and other institutions. In most circumstances, we indemnify our clients for the fair market value of those securities against a failure of the borrower to return such securities. Though these transactions are collateralized, the substantial volume of these activities necessitates detailed credit-based underwriting and monitoring processes. The aggregate amount of indemnified securities on loan totaled \$370.47 billion as of June 30, 2017, compared to \$360.45 billion as of December 31, 2016. 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 \$387.75 billion and \$377.92 billion as collateral for indemnified securities on loan as of June 30, 2017 and December 31, 2016, 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 \$387.75 billion and \$377.92 billion, referenced above, \$64.82 billion and \$60.00 billion was invested in indemnified repurchase agreements as of June 30, 2017 and December 31, 2016, respectively. We or our agents held \$69.10 billion and \$63.96 billion as collateral for indemnified investments in repurchase agreements as of June 30, 2017 and December 31, 2016, respectively.

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

RECENT ACCOUNTING DEVELOPMENTS

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

Table of Contents

**QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The information provided under “Financial Condition - Market Risk Management” in Management’s Discussion and Analysis, included in this Form 10-Q, is incorporated by reference herein. For more information on our market risk refer to pages 98 to 105 included under Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations, in our 2016 Form 10-K.

**CONTROLS AND PROCEDURES**

State Street has established and maintains disclosure controls and procedures that are designed to ensure that information related to State Street and its subsidiaries on a consolidated basis required to be disclosed in its 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 State Street’s management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. For the quarter ended June 30, 2017, State Street’s 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 State Street’s disclosure controls and procedures. Based on the evaluation of these disclosure controls and procedures, the Chief Executive Officer and Chief Financial Officer concluded that State Street’s disclosure controls and procedures were effective as of June 30, 2017.

State Street has also established and maintains internal control over financial reporting as a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in conformity with GAAP. In the ordinary course of business, State Street routinely enhances its internal controls and procedures for financial reporting by either upgrading its current systems or implementing new systems. Changes have been made and may be made to State Street’s internal controls and procedures for financial reporting as a result of these efforts. During the quarter ended June 30, 2017, no change occurred in State Street’s internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, State Street’s internal control over financial reporting.

STATE STREET CORPORATION  
CONSOLIDATED STATEMENT OF INCOME  
(UNAUDITED)

	Three Months		Six Months	
	Ended June 30,		Ended June 30,	
(Dollars in millions, except per share amounts)	2017	2016	2017	2016
Fee revenue:				
Servicing fees	\$1,339	\$1,239	\$2,635	\$2,481
Management fees	397	293	779	563
Trading services	289	267	564	539
Securities finance	179	156	312	290
Processing fees and other	31	98	143	150
Total fee revenue	2,235	2,053	4,433	4,023
Net interest income:				
Interest income	700	620	1,350	1,249
Interest expense	125	99	265	216
Net interest income	575	521	1,085	1,033
Gains (losses) related to investment securities, net:				
Gains (losses) from sales of available-for-sale securities, net	—	(1)	(40)	1
Gains (losses) related to investment securities, net	—	(1)	(40)	1
Total revenue	2,810	2,573	5,478	5,057
Provision for loan losses	3	4	1	8
Expenses:				
Compensation and employee benefits	1,071	989	2,237	2,096
Information systems and communications	283	270	570	542
Transaction processing services	207	201	404	401
Occupancy	116	111	226	224
Acquisition and restructuring costs	71	20	100	124
Professional services	97	82	191	175
Amortization of other intangible assets	54	49	106	98
Other	132	138	283	250
Total expenses	2,031	1,860	4,117	3,910
Income before income tax expense	776	709	1,360	1,139
Income tax expense (benefit)	156	92	238	154
Net income from non-controlling interest	—	2	—	2
Net income	\$620	\$619	\$1,122	\$987
Net income available to common shareholders	\$584	\$585	\$1,030	\$904
Earnings per common share:				
Basic	\$1.56	\$1.48	\$2.72	\$2.28
Diluted	1.53	1.47	2.69	2.25
Average common shares outstanding (in thousands):				
Basic	375,395	394,160	378,293	396,790
Diluted	380,915	398,847	383,489	401,113
Cash dividends declared per common share	\$.38	\$.34	\$.76	\$.68



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

State Street Corporation | 53

---

STATE STREET CORPORATION  
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
(UNAUDITED)

(In millions)	Three Months Ended June 30,	
	2017	2016
Net income	\$620	\$619
Other comprehensive income (loss), net of related taxes:		
Foreign currency translation, net of related taxes of (\$110) and (\$19), respectively	435	(213 )
Net unrealized gains (losses) on available-for-sale securities, net of reclassification adjustment and net of related taxes of \$177 and \$187, respectively	271	286
Net unrealized gains (losses) on available-for-sale securities designated in fair value hedges, net of related taxes of zero and (\$3), respectively	3	(3 )
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 (\$113) and (\$72), respectively	(177 )	(106 )
Net unrealized gains (losses) on retirement plans, net of related taxes of (\$1) and \$1, respectively	2	1
Other comprehensive income (loss)	535	(33 )
Total comprehensive income	\$1,155	\$586
(In millions)	Six Months Ended June 30,	
	2017	2016
Net income	\$1,122	\$987
Other comprehensive income (loss), net of related taxes:		
Foreign currency translation, net of related taxes of \$13 and (\$10), respectively	526	94
Net unrealized gains (losses) on available-for-sale securities, net of reclassification adjustment and net of related taxes of \$308 and \$358, respectively	472	546
Net unrealized gains (losses) on available-for-sale securities designated in fair value hedges, net of related taxes of \$5 and (\$15), respectively	9	(22 )
Other-than-temporary impairment on held-to-maturity securities related to factors other than credit, net of related taxes of \$1 and \$2, respectively	2	3
Net unrealized gains (losses) on cash flow hedges, net of related taxes of (\$164) and (\$117), respectively	(247 )	(174 )
Net unrealized gains (losses) on retirement plans, net of related taxes of \$2 and \$3, respectively	8	(2 )
Other comprehensive income (loss)	770	445
Total comprehensive income	\$1,892	\$1,432

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

State Street Corporation | 54

---

STATE STREET CORPORATION  
CONSOLIDATED STATEMENT OF CONDITION  
(UNAUDITED)

(Dollars in millions, except per share amounts)	June 30, 2017	December 31, 2016
Assets:	(Unaudited)	
Cash and due from banks	\$ 3,156	\$ 1,314
Interest-bearing deposits with banks	63,617	70,935
Securities purchased under resale agreements	3,172	1,956
Trading account assets	896	1,024
Investment securities available-for-sale	59,025	61,998
Investment securities held-to-maturity (fair value of \$36,169 and \$34,994)	36,230	35,169
Loans and leases (less allowance for losses of \$54 and \$53)	24,307	19,704
Premises and equipment (net of accumulated depreciation of \$3,611 and \$3,333)	2,137	2,062
Accrued interest and fees receivable	2,805	2,644
Goodwill	5,945	5,814
Other intangible assets	1,693	1,750
Other assets	35,291	38,328
Total assets	\$ 238,274	\$ 242,698
Liabilities:		
Deposits:		
Non-interest-bearing	\$ 50,957	\$ 59,397
Interest-bearing—U.S.	24,438	30,911
Interest-bearing—non-U.S.	106,021	96,855
Total deposits	181,416	187,163
Securities sold under repurchase agreements	3,856	4,400
Other short-term borrowings	1,465	1,585
Accrued expenses and other liabilities	17,732	16,901
Long-term debt	11,737	11,430
Total liabilities	216,206	221,479
Commitments, guarantees and contingencies (Notes 9 and 10)		
Shareholders' equity:		
Preferred stock, no par, 3,500,000 shares authorized:		
Series C, 5,000 shares issued and outstanding	491	491
Series D, 7,500 shares issued and outstanding	742	742
Series E, 7,500 shares issued and outstanding	728	728
Series F, 7,500 shares issued and outstanding	742	742
Series G, 5,000 shares issued and outstanding	493	493
Common stock, \$1 par, 750,000,000 shares authorized: 503,879,642 and 503,879,642 shares issued	504	504
Surplus	9,803	9,782
Retained earnings	18,202	17,459
Accumulated other comprehensive income (loss)	(1,270)	(2,040)
Treasury stock, at cost (129,773,003 and 121,940,502 shares)	(8,367)	(7,682)
Total shareholders' equity	22,068	21,219
Total liabilities and shareholders' equity	\$ 238,274	\$ 242,698

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

State Street Corporation | 55

---

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

(Dollars in millions, except per share amounts, shares in thousands)	PREFERRED STOCK	COMMON STOCK		Surplus	Retained Earnings	Accumulated TREASURY Other STOCK Comprehensive Income Shares Amount (Loss)		Total	
		Shares	Amount			Shares	Amount		
Balance as of December 31, 2015	\$ 2,703	503,880	\$ 504	\$ 9,746	\$ 16,049	\$ (1,442 )	104,228	\$ (6,457)	\$ 21,103
Net income					987				987
Other comprehensive income (loss)						445			445
Preferred stock issued	493								493
Cash dividends declared:									
Common stock - \$0.68 per share					(268 )				(268 )
Preferred stock					(82 )				(82 )
Common stock acquired							12,153	(715 )	(715 )
Common stock awards and options exercised, including income tax benefit of \$3				21			(2,151 )	89	110
Balance as of June 30, 2016	\$ 3,196	503,880	\$ 504	\$ 9,767	\$ 16,686	\$ (997 )	114,230	\$ (7,083)	\$ 22,073
Balance as of December 31, 2016	\$ 3,196	503,880	\$ 504	\$ 9,782	\$ 17,459	\$ (2,040 )	121,941	\$ (7,682)	\$ 21,219
Net income					1,122				1,122
Other comprehensive income (loss)						770			770
Cash dividends declared:									
Common stock - \$0.76 per share					(286 )				(286 )
Preferred stock					(91 )				(91 )
Common stock acquired							9,383	(750 )	(750 )
Common stock awards exercised				21			(1,551 )	65	86
Other					(2 )				(2 )
Balance as of June 30, 2017	\$ 3,196	503,880	\$ 504	\$ 9,803	\$ 18,202	\$ (1,270 )	129,773	\$ (8,367)	\$ 22,068

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

State Street Corporation | 56

---

STATE STREET CORPORATION  
CONSOLIDATED STATEMENT OF CASH FLOWS  
(UNAUDITED)

	Six Months Ended June 30,	
(In millions)	2017	2016
<b>Operating Activities:</b>		
Net income	\$1,122	\$987
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Deferred income tax (benefit)	(56 )	(32 )
Amortization of other intangible assets	106	98
Other non-cash adjustments for depreciation, amortization and accretion, net	415	362
Losses (gains) related to investment securities, net	40	(1 )
Change in trading account assets, net	128	(41 )
Change in accrued interest and fees receivable, net	(161 )	(53 )
Change in collateral deposits, net	(1,047 )	2,612
Change in unrealized losses on foreign exchange derivatives, net	3,578	(139 )
Change in other assets, net	(1,787 )	(307 )
Change in accrued expenses and other liabilities, net	1,354	1,343
Other, net	307	183
Net cash provided by operating activities	3,999	5,012
<b>Investing Activities:</b>		
Net decrease in interest-bearing deposits with banks	7,318	169
Net (increase) decrease in securities purchased under resale agreements	(1,216 )	1,394
Proceeds from sales of available-for-sale securities	4,354	305
Proceeds from maturities of available-for-sale securities	15,178	13,621
Purchases of available-for-sale securities	(14,880)	(15,981)
Proceeds from maturities of held-to-maturity securities	1,621	2,344
Purchases of held-to-maturity securities	(2,636 )	(2,649 )
Net (increase) in loans and leases	(4,587 )	(1,023 )
Purchases of equity investments and other long-term assets	(19 )	(214 )
Purchases of premises and equipment, net	(325 )	(328 )
Proceeds from sale of joint venture investment	172	—
Other, net	36	76
Net cash provided by (used in) investing activities	5,016	(2,286 )
<b>Financing Activities:</b>		
Net (decrease) increase in time deposits	(17,067)	10,524
Net increase (decrease) in all other deposits	11,320	(9,021 )
Net (decrease) in other short-term borrowings	(664 )	(191 )
Proceeds from issuance of long-term debt, net of issuance costs	747	1,492
Payments for long-term debt and obligations under capital leases	(471 )	(1,420 )
Proceeds from issuance of preferred stock, net	—	493
Purchases of common stock	(592 )	(715 )
Excess tax benefit related to stock-based compensation	—	3
Repurchases of common stock for employee tax withholding	(76 )	(72 )
Payments for cash dividends	(379 )	(353 )
Other, net	9	—
Net cash (used in) provided by financing activities	(7,173 )	740
Net increase	1,842	3,466



Edgar Filing: STATE STREET CORP - Form 10-Q

Cash and due from banks at beginning of period	1,314	1,207
Cash and due from banks at end of period	\$3,156	\$4,673

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

State Street Corporation | 57

---

Table of Contents

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

TABLE OF CONTENTS

<u>Note 1. Summary of Significant Accounting Policies</u>	<u>59</u>
<u>Note 2. Fair Value</u>	<u>62</u>
<u>Note 3. Investment Securities</u>	<u>70</u>
<u>Note 4. Loans and Leases</u>	<u>75</u>
<u>Note 5. Goodwill and Other Intangible Assets</u>	<u>78</u>
<u>Note 6. Other Assets</u>	<u>79</u>
<u>Note 7. Derivative Financial Instruments</u>	<u>79</u>
<u>Note 8. Offsetting Arrangements</u>	<u>84</u>
<u>Note 9. Commitments and Guarantees</u>	<u>87</u>
<u>Note 10. Contingencies</u>	<u>88</u>
<u>Note 11. Variable Interest Entities</u>	<u>92</u>
<u>Note 12. Shareholders' Equity</u>	<u>93</u>
<u>Note 13. Regulatory Capital</u>	<u>96</u>
Note 14. Net Interest Income	<u>98</u>
<u>Note 15. Expenses</u>	<u>98</u>
<u>Note 16. Earnings Per Common Share</u>	<u>98</u>
<u>Note 17. Line of Business Information</u>	<u>100</u>
<u>Note 18. Non-U.S. Activities</u>	<u>101</u>

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

State Street Corporation | 58

---

Table of Contents

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

Note 1. Summary of Significant Accounting Policies

Basis of Presentation:

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

The accompanying Consolidated Financial Statements should be read in conjunction with the financial and risk factor information included in our 2016 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, 2016 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.

Dispositions

In the first quarter of 2017, we completed the sale of our joint venture interest in IFDS U.K. for approximately \$175 million in cash and the exchange of our joint venture interest in BFDS stock for \$158 million in State Street's common stock. We recognized a pre-tax gain of \$30 million, in the aggregate, in the six months ended June 30, 2017.

Table of Contents

## STATE STREET CORPORATION

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

## Recent Accounting Developments:

Relevant standards that were issued but not yet adopted

Standard	Description	Date of Adoption	Effects on the financial statements or other significant matters
ASU 2014-09, Revenue from Contracts with Customers (Topic 606)	<p>The standard, and its related amendments, will replace existing revenue recognition standards and expand the disclosure requirements for revenue arrangements with customers. Under the new standard, revenue is recognized when a customer obtains control of promised goods or services and is recognized in an amount that reflects the consideration which the entity expects to receive in exchange for those goods or services.</p> <p>The guidance permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (the modified retrospective method).</p>	January 1, 2018	<p>We are currently assessing the full impact of the revenue recognition standard and its amendments on our consolidated financial statements and evaluating the alternative methods of adoption.</p> <p>The standard does not apply to revenue associated with financial instruments, including loans and securities, or revenue recognized under other U.S. GAAP standards. Therefore NII, securities gains/ losses and revenue related to derivative instruments are not impacted by the standard. Our implementation efforts include the scoping of material revenue streams into cohorts, analysis of underlying contracts for each cohort, business unit workshops to further assess specific contracts and products, and the development of updated disclosures. Based on our efforts to date, we expect both the timing and amount of our material revenue streams, including servicing fees, management fees, trading services, and securities finance, to remain substantially unchanged as these revenues likely will continue to be recognized over time. Specifically, under the new standard we expect to recognize revenue related to these activities ratably over the term of the related agreements with customers as the customer simultaneously benefits from the services as they are performed. Due to the complexity of certain of our agreements, the actual revenue recognition treatment required under the standard will be dependent on contract-specific terms, and certain aspects may vary in some instances from recognition ratably over the contract term. While we have not yet identified any material changes, we continue to monitor industry developments and focus our assessment on areas such as costs that may require capitalization under the new standard and the impact of changes to the principal and</p>

agent guidance. The new standard modified the principal and agent guidance which may result in changes to gross or net treatment of revenue and expenses but would not affect net income.

We are still assessing the operational and disclosure impacts of each transition method.

ASU 2016-01, Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities

The standard makes limited amendments to the guidance on the classification and measurement of financial instruments. Under the new standard, all equity securities will be measured at fair value through earnings with certain exceptions, including investments accounted for January 1, 2018 under the equity method of 2018 accounting. In addition, the FASB clarified the guidance related to valuation allowance assessments when recognizing deferred tax assets on unrealized losses on available-for-sale debt securities. This standard must be applied on a retrospective basis.

We are currently assessing the impact of the standard on our consolidated financial statements. Based on our initial assessments, we do not currently anticipate this standard to have a material impact on our consolidated financial statements due to the limited number of investments on our consolidated statement of condition that are within scope of the standard.

ASU 2016-02, Leases (Topic 842)

The standard represents a wholesale change to lease accounting and requires all leases, other than short-term leases, to be reported on balance sheet through recognition of a right-of-use asset and a corresponding liability for future lease obligations. The standard also requires extensive disclosures for assets, expenses, and cash flows associated with leases, as well as a maturity analysis of lease liabilities.

January 1, 2019 We are currently assessing the impact of the standard on our consolidated financial statements, but we anticipate an increase in assets and liabilities due to the recognition of the required right-of-use asset and corresponding liability for all lease obligations that are currently classified as operating leases, primarily real estate leases for office space, as well as additional disclosure on all our lease obligations.



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

## Relevant standards that were issued but not yet adopted

Standard	Description	Date of Adoption	Effects on the financial statements or other significant matters
ASU 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments	The standard 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. Credit losses on available-for-sale securities 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.	January 1, 2020	We are currently assessing the impact of the standard on our consolidated financial statements, and a significant implementation project is in place to ensure that expected credit losses are calculated in accordance with the standard. We have established a steering committee to provide cross-functional governance over the project plan and key decisions, and are currently developing key accounting policies, evaluating existing credit loss models and processes and identifying a complete set of data requirements and sources. Based on our analysis to date, we expect a significant effort to develop new or modified credit loss models and that the timing of the recognition of credit losses will accelerate under the new standard.
ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force)	The standard amends the statement of cash flow guidance to address specific cash flow issues with the objective of reducing the existing diversity in practice.	January 1, 2018	We are currently assessing the impact of the standard on our consolidated financial statements; however based on our current presentation we do not anticipate a significant change to our financial statement presentation of the statement of cash flows.
ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business	The standard incorporates gating criteria to determine when an integrated set of assets and activities is not a business. When substantially all the fair value of gross assets acquired (or group of similar identifiable assets) is concentrated in a single identifiable asset, it would not represent a business.	January 1, 2018, early adoption permitted	We will apply this standard prospectively upon adoption.
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	January 1, 2020, early adoption permitted	We are evaluating the impacts of early adoption, and will apply this standard prospectively upon adoption.



which the carrying value exceeds the fair value of the reporting unit. Additionally, an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss.

ASU 2017-08,

Receivables -

Nonrefundable Fees and

Other Costs (Subtopic

310-20): Premium

amortization on Purchased

Callable Debt Securities

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

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

We adopted ASU 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee

Share-Based Payment Accounting, effective January 1, 2017. Starting in the quarter ended March 31, 2017, we

reclassified excess tax benefits related to stock-based compensation from financing activities to other operating

activities. We continued to present repurchases of common stock for employee tax withholding in financing activities

in the consolidated statements of cash flows for all periods presented.

As required by the transition provisions of the standard, excess tax benefits previously recognized in surplus prior to January 1, 2017 remain in surplus, and excess tax benefits recognized after January 1, 2017 are included in income tax expense. In connection with this change, we recognized a tax benefit of \$11 million in the first six months of 2017.

We elected to make no changes to our current policy of estimating forfeitures. Lastly, we did not make any changes to tax withholding rates.

Table of Contents

STATE STREET CORPORATION

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note 2. Fair Value

Fair-Value Measurements:

We carry trading account assets, AFS investment 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 135 to 142 in Note 2 to the consolidated financial statements included under Item 8, Financial Statements and Supplementary Data, in our 2016 Form 10-K.

The following tables present information with respect to our financial assets and liabilities carried at fair value in our consolidated statement of condition on a recurring basis as of the dates indicated. During the six months ended June 30, 2017, approximately \$9 million of assets were transferred between levels 1 and 2. No transfers of financial assets or liabilities between levels 1 and 2 occurred during the year ended December 31, 2016.

State Street Corporation | 62

---

Table of Contents

## STATE STREET CORPORATION

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(In millions)	Fair-Value Measurements on a Recurring Basis as of June 30, 2017				Impact of Netting <sup>(1)</sup>	Total Net Carrying Value in Consolidated Statement of Condition
	Quoted Market Prices in Active Markets (Level 1)	Pricing Methods with Significant Observable Market Inputs (Level 2)	Pricing Methods with Significant Unobservable Market Inputs (Level 3)			
Assets:						
Trading account assets:						
U.S. government securities	\$39	\$ —	\$ —			\$ 39
Non-U.S. government securities	383	114	—			497
Other	—	360	—			360
Total trading account assets	422	474	—			896
AFS Investment securities:						
U.S. Treasury and federal agencies:						
Direct obligations	231	402	—			633
Mortgage-backed securities	—	11,414	—			11,414
Asset-backed securities:						
Student loans	—	5,887	—			5,887
Credit cards	—	1,556	—			1,556
Sub-prime	—	243	—			243
Other <sup>(2)</sup>	—	209	951			1,160
Total asset-backed securities	—	7,895	951			8,846
Non-U.S. debt securities:						
Mortgage-backed securities	—	6,962	—			6,962
Asset-backed securities	—	2,828	63			2,891
Government securities	—	6,600	—			6,600
Other <sup>(3)</sup>	—	6,002	274			6,276
Total non-U.S. debt securities	—	22,392	337			22,729
State and political subdivisions	—	10,000	38			10,038
Collateralized mortgage obligations	—	2,443	—			2,443
Other U.S. debt securities	—	2,780	19			2,799
U.S. equity securities	—	45	—			45
Non-U.S. equity securities	—	1	—			1
U.S. money-market mutual funds	—	77	—			77
Total investment securities available-for-sale	231	57,449	1,345			59,025
Other assets:						
Derivative instruments:						
Foreign exchange contracts	—	13,366	5		\$(9,243)	4,128
Total derivative instruments	—	13,366	5		(9,243)	4,128
Other	56	—	—		—	56
Total assets carried at fair value	\$709	\$ 71,289	\$ 1,350		\$(9,243)	\$ 64,105
Liabilities:						
Accrued expenses and other liabilities:						
Derivative instruments:						

Edgar Filing: STATE STREET CORP - Form 10-Q

Foreign exchange contracts	\$—	\$ 13,309	\$ 3	\$(7,337 )	\$ 5,975
Interest-rate contracts	15	109	—	(2 )	122
Other derivative contracts	—	356	—	—	356
Total derivative instruments	15	13,774	3	(7,339 )	6,453
Other	56	—	—	—	56
Total liabilities carried at fair value	\$71	\$ 13,774	\$ 3	\$(7,339 )	\$ 6,509

(1) Represents counterparty netting against level 2 financial assets and liabilities where a legally enforceable master netting agreement exists between State Street and the counterparty. Netting also reflects asset and liability reductions of \$3,097 million and \$1,193 million, respectively, for cash collateral received from and provided to derivative counterparties.

(2) As of June 30, 2017, the fair value of other asset-backed securities was primarily composed of \$1,160 million of collateralized loan obligations.

(3) As of June 30, 2017, the fair value of other non-U.S. debt securities was primarily composed of \$3,968 million of covered bonds and \$1,264 million of corporate bonds.

State Street Corporation | 63

---

Table of Contents

## STATE STREET CORPORATION

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(In millions)	Fair-Value Measurements on a Recurring Basis as of December 31, 2016			Total Net Carrying Value in Consolidated Statement of Condition
	Quoted Market Prices in Active Markets (Level 1)	Pricing Methods with Significant Observable Market Inputs (Level 2)	Pricing Methods with Significant Unobservable Market Inputs (Level 3)	
<b>Assets:</b>				
<b>Trading account assets:</b>				
U.S. government securities	\$30	\$ —	\$ —	\$ 30
Non-U.S. government securities	495	174	—	669
Other	—	325	—	325
Total trading account assets	525	499	—	1,024
<b>AFS Investment securities:</b>				
<b>U.S. Treasury and federal agencies:</b>				
Direct obligations	3,824	439	—	4,263
Mortgage-backed securities	—	13,257	—	13,257
<b>Asset-backed securities:</b>				
Student loans	—	5,499	97	5,596
Credit cards	—	1,351	—	1,351
Sub-prime	—	272	—	272
Other <sup>(2)</sup>	—	—	905	905
Total asset-backed securities	—	7,122	1,002	8,124
<b>Non-U.S. debt securities:</b>				
Mortgage-backed securities	—	6,535	—	6,535
Asset-backed securities	—	2,484	32	2,516
Government securities	—	5,836	—	5,836
Other <sup>(3)</sup>	—	5,365	248	5,613
Total non-U.S. debt securities	—	20,220	280	20,500
State and political subdivisions	—	10,283	39	10,322
Collateralized mortgage obligations	—	2,577	16	2,593
Other U.S. debt securities	—	2,469	—	2,469
U.S. equity securities	—	42	—	42
Non-U.S. equity securities	—	3	—	3
U.S. money-market mutual funds	—	409	—	409
Non-U.S. money-market mutual funds	—	16	—	16
Total investment securities available-for-sale	3,824	56,837	1,337	61,998
<b>Other assets:</b>				
<b>Derivatives instruments:</b>				
Foreign exchange contracts	—	16,476	8	\$(9,163 ) 7,321
Interest-rate contracts	—	68	—	(68 ) —
Total derivative instruments	—	16,544	8	(9,231 ) 7,321
Total assets carried at fair value	\$4,349	\$ 73,880	\$ 1,345	\$(9,231 ) \$ 70,343
<b>Liabilities:</b>				
<b>Accrued expenses and other liabilities:</b>				

## Derivative instruments:

Foreign exchange contracts	\$—	\$ 15,948	\$ 8	\$(10,456)	\$ 5,500
Interest-rate contracts	—	348	—	(226 )	122
Other derivative contracts	—	380	—	—	380
Total derivative instruments	—	16,676	8	(10,682 )	6,002
Total liabilities carried at fair value	\$—	\$ 16,676	\$ 8	\$(10,682)	\$ 6,002

<sup>(1)</sup> Represents counterparty netting against level 2 financial assets and liabilities where a legally enforceable master netting agreement exists between State Street and the counterparty. Netting also reflects asset and liability reductions of \$906 million and \$2,356 million, respectively, for cash collateral received from and provided to derivative counterparties.

<sup>(2)</sup> As of December 31, 2016, the fair value of other asset-backed securities was primarily composed of \$905 million of collateralized loan obligations.

<sup>(3)</sup> As of December 31, 2016, the fair value of other non-U.S. debt securities was primarily composed of \$3,769 million of covered bonds and \$988 million of corporate bonds.

State Street Corporation | 64

---

Table of ContentsSTATE 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 six months ended June 30, 2017 and 2016, respectively. Transfers into and out of level 3 are reported as of the beginning of the period presented. During the three and six months ended June 30, 2017 and 2016, transfers out of level 3 were mainly related to certain mortgage- and asset-backed securities, including non-U.S. debt securities, for which fair value was measured using prices for which observable market information became available.

Fair Value Measurements Using Significant Unobservable Inputs  
Three Months Ended June 30, 2017

(In millions)	Fair Value as of March 31, 2017	Total Realized and Unrealized Gains (Losses)						Fair Value as of June 30, 2017	Change in Unrealized Gains (Losses) Related to Financial Instruments Held as of June 30, 2017
		Recorded in Revenue	Recorded in Other Comprehensive Income <sup>(1)</sup>	Purchases	Settlements	Transfers into Level 3	Transfers out of Level 3		
Assets:									
AFS Investment securities:									
Asset-backed securities:									
Student loans	\$99	\$ —	\$ —	\$ —	\$ —	\$ —	\$ (99)	\$ —	
Other	771	1	(1)	199	(120)	101	—	951	
Total asset-backed securities	870	1	(1)	199	(120)	101	(99)	951	
Non-U.S. debt securities:									
Asset-backed securities	59	1	(1)	—	(16)	51	(31)	63	
Other	256	—	—	—	18	—	—	274	
Total Non-U.S. debt securities	315	1	(1)	—	2	51	(31)	337	
State and political subdivisions	39	—	—	—	(1)	—	—	38	
Collateralized mortgage obligations	39	—	—	—	—	—	(39)	—	
Other U.S. debt securities	—	—	—	19	—	—	—	19	
Total AFS investment securities	1,263	2	(2)	218	(119)	152	(169)	1,345	
Other assets:									
Derivative instruments:									
Foreign exchange contracts	2	1	—	2	—	—	—	5	\$ 2
Total derivative instruments	2	1	—	2	—	—	—	5	2
Total assets carried at fair value	\$1,265	\$ 3	\$ (2)	\$ 220	\$ (119)	\$ 152	\$ (169)	\$1,350	\$ 2

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

State Street Corporation | 65

---



Table of Contents

## STATE STREET CORPORATION

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(In millions)	Fair Value Measurements Using Significant Unobservable Inputs Six Months Ended June 30, 2017							Fair Value as of June 30, 2017	Change in Unrealized Gains (Losses) Related to Financial Instruments Held as of June 30, 2017
	Fair Value as of December 31, 2016	Recorded in Revenue <sup>(1)</sup>	Recorded in Other Comprehensive Income <sup>(1)</sup>	Purchases	Settlements	Transfers into Level 3	Transfers out of Level 3		
Assets:									
AFS Investment securities:									
Asset-backed securities:									
Student loans	\$97	\$ —	\$ 2	\$ —	\$ —	\$ —	\$ (99)	\$ —	
Other	905	2	(1)	354	(410)	101	—	951	
Total asset-backed securities	1,002	2	1	354	(410)	101	(99)	951	
Non-U.S. debt securities:									
Asset-backed securities	32	1	(1)	31	(20)	51	(31)	63	
Other	248	—	—	5	21	—	—	274	
Total Non-U.S. debt securities	280	1	(1)	36	1	51	(31)	337	
State and political subdivisions	39	—	—	—	(1)	—	—	38	
Collateralized mortgage obligations	16	—	—	23	—	—	(39)	—	
Other U.S. debt securities	—	—	—	19	—	—	—	19	
Total AFS investment securities	1,337	3	—	432	(410)	152	(169)	1,345	
Other assets:									
Derivative instruments:									
Foreign exchange contracts	8	(6)	—	7	(4)	—	—	5	\$ 2
Total derivative instruments	8	(6)	—	7	(4)	—	—	5	2
Total assets carried at fair value	\$1,345	\$ (3)	\$ —	\$ 439	\$ (414)	\$ 152	\$ (169)	\$1,350	\$ 2

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

Fair-Value Measurements Using Significant Unobservable Inputs  
Three Months Ended June 30, 2016

## Edgar Filing: STATE STREET CORP - Form 10-Q

(In millions)	Fair Value as of March 31, 2016	Total Realized and Unrealized Gains (Losses)					Fair Value as of June 30, 2016 <sup>(2)</sup>	Change in Unrealized Gains (Losses) Related to Financial Instruments Held as of June 30, 2016
		Recorded in Revenue <sup>(1)</sup>	Recorded in Other Comprehensive Income <sup>(1)</sup>	Purchases	Settlements	Transfers out of Level 3		
Assets:								
AFS Investment securities:								
U.S. Treasury and federal agencies, mortgage-backed securities	\$300	\$ —	\$ —	\$ —	\$ —	\$ (275 )	\$ 25	
Asset-backed securities:								
Student loans	186	1	3	—	—	—	190	
Other	1,813	9	(2 )	19	(129 )	—	1,710	
Total asset-backed securities	1,999	10	1	19	(129 )	—	1,900	
Non-U.S. debt securities:								
Asset-backed securities	127	—	—	53	(16 )	(53 )	111	
Other	295	—	2	—	(7 )	(29 )	261	
Total non-U.S. debt securities	422	—	2	53	(23 )	(82 )	372	
State and political subdivisions	32	—	1	—	—	—	33	
Collateralized mortgage obligations	82	—	—	—	(14 )	—	68	
Total AFS investment securities	2,835	10	4	72	(166 )	(357 )	2,398	
Total assets carried at fair value	\$2,835	\$ 10	\$ 4	\$ 72	\$ (166 )	\$ (357 )	\$ 2,398	\$ —

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

<sup>(2)</sup> There were no transfers of assets into level 3 during the three months ended June 30, 2016.

Table of Contents

## STATE STREET CORPORATION

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(In millions)	Fair-Value Measurements Using Significant Unobservable Inputs Six Months Ended June 30, 2016						Fair Value as of June 30, 2016 <sup>(1)</sup>	Change in Unrealized Gains (Losses) Related to Financial Instruments Held as of June 30, 2016
	Fair Value as of December 31, 2015	Total Realized and Unrealized Gains (Losses) Recorded in Revenue	Recorded in Other Comprehensive Income	Purchases	Settlements	Transfers out of Level 3		
Assets:								
AFS Investment securities:								
U.S. Treasury and federal agencies, mortgage-backed securities	\$—	\$ —	\$ —	\$ 300	\$ —	\$ (275 )	\$ 25	
Asset-backed securities:								
Student loans	189	1	—	—	—	—	190	
Other	1,764	16	(13 )	132	(189 )	—	1,710	
Total asset-backed securities	1,953	17	(13 )	132	(189 )	—	1,900	
Non-U.S. debt securities:								
Asset-backed securities	174	—	(1 )	107	(34 )	(135 )	111	
Other	255	—	—	29	6	(29 )	261	
Total non-U.S. debt securities	429	—	(1 )	136	(28 )	(164 )	372	
State and political subdivisions	33	—	1	—	(1 )	—	33	
Collateralized mortgage obligations	39	—	—	50	(21 )	—	68	
Other U.S. debt securities	10	—	—	—	(10 )	—	—	
Total AFS investment securities	2,464	17	(13 )	618	(249 )	(439 )	2,398	
Other assets:								
Derivative instruments:								
Foreign exchange contracts	5	3	—	—	(8 )	—	—	\$ —
Total derivative instruments	5	3	—	—	(8 )	—	—	—
Total assets carried at fair value	\$2,469	\$ 20	\$ (13 )	\$ 618	\$ (257 )	\$ (439 )	\$ 2,398	\$ —

Fair-Value Measurements Using Significant Unobservable Inputs  
Six Months Ended June 30, 2016

(In millions)	Fair Value as of December 31, 2015	Total Realized and Unrealized (Gains) Losses Recorded in Revenue	Settlements	Fair Value as of June 30, 2016 <sup>(2)</sup>	Change in Unrealized (Gains) Losses Related to Financial Instruments Held as of

June 30,  
2016

## Liabilities:

Accrued expenses and other liabilities:

Derivative instruments:

Foreign exchange contracts	\$5	\$	5	\$ (10 )	\$	—\$	—
Total derivative instruments	5	5		(10 )	—	—	
Total liabilities carried at fair value	\$5	\$	5	\$ (10 )	\$	—\$	—

(1) There were no transfers of assets into level 3 during the six months ended June 30, 2016.

(2) There were no transfers of liabilities into or out of level 3 during the six months ended June 30, 2016.

State Street Corporation | 67

Table of Contents

## STATE STREET CORPORATION

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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

(Dollars in millions)	Quantitative Information about Level 3 Fair-Value Measurements						
	Fair Value		Valuation Technique	Significant Unobservable Input <sup>(1)</sup>	Weighted-Average		
	As of June 30, 2017	As of December 31, 2016			As of June 30, 2017	As of December 31, 2016	
Significant unobservable inputs readily available to State Street:							
Assets:							
Asset-backed securities, other	\$—	\$ 1	Discounted cash flows	Credit spread	— %	0.3 %	
State and political subdivisions	38	39	Discounted cash flows	Credit spread	1.9	1.8	
Derivative instruments, foreign exchange contracts	5	8	Option model	Volatility	7.1	14.4	
Total	\$43	\$ 48					
Liabilities:							
Derivative instruments, foreign exchange contracts	\$3	\$ 8	Option model	Volatility	6.4	14.4	
Total	\$3	\$ 8					

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

## Fair Value Estimates:

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

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

(In millions)	Reported Amount	Estimated Fair Value	Fair-Value Hierarchy			
			Quoted Prices in Active Markets (Level 1)	Market Pricing Methods with Significant Observable Inputs (Level 2)	Pricing Methods with Significant Unobservable Inputs (Level 3)	
June 30, 2017						
Financial Assets:						
Cash and due from banks	\$ 3,156	\$ 3,156	\$ 3,156	\$ —	\$	—

Edgar Filing: STATE STREET CORP - Form 10-Q

Interest-bearing deposits with banks	63,617	63,617	—	63,617	—
Securities purchased under resale agreements	3,172	3,172	—	3,172	—
Investment securities held-to-maturity	36,230	36,169	17,392	18,651	126
Net loans (excluding leases)	23,547	23,545	—	23,486	59
Financial Liabilities:					
Deposits:					
Non-interest-bearing	\$ 50,957	\$ 50,957	\$—	\$ 50,957	\$ —
Interest-bearing - U.S.	24,438	24,438	—	24,438	—
Interest-bearing - non-U.S.	106,021	106,021	—	106,021	—
Securities sold under repurchase agreements	3,856	3,856	—	3,856	—
Other short-term borrowings	1,465	1,465	—	1,465	—
Long-term debt	11,737	12,022	—	11,710	312

State Street Corporation | 68

---

Table of Contents

## STATE STREET CORPORATION

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(In millions)	Reported Amount	Estimated Fair Value	Fair-Value Hierarchy			
			Quoted Prices in Active Markets (Level 1)	Market Pricing Methods with Significant Observable Market Inputs (Level 2)	Pricing Methods with Significant Unobservable Market Inputs (Level 3)	Pricing Methods with Significant Unobservable Market Inputs (Level 3)
December 31, 2016						
Financial Assets:						
Cash and due from banks	\$ 1,314	\$ 1,314	\$ 1,314	\$ —		\$ —
Interest-bearing deposits with banks	70,935	70,935	—	70,935		—
Securities purchased under resale agreements	1,956	1,956	—	1,956		—
Investment securities held-to-maturity	35,169	34,994	17,400	17,439		155
Net loans (excluding leases)	18,862	18,877	—	18,781		96
Financial Liabilities:						
Deposits:						
Non-interest-bearing	\$ 59,397	\$ 59,397	\$ —	\$ 59,397		\$ —
Interest-bearing - U.S.	30,911	30,911	—	30,911		—
Interest-bearing - non-U.S.	96,855	96,855	—	96,855		—
Securities sold under repurchase agreements	4,400	4,400	—	4,400		—
Other short-term borrowings	1,585	1,585	—	1,585		—
Long-term debt	11,430	11,618	—	11,282		336

State Street Corporation | 69

Table of Contents

STATE STREET CORPORATION

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note 3. Investment Securities

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

Generally, trading assets are debt and equity securities purchased in connection with our trading activities and, as such, are expected to be sold in the near term. Our trading activities typically involve active and frequent buying and selling with the objective of generating profits on short-term movements. AFS investment securities are those securities that we intend to hold for an indefinite period of time. AFS investment securities include securities utilized as part of our asset-and-liability management activities that may be sold in response to changes in interest rates, prepayment risk, liquidity needs or other factors. HTM securities are debt securities that management has the intent and the ability to hold to maturity.

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

State Street Corporation | 70

---



Table of Contents

## STATE STREET CORPORATION

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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

(In millions)	June 30, 2017				December 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:								
U.S. Treasury and federal agencies:								
Direct obligations	\$632	\$3	\$2	\$633	\$4,265	\$7	\$9	\$4,263
Mortgage-backed securities	11,445	61	92	11,414	13,340	76	159	13,257
Asset-backed securities:								
Student loans <sup>(1)</sup>	5,871	36	20	5,887	5,659	12	75	5,596
Credit cards	1,575	3	22	1,556	1,377	—	26	1,351
Sub-prime	249	2	8	243	289	1	18	272
Other <sup>(2)</sup>	1,154	6	—	1,160	895	10	—	905
Total asset-backed securities	8,849	47	50	8,846	8,220	23	119	8,124
Non-U.S. debt securities:								
Mortgage-backed securities	6,925	40	3	6,962	6,506	35	6	6,535
Asset-backed securities	2,884	7	—	2,891	2,513	4	1	2,516
Government securities	6,614	6	20	6,600	5,834	8	6	5,836
Other <sup>(3)</sup>	6,247	34	5	6,276	5,587	31	5	5,613
Total non-U.S. debt securities	22,670	87	28	22,729	20,440	78	18	20,500
State and political subdivisions	9,747	328	37	10,038	10,233	201	112	10,322
Collateralized mortgage obligations	2,449	21	27	2,443	2,610	18	35	2,593
Other U.S. debt securities	2,804	17	22	2,799	2,481	18	30	2,469
U.S. equity securities	40	7	2	45	39	6	3	42
Non-U.S. equity securities	1	—	—	1	3	—	—	3
U.S. money-market mutual funds	77	—	—	77	409	—	—	409
Non-U.S. money-market mutual funds	—	—	—	—	16	—	—	16
Total	\$58,714	\$571	\$260	\$59,025	\$62,056	\$427	\$485	\$61,998
Held-to-maturity:								
U.S. Treasury and federal agencies:								
Direct obligations	\$17,479	\$27	\$35	\$17,471	\$17,527	\$17	\$58	\$17,486
Mortgage-backed securities	11,937	35	200	11,772	10,334	20	221	10,133
Asset-backed securities:								
Student loans <sup>(1)</sup>	2,738	17	15	2,740	2,883	5	30	2,858
Credit cards	858	3	—	861	897	2	—	899
Other	5	—	—	5	35	—	—	35
Total asset-backed securities	3,601	20	15	3,606	3,815	7	30	3,792
Non-U.S. debt securities:								
Mortgage-backed securities	1,084	80	10	1,154	1,150	70	15	1,205
Asset-backed securities	365	1	—	366	531	—	—	531
Government securities	357	2	—	359	286	3	—	289
Other	122	—	—	122	113	1	—	114
Total non-U.S. debt securities	1,928	83	10	2,001	2,080	74	15	2,139
Collateralized mortgage obligations	1,285	41	7	1,319	1,413	42	11	1,444

Total \$36,230 \$206 \$ 267 \$36,169 \$35,169 \$160 \$ 335 \$34,994

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

(2) As of June 30, 2017 and December 31, 2016, the fair value of other ABS was primarily composed of \$1,160 million and \$905 million, respectively, of collateralized loan obligations.

(3) As of June 30, 2017 and December 31, 2016, the fair value of other non-U.S. debt securities was primarily composed of \$3,968 million and \$3,769 million, respectively, of covered bonds and \$1,264 million and \$988 million, as of June 30, 2017 and December 31, 2016, respectively, of corporate bonds.

State Street Corporation | 71

---

Table of Contents

## STATE STREET CORPORATION

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Aggregate investment securities with carrying values of approximately \$52 billion and \$46 billion as of June 30, 2017 and December 31, 2016, respectively, were designated as pledged for public and trust deposits, short-term borrowings and for other purposes as provided by law.

In the first quarter of 2017, we sold \$2.7 billion of AFS, primarily Agency MBS and U.S. Treasury securities in our investment portfolio, in response to the current interest rate environment resulting in a pre-tax loss of \$40 million. The following tables present the aggregate fair values of 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:

June 30, 2017 (In millions)	Less than 12 months		12 months or longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-sale:						
U.S. Treasury and federal agencies:						
Direct obligations	\$154	\$ 1	\$164	\$ 1	\$318	\$ 2
Mortgage-backed securities	5,877	83	536	9	6,413	92
Asset-backed securities:						
Student loans	233	1	2,449	19	2,682	20
Credit cards	—	—	498	22	498	22
Sub-prime	—	—	216	8	216	8
Total asset-backed securities	233	1	3,163	49	3,396	50
Non-U.S. debt securities:						
Mortgage-backed securities	342	1	648	2	990	3
Government securities	4,471	20	—	—	4,471	20
Other	728	5	—	—	728	5
Total non-U.S. debt securities	5,541	26	648	2	6,189	28
State and political subdivisions	1,636	33	224	4	1,860	37
Collateralized mortgage obligations	906	23	171	4	1,077	27
Other U.S. debt securities	1,147	18	159	4	1,306	22
U.S. equity securities	—	—	6	2	6	2
Total	\$15,494	\$ 185	\$5,071	\$ 75	\$20,565	\$ 260
Held-to-maturity:						
U.S. Treasury and federal agencies:						
Direct obligations	\$9,025	\$ 34	\$79	\$ 1	\$9,104	\$ 35
Mortgage-backed securities	6,901	200	—	—	6,901	200
Asset-backed securities:						
Student loans	619	8	728	7	1,347	15
Total asset-backed securities	619	8	728	7	1,347	15
Non-U.S. debt securities:						
Mortgage-backed securities	—	—	290	10	290	10
Total non-U.S. debt securities	—	—	290	10	290	10
Collateralized mortgage obligations	437	2	182	5	619	7
Total	\$16,982	\$ 244	\$1,279	\$ 23	\$18,261	\$ 267



Table of Contents

## STATE STREET CORPORATION

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

December 31, 2016 (In millions)	Less than 12 months		12 months or longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-sale:						
U.S. Treasury and federal agencies:						
Direct obligations	\$651	\$ 8	\$180	\$ 1	\$831	\$ 9
Mortgage-backed securities	7,072	131	1,114	28	8,186	159
Asset-backed securities:						
Student loans	54	—	3,745	75	3,799	75
Credit cards	795	1	494	25	1,289	26
Sub-prime	1	—	252	18	253	18
Other	75	—	—	—	75	—
Total asset-backed securities	925	1	4,491	118	5,416	119
Non-U.S. debt securities:						
Mortgage-backed securities	442	1	893	5	1,335	6
Asset-backed securities	253	—	276	1	529	1
Government securities	1,314	6	—	—	1,314	6
Other	670	4	218	1	888	5
Total non-U.S. debt securities	2,679	11	1,387	7	4,066	18
State and political subdivisions	3,390	102	304	10	3,694	112
Collateralized mortgage obligations	1,259	31	162	4	1,421	35
Other U.S. debt securities	944	24	157	6	1,101	30
U.S. equity securities	8	—	5	3	13	3
Total	\$16,928	\$ 308	\$7,800	\$ 177	\$24,728	\$ 485
Held-to-maturity:						
U.S. Treasury and federal agencies:						
Direct obligations	\$8,891	\$ 57	\$86	\$ 1	\$8,977	\$ 58
Mortgage-backed securities	6,838	221	—	—	6,838	221
Asset-backed securities:						
Student loans	705	9	1,235	21	1,940	30
Credit cards	33	—	—	—	33	—
Other	18	—	9	—	27	—
Total asset-backed securities	756	9	1,244	21	2,000	30
Non-U.S. debt securities:						
Mortgage-backed securities	54	2	330	13	384	15
Asset-backed securities	28	—	35	—	63	—
Government securities	180	—	—	—	180	—
Total non-U.S. debt securities	262	2	365	13	627	15
Collateralized mortgage obligations	537	4	204	7	741	11
Total	\$17,284	\$ 293	\$1,899	\$ 42	\$19,183	\$ 335

Table of Contents

## STATE STREET CORPORATION

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

The following table presents contractual maturities of debt investment securities by carrying amount as of June 30, 2017. The maturities of certain asset-backed securities, mortgage-backed securities, 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.

(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	\$ 231	\$ 8	\$ 52	\$ 342	\$ 633
Mortgage-backed securities	254	1,463	3,241	6,456	11,414
Asset-backed securities:					
Student loans	915	2,415	894	1,663	5,887
Credit cards	—	1,006	550	—	1,556
Sub-prime	—	2	2	239	243
Other	—	122	1,038	—	1,160
Total asset-backed securities	915	3,545	2,484	1,902	8,846
Non-U.S. debt securities:					
Mortgage-backed securities	1,152	3,909	964	937	6,962
Asset-backed securities	370	2,261	260	—	2,891
Government securities	3,144	2,255	1,201	—	6,600
Other	2,030	3,535	711	—	6,276
Total non-U.S. debt securities	6,696	11,960	3,136	937	22,729
State and political subdivisions	398	2,493	5,181	1,966	10,038
Collateralized mortgage obligations	—	158	771	1,514	2,443
Other U.S. debt securities	507	924	1,368	—	2,799
Total	\$ 9,001	\$ 20,551	\$ 16,233	\$ 13,117	\$ 58,902
Held-to-maturity:					
U.S. Treasury and federal agencies:					
Direct obligations	\$ 1,199	\$ 15,800	\$ 414	\$ 66	\$ 17,479
Mortgage-backed securities	—	182	1,386	10,369	11,937
Asset-backed securities:					
Student loans	307	246	291	1,894	2,738
Credit cards	124	734	—	—	858
Other	—	4	—	1	5
Total asset-backed securities	431	984	291	1,895	3,601
Non-U.S. debt securities:					
Mortgage-backed securities	223	242	51	568	1,084
Asset-backed securities	127	238	—	—	365
Government securities	242	115	—	—	357
Other	76	46	—	—	122
Total non-U.S. debt securities	668	641	51	568	1,928
Collateralized mortgage obligations	7	15	483	780	1,285
Total	\$ 2,305	\$ 17,622	\$ 2,625	\$ 13,678	\$ 36,230



Table of Contents

## STATE STREET CORPORATION

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## (UNAUDITED)

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

	Six Months Ended June 30,	
(In millions)	2017	2016
Balance, beginning of period	\$66	\$92
Additions:		
Losses for which OTTI was not previously recognized	—	1
Deductions:		
Previously recognized losses related to securities sold or matured	(2 )	(2 )
Balance, end of period	\$64	\$91

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

For debt securities acquired for which we consider it probable as of the date of acquisition that we will be unable to collect all contractually required principal, interest and other payments, 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 other-than-temporary impairment. Increases in expected future cash flows are recognized prospectively over the securities' estimated remaining terms through the recalculation of their yields. For certain debt securities acquired which are considered to be beneficial interests in securitized financial assets, the excess of our estimate of undiscounted future cash flows from these securities over their initial recorded investment is accreted into interest income on a level-yield basis over the securities' estimated remaining terms. Subsequent decreases in these securities' expected future cash flows are either recognized prospectively through an adjustment of the yields on the securities over their remaining terms, or are evaluated for OTTI. Increases in expected future cash flows are recognized prospectively over the securities' estimated remaining terms through the recalculation of their yields.

**Impairment:**

We conduct periodic reviews of individual securities to assess whether OTTI exists. For additional information about the review of securities for impairment, refer to pages 149 to 152 in Note 3 to the consolidated financial statements included under Item 8, Financial Statements and Supplementary Data, in our 2016 Form 10-K.

We recorded less than \$1 million of OTTI in the six months ended June 30, 2017 and \$1 million of OTTI in the six months ended June 30, 2016, 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 mortgage- and asset-backed securities 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 \$527 million related to 1,309 securities as of June 30, 2017 to be temporary, and not the result of any material changes in the credit characteristics of the securities.

Note 4. Loans and Leases



We segregate our loans and leases into three segments: commercial and financial loans, commercial real estate loans, and lease financing. We further classify commercial and financial loans as loans to investment funds, senior secured bank loans, loans to municipalities, and other. These classifications reflect their risk characteristics, their initial measurement attributes and the methods we use to monitor and assess credit risk. For additional information on our loans and leases, including our internal risk-rating system used to assess our risk of credit loss for each loan or lease, refer to pages 152 to 155 in Note 4 to the consolidated financial statements included under Item 8, Financial Statements and Supplementary Data, in our 2016 Form 10-K.

State Street Corporation | 75

---

Table of Contents

## STATE STREET CORPORATION

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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

(In millions)	June 30, 2017	December 31, 2016
Domestic:		
Commercial and financial:		
Loans to investment funds	\$13,795	\$ 11,734
Senior secured bank loans	3,464	3,256
Loans to municipalities	1,909	1,352
Other	59	70
Commercial real estate	—	27
Lease financing	297	338
Total domestic	19,524	16,777
Non-U.S.:		
Commercial and financial:		
Loans to investment funds	4,051	2,224
Senior secured bank loans	323	252
Lease financing	463	504
Total non-U.S.	4,837	2,980
Total loans and leases	24,361	19,757
Allowance for loan and lease losses	(54 )	(53 )
Loans and leases, net of allowance	\$24,307	\$ 19,704

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

Certain loans are pledged as collateral for access to the Federal Reserve's discount window. As of June 30, 2017 and December 31, 2016, the loans pledged as collateral totaled \$2.1 billion and \$1.5 billion, respectively.

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

June 30, 2017 (In millions)	Commercial and Financial	Commercial Real Estate	Lease Financing	Total Loans and Leases
Investment grade <sup>(1)</sup>	\$ 19,184	\$ —	\$ 760	\$ 19,944
Speculative <sup>(2)</sup>	4,417	—	—	4,417
Total	\$ 23,601	\$ —	\$ 760	\$ 24,361
December 31, 2016 (In millions)	Commercial and Financial	Commercial Real Estate	Lease Financing	Total Loans and Leases
Investment grade <sup>(1)</sup>	\$ 14,889	\$ 27	\$ 842	\$ 15,758
Speculative <sup>(2)</sup>	3,984	—	—	3,984
Substandard <sup>(3)</sup>	15	—	—	15
Total	\$ 18,888	\$ 27	\$ 842	\$ 19,757

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

any financial commitment.

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

State Street Corporation | 76

---

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

The following table presents our recorded investment in loans and leases, disaggregated based on our impairment methodology, as of the dates indicated:

(In millions)	June 30, 2017			December 31, 2016				
	Commercial and Financial	Commercial Real Estate	Lease Financing	Total Loans and Leases	Commercial and Financial	Commercial Real Estate	Lease Financing	Total Loans and Leases
Loans and leases <sup>(1)</sup> :								
Individually evaluated for impairment	\$—	\$—	\$—	\$—	\$15	\$—	\$—	\$15
Collectively evaluated for impairment	23,601	—	760	24,361	18,873	27	842	19,742
Total	\$23,601	\$—	\$760	\$24,361	\$18,888	\$27	\$842	\$19,757

<sup>(1)</sup> For those portfolios where there are a small number of loans each with a large balance, we review each loan annually for indicators of impairment. For those loans where no such indicators are identified, the loans are collectively evaluated for impairment. As of June 30, 2017, no loans were individually evaluated for impairment. As of December 31, 2016, \$0.2 million of the allowance for loan and lease loss related to commercial and financial loans were individually evaluated for impairment.

As of June 30, 2017, we had no impaired loans and leases. As of December 31, 2016, we identified one commercial and financial loan as impaired, with both a recorded investment and unpaid principal balance of \$15 million. The impaired loan had zero related interest income and an associated allowance for loan losses of \$0.2 million.

In certain circumstances, we restructure troubled loans by granting concessions to borrowers experiencing financial difficulty. Once restructured, the loans are generally considered impaired until their maturity, regardless of whether the borrowers perform under the modified terms of the loans. There were no loans modified in troubled debt restructurings during the six months ended June 30, 2017 and the year ended December 31, 2016.

As of June 30, 2017, there were no loans or leases on non-accrual status. As of December 31, 2016, there was one commercial and financial loan on non-accrual status and no CRE loans or leases were on non-accrual status. There were no loans and leases 90 days or more contractually past due as of June 30, 2017 and December 31, 2016.

## Allowance for loan and lease losses

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

(In millions)	Three Months Ended June 30, 2017		Three Months Ended June 30, 2016	
	Total Loans and Leases	Total Loans and Leases	Total Loans and Leases	Total Loans and Leases
Allowance for loan and lease losses <sup>(1)</sup> :				
Beginning balance	\$ 51	\$ 47	\$ 51	\$ 47
Provision for loan and lease losses	3	4	3	4
Charge-offs	—	—	—	—
Ending balance	\$ 54	\$ 51	\$ 54	\$ 51

(In millions)	Six Months	
	Ended June 30,	
	2017	2016
	Total Loans and Leases	Total Loans and Leases
Allowance for loan and lease losses <sup>(1)</sup> :		
Beginning balance	\$ 53	\$ 46
Provision for loan and lease losses	1	8
Charge-offs	—	(3)
Ending balance	\$ 54	\$ 51

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

State Street Corporation | 77

---

Table of Contents

## STATE STREET CORPORATION

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

## Note 5. Goodwill and Other Intangible Assets

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

(In millions)	June 30, 2017			December 31, 2016		
	Investment Servicing	Investment Management	Total	Investment Servicing	Investment Management	Total
Goodwill:						
Beginning balance	\$5,550	\$ 264	\$5,814	\$5,641	\$ 30	\$5,671
Acquisitions <sup>(1)</sup>	17	—	17	—	236	236
Divestitures and other reductions	(3 )	—	(3 )	(11 )	—	(11 )
Foreign currency translation	114	3	117	(80 )	(2 )	(82 )
Ending balance	\$5,678	\$ 267	\$5,945	\$5,550	\$ 264	\$5,814

<sup>(1)</sup> Investment Management includes our acquisition of GEAM on July 1, 2016.

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

(In millions)	June 30, 2017			December 31, 2016		
	Investment Servicing	Investment Management	Total	Investment Servicing	Investment Management	Total
Other intangible assets:						
Beginning balance	\$1,539	\$ 211	\$1,750	\$1,753	\$ 15	\$1,768
Acquisitions <sup>(1)</sup>	11	—	11	—	217	217
Divestitures	(6 )	—	(6 )	(8 )	—	(8 )
Amortization	(91 )	(15 )	(106 )	(186 )	(21 )	(207 )
Foreign currency translation and other, net	44	—	44	(20 )	—	(20 )
Ending balance	\$1,497	\$ 196	\$1,693	\$1,539	\$ 211	\$1,750

<sup>(1)</sup> Investment Management includes our acquisition of GEAM on July 1, 2016.

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

(In millions)	June 30, 2017			December 31, 2016		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Other intangible assets:						
Client relationships	\$2,621	\$ (1,352 )	\$ 1,269	\$2,620	\$ (1,306 )	\$ 1,314
Core deposits	676	(299 )	377	661	(277 )	384
Other	132	(85 )	47	132	(80 )	52
Total	\$3,429	\$ (1,736 )	\$ 1,693	\$3,413	\$ (1,663 )	\$ 1,750

Table of Contents

## STATE STREET CORPORATION

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

## Note 6. Other Assets

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

(In millions)	June 30, December 31,	
	2017	2016
Receivable - securities lending <sup>(1)</sup>	\$22,531	\$ 21,204
Derivative instruments, net	4,128	7,321
Bank-owned life insurance	3,197	3,158
Investments in joint ventures and other unconsolidated entities	2,115	2,363
Collateral, net	726	2,236
Accounts receivable	719	886
Prepaid expenses	475	333
Receivable for securities settlement	420	40
Income taxes receivable	221	106
Deferred tax assets, net of valuation allowance <sup>(2)</sup>	211	210
Deposits with clearing organizations	117	132
Other <sup>(3)</sup>	431	339
Total	\$35,291	\$ 38,328

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

<sup>(2)</sup> Deferred tax assets and liabilities recorded in our consolidated statement of condition are netted within the same tax jurisdiction.

<sup>(3)</sup> Includes amounts held in escrow accounts at third parties related to the negotiated settlements in the transition management legal matter presented in Note 10.

## Note 7. Derivative Financial Instruments

We use derivative financial instruments to support our clients' needs and to manage our interest-rate and currency risk. In undertaking these activities, we assume positions in both the foreign exchange and interest-rate markets by buying and selling cash instruments and using derivative financial instruments, including foreign exchange forward contracts, foreign exchange options and interest-rate contracts. For information on our derivative instruments, including the related accounting policies, refer to pages 160 to 166 in Note 10 to the consolidated financial statements included under Item 8, Financial Statements and Supplementary Data, in our 2016 Form 10-K.

Derivative financial instruments are also subject to credit and counterparty risk, which we manage by performing credit reviews, maintaining individual counterparty limits, entering into netting arrangements and requiring the receipt of collateral. Cash collateral received from and provided to counterparties in connection with derivative financial instruments is recorded in accrued expenses and other liabilities and other assets, respectively, in our consolidated statement of condition. As of June 30, 2017 and December 31, 2016, we had recorded approximately \$3.51 billion and \$1.99 billion, respectively, of cash collateral received from counterparties and approximately \$1.83 billion and

\$4.39 billion, respectively, of cash collateral provided to counterparties in connection with derivative financial instruments in our consolidated statement of condition.

Certain of our derivative assets and liabilities as of June 30, 2017 and December 31, 2016 are subject to master netting agreements with our derivative counterparties. Certain of these agreements contain credit risk-related contingent features in which the counterparty has the right to declare us in default and accelerate cash settlement of our net derivative liabilities with the counterparty in the event that our credit rating falls below specified levels. The aggregate fair value of all derivative instruments with credit risk-related contingent features that were in a net liability position as of June 30, 2017 totaled approximately \$1.51 billion, against which we provided \$1 million of underlying

collateral. If our credit rating were downgraded below levels specified in the agreements, the maximum additional amount of payments related to termination events that could have been required pursuant to these contingent features, assuming no change in fair value, as of June 30, 2017 was approximately \$1.51 billion. Such accelerated settlement would be at fair value and therefore not affect our consolidated results of operations.

**Derivatives Not Designated as Hedging Instruments:**

In connection with our trading activities, we use derivative financial instruments in our role as a financial intermediary and as both a manager and servicer of financial assets, in order to accommodate our clients' investment and risk management needs. In addition, we use derivative financial instruments for risk management purposes as economic hedges, which are not formally designated as accounting hedges, in order to contribute to our overall corporate earnings and liquidity. These activities are designed to generate trading services revenue and to manage volatility in our NII. The level of market risk that we assume is a function of our overall objectives and liquidity needs, our clients' requirements and market volatility. For additional information on derivative not designated as hedging instruments, refer to pages 161 to 162 in Note 10 to the consolidated financial statements included under Item 8, Financial Statements and Supplementary Data, in our 2016 Form 10-K.

**Derivatives Designated as Hedging Instruments:**

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



Table of Contents

## STATE STREET CORPORATION

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## (UNAUDITED)

variations in interest rates, is a significant non-trading market risk to which our assets and liabilities are exposed. We manage our interest rate risk by identifying, quantifying and hedging our exposures, using fixed-rate portfolio securities and a variety of derivative financial instruments, most frequently interest-rate swaps. Interest rate swap agreements alter the interest-rate characteristics of specific balance sheet assets or liabilities. We use foreign exchange forward and swap contracts to hedge foreign exchange exposure to various foreign currencies with respect to certain assets and liabilities. Our hedging relationships are formally designated, and qualify for hedge accounting, as fair value, cash flow or net investment hedges. For additional information on derivatives designated as hedging instruments, refer to pages 162 to 166 in Note 10 to the consolidated financial statements included under Item 8, Financial Statements and Supplementary Data, in our 2016 Form 10-K.

Fair Value Hedges

We have entered into interest rate swap agreements to modify our interest income from certain AFS investment securities from a fixed rate to a floating rate. The hedged AFS investment securities included hedged trusts that had a weighted-average life of approximately 4.3 years as of June 30, 2017, compared to 4.5 years as of December 31, 2016. We have entered into interest rate swap agreements to modify our interest expense on eight senior notes and one subordinated note from fixed rates to floating rates. The senior and subordinated notes are hedged with interest rate swap contracts with notional amounts, maturities and fixed-rate coupon terms that effectively hedge the fixed-rate notes. The table below summarizes the maturities and the paid fixed interest rates for the hedged senior and subordinated notes:

June 30, 2017	Maturity	Paid Fixed Interest Rate
Senior Notes		
	2020	2.55%
	2021	4.38
	2021	1.95
	2022	2.65
	2023	3.70
	2024	3.30
	2025	3.55
	2026	2.65

Subordinated Notes

2023	3.10
------	------

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

Cash Flow Hedges

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

We have entered into an interest rate swap agreement to hedge the forecasted cash flows associated with LIBOR-indexed floating-rate loans. The interest rate swaps synthetically convert the loan interest receipts from a variable-rate to a fixed-rate, thereby mitigating the risk attributable to changes in the LIBOR benchmark rate. As of June 30, 2017, the maximum maturity date of the underlying loans is approximately 5.0 years.

Net Investment Hedges

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

State Street Corporation | 80

---

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

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

(In millions)	June 30, 2017	December 31, 2016
Derivatives not designated as hedging instruments:		
Interest-rate contracts:		
Futures	\$ 12,154	\$ 13,455
Foreign exchange contracts:		
Forward, swap and spot	1,568,130	1,414,765
Options purchased	348	337
Options written	184	202
Futures	1	—
Other:		
Stable value contracts	25,400	27,182
Deferred value awards <sup>(1)(2)</sup>	594	409
Derivatives designated as hedging instruments:		
Interest-rate contracts:		
Swap agreements	10,157	10,169
Foreign exchange contracts:		
Forward and swap	17,539	8,564

<sup>(1)</sup> Represents grants of deferred value awards to employees; refer to discussion in this note under "Derivatives Not Designated as Hedging Instruments."

<sup>(2)</sup> Amount as of December 31, 2016 reflects \$249 million related to the acceleration of expense associated with certain cash settled deferred incentive compensation awards.

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

(In millions)	June 30, 2017		
	Fair Value Hedges	Cash Flow Hedges	Total
Investment securities available-for-sale	\$ 1,364	\$ —	\$ 1,364
Long-term debt <sup>(1)</sup>	8,493	—	8,493
Floating-rate loans	—	300	300
Total	\$ 9,857	\$ 300	\$ 10,157
	December 31, 2016 <sup>(2)</sup>		
(In millions)	Fair Value Hedges		
Investment securities available-for-sale	\$ 1,444		

Edgar Filing: STATE STREET CORP - Form 10-Q

Long-term debt <sup>(1)</sup>	8,725
Total	\$ 10,169

<sup>(1)</sup> As of June 30, 2017, these fair value hedges increased the carrying value of long-term debt presented in our consolidated statement of condition by \$12 million. As of December 31, 2016, these fair value hedges decreased the carrying value of long-term debt presented in our consolidated statement of condition by \$15 million.

<sup>(2)</sup> As of December 31, 2016, there were no interest-rate contracts designated as cash flow hedges.

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

	Three Months Ended June 30,			2016		
	Contractual Rates	Rate Including Impact of Hedges	%	Contractual Rates	Rate Including Impact of Hedges	%
Long-term debt	3.34%	2.61	%	3.43%	2.24	%

	Six Months Ended June 30,			2016		
	Contractual Rates	Rate Including Impact of Hedges	%	Contractual Rates	Rate Including Impact of Hedges	%
Long-term debt	3.37%	2.58	%	3.43%	2.22	%

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

(In millions)	Derivative Assets <sup>(1)</sup>	
	Fair Value	
	June 30, 2017	December 31, 2016
Derivatives not designated as hedging instruments:		
Foreign exchange contracts	\$ 13,323	\$ 15,982
Total	\$ 13,323	\$ 15,982

Derivatives designated as hedging instruments:		
Foreign exchange contracts	\$ 48	\$ 502
Interest-rate contracts	—	68
Total	\$ 48	\$ 570

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

(In millions)	Derivative Liabilities <sup>(1)</sup>	
	Fair Value	
	June 30, 2017	December 31, 2016
Derivatives not designated as hedging instruments:		
Foreign exchange contracts	\$ 13,166	\$ 15,881
Other derivative contracts	356	380
Total	\$ 13,522	\$ 16,261

Derivatives designated as hedging instruments:

Edgar Filing: STATE STREET CORP - Form 10-Q

Foreign exchange contracts	\$146	\$ 75
Interest-rate contracts	124	348
Total	\$270	\$ 423

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

State Street Corporation | 81

---

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

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

	Location of Gain (Loss) on Derivative in Consolidated Statement of Income	Amount of Gain (Loss) on Derivative Recognized in Consolidated Statement of Income			
		Three Months Ended June 30,		Six Months Ended June 30,	
		2017	2016	2017	2016
(In millions)					
Derivatives not designated as hedging instruments:					
Foreign exchange contracts	Trading services revenue	\$170	\$162	\$333	\$316
Interest-rate contracts	Processing fees and other revenue	—	—	—	1
Interest-rate contracts	Trading services revenue	8	(3 )	9	(4 )
Credit derivative contracts	Trading services revenue	—	—	—	(1 )
Other derivative contracts	Trading services revenue	—	(4 )	—	(4 )
Other derivative contracts	Compensation and employee benefits	(29 )	57	(95 )	127
Total		\$149	\$212	\$247	\$435

	Location of Gain (Loss) on Derivative in Consolidated Statement of Income	Amount of Gain (Loss) on Derivative Recognized in Consolidated Statement of Income		Hedged Item in Fair Value Hedging Relationship	Location of Gain (Loss) on Hedged Item in Consolidated Statement of Income	Amount of Gain (Loss) on Hedged Item Recognized in Consolidated Statement of Income	
		Three Months Ended June 30,				Three Months Ended June 30,	
		2017	2016			2017	2016
(In millions)							
Derivatives designated as fair value hedges:							
Foreign exchange contracts	Processing fees and other revenue	\$ 4	\$ (25 )	Investment securities	Processing fees and other revenue	\$(4 )	\$25
Foreign exchange contracts	Processing fees and other revenue	102	(2 )	FX deposit	Processing fees and other revenue	(101 )	2
Interest-rate contracts	Processing fees and other revenue	3	(6 )	Available-for-sale securities	Processing fees and other revenue <sup>(1)</sup>	(2 )	6
Interest-rate contracts	Processing fees and other revenue	64	128	Long-term debt	Processing fees and other revenue	(63 )	(121 )
Total		\$ 173	\$ 95			\$(170 )	\$(88 )

	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
--	---	--	--	--	--

		Six Months				Income	
		Ended June 30,				Six Months	
		2017	2016			2017	2016
Derivatives designated as fair value hedges:							
Foreign exchange contracts	Processing fees and other revenue	\$ 2	\$ 19	Investment securities	Processing fees and other revenue	\$(2 )	\$(19 )
Foreign exchange contracts	Processing fees and other revenue	1,081	246	FX deposit	Processing fees and other revenue	(1,081 )	(246 )
Interest-rate contracts	Processing fees and other revenue	15	(36 )	Available-for-sale securities	Processing fees and other revenue <sup>(2)</sup>	(13 )	37
Interest-rate contracts	Processing fees and other revenue	44	376	Long-term debt	Processing fees and other revenue	(44 )	(361 )
Total		\$ 1,142	\$ 605			\$(1,140 )	\$(589 )

<sup>(1)</sup> In the three months ended June 30, 2017 and 2016, \$3 million and \$(3) million, respectively, of net unrealized gains (losses) on AFS investment securities designated in fair value hedges were recognized in OCI.

<sup>(2)</sup> In the six months ended June 30, 2017 and 2016, \$9 million and \$(22) million, respectively, of net unrealized gains (losses) on AFS investment securities designated in fair value hedges were recognized in OCI.

Table of Contents

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

Differences between the gains (losses) on the derivative and the gains (losses) on the hedged item, excluding any amounts recorded in NII, represent hedge ineffectiveness.

	Amount of Gain (Loss) on Derivative Recognized in Other Comprehensive Income		Location of Gain (Loss) Reclassified from OCI to Consolidated Statement of Income	Amount of Gain (Loss) Reclassified from OCI to Consolidated Statement of Income		Location of Gain (Loss) on Derivative Recognized in Consolidated Statement of Income	Amount of Gain (Loss) on Derivative Recognized in Consolidated Statement of Income	
	Three Months Ended June 30,			Three Months Ended June 30,			Three Months Ended June 30,	
(In millions)	2017	2016		2017	2016		2017	2016
Derivatives designated as cash flow hedges:								
Interest-rate contracts	\$ (1 )	\$ —	Net interest income	\$ —	\$ —	Net interest income	\$ —	\$ —
Foreign exchange contracts	14	(114 )	Net interest income	—	—	Net interest income	7	6
Total	\$ 13	\$ (114 )		\$ —	\$ —		\$ 7	\$ 6

Derivatives designated as net investment hedges:

Foreign exchange contracts	\$ (87 )	\$ 51	Gains (Losses) related to investment securities, net	\$ —	\$ —	Gains (Losses) related to investment securities, net	\$ —	\$ —
Total	\$ (87 )	\$ 51		\$ —	\$ —		\$ —	\$ —

	Amount of Gain (Loss) on Derivative Recognized in Other Comprehensive Income		Location of Gain (Loss) Reclassified from OCI to Consolidated Statement of Income	Amount of Gain (Loss) Reclassified from OCI to Consolidated Statement of Income		Location of Gain (Loss) on Derivative Recognized in Consolidated Statement of Income	Amount of Gain (Loss) on Derivative Recognized in Consolidated Statement of Income	
	Six Months Ended June 30,			Six Months Ended June 30,			Six Months Ended June 30,	
(In millions)	2017	2016		2017	2016		2017	2016
Derivatives designated as								



Edgar Filing: STATE STREET CORP - Form 10-Q

cash flow

hedges:

Interest-rate contracts	\$ (1 )	\$ —	Net interest income	\$ —	\$ —	Net interest income	\$ —	\$ —
Foreign exchange contracts	(92 )	(227 )	Net interest income	—	—	Net interest income	13	11
Total	\$ (93 )	\$ (227 )		\$ —	\$ —		\$ 13	\$ 11

Derivatives

designated as net

investment

hedges:

Foreign exchange contracts	\$ (101 )	\$ 51	Gains (Losses) related to investment securities, net	\$ —	\$ —	Gains (Losses) related to investment securities, net	\$ —	\$ —
Total	\$ (101 )	\$ 51		\$ —	\$ —		\$ —	\$ —

State Street Corporation | 83

Table of Contents

## STATE STREET CORPORATION

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

## Note 8. Offsetting Arrangements

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

normal course of business. For additional information on offsetting arrangements, refer to pages 166 to 170 in Note 11 to the consolidated financial statements included under Item 8, Financial Statements and Supplementary Data, in our 2016 Form 10-K.

As of June 30, 2017 and December 31, 2016, the fair value of securities received as collateral from third parties where we are permitted to transfer or re-pledge the securities totaled \$2.69 billion and \$1.77 billion, respectively, and the fair value of the portion that had been transferred or re-pledged as of the same dates was \$10.5 million and \$166 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:	June 30, 2017			Gross Amounts Not Offset in Statement of Condition	
(In millions)	Gross Amounts of Recognized Assets <sup>(1)</sup>	Gross Amounts Offset in Statement of Condition <sup>(3)</sup>	Net Amounts of Assets Presented in Statement of Condition	Cash and Securities Received <sup>(4)</sup>	Net Amount <sup>(5)</sup>
<b>Derivatives:</b>					
Foreign exchange contracts	\$ 13,371	\$ (6,146 )	\$ 7,225		\$ 7,225
Cash collateral and securities netting	NA	(3,097 )	(3,097 )	\$(167 )	(3,264 )
Total derivatives	13,371	(9,243 )	4,128	(167 )	3,961
<b>Other financial instruments:</b>					
Resale agreements and securities borrowing <sup>(6)</sup>	60,700	(34,997 )	25,703	(25,703 )	—
Total derivatives and other financial instruments	\$ 74,071	\$ (44,240 )	\$ 29,831	\$(25,870 )	\$ 3,961
Assets:	December 31, 2016			Gross Amounts Not Offset in Statement of Condition	
(In millions)	Gross Amounts of Recognized Assets <sup>(1)</sup>	Gross Amounts Offset in Statement of Condition <sup>(3)</sup>	Net Amounts of Assets Presented in	Cash and Securities Received <sup>(4)</sup>	Net Amount <sup>(5)</sup>

	Statement of Condition			
Derivatives:				
Foreign exchange contracts	\$ 16,484	\$ (8,257	) \$ 8,227	\$ 8,227
Interest-rate contracts	68	(68	) —	—
Cash collateral and securities netting	NA	(906	) (906	) \$(247
Total derivatives	16,552	(9,231	) 7,321	(247
Other financial instruments:				
Resale agreements and securities borrowing <sup>(6)</sup>	58,677	(35,517	) 23,160	(22,939
Total derivatives and other financial instruments	\$ 75,229	\$ (44,748	) \$ 30,481	\$(23,186)

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

(2) Derivative amounts are carried at fair value and securities financing amounts are carried at amortized cost, except for securities collateral which is also carried at fair value. For additional information about the measurement basis of these instruments, refer to pages 131 to 142 in Notes 1 and 2 to the consolidated financial statements included under Item 8, Financial Statements and Supplementary Data, in our 2016 Form 10-K.

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

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

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

(6) Included in the \$25,703 million as of June 30, 2017 were \$3,172 million of resale agreements and \$22,531 million of collateral provided related to securities borrowing. Included in the \$23,160 million as of December 31, 2016 were \$1,956 million of resale agreements and \$21,204 million of collateral provided related to securities borrowing. Resale agreements and collateral provided related to securities borrowing were recorded in securities purchased under resale agreements and other assets, respectively, in our consolidated statement of condition. Additional information about principal securities finance transactions is provided in Note 9 to the consolidated financial statements in this Form 10-Q.

<sup>NA</sup> Not applicable

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

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

Liabilities:	June 30, 2017			Gross Amounts Not Offset in Statement of Condition	
(In millions)	Gross Amounts of Recognized Liabilities <sup>(1)</sup>	Gross Amounts Offset in Statement of Condition <sup>(2)</sup>	Net Amounts of Liabilities Presented in Statement of Condition <sup>(3)</sup>	Cash and Securities Provided <sup>(4)</sup>	Net Amount <sup>(5)</sup>
<b>Derivatives:</b>					
Foreign exchange contracts	\$ 13,312	\$ (6,145)	\$ 7,167		\$ 7,167
Interest-rate contracts <sup>(6)</sup>	124	(2)	122		122
Other derivative contracts	356	—	356		356
Cash collateral and securities netting	NA	(1,193)	(1,193)	\$(318)	(1,511)
Total derivatives	13,792	(7,340)	6,452	(318)	6,134
<b>Other financial instruments:</b>					
Repurchase agreements and securities lending <sup>(7)</sup>	43,168	(34,997)	8,171	(5,844)	2,327
Total derivatives and other financial instruments	\$56,960	\$ (42,337)	\$ 14,623	\$(6,162)	\$ 8,461
Liabilities:	December 31, 2016			Gross Amounts Not Offset in Statement of Condition	
(In millions)	Gross Amounts of Recognized Liabilities <sup>(1)</sup>	Gross Amounts Offset in Statement of Condition <sup>(2)</sup>	Net Amounts of Liabilities Presented in Statement of Condition <sup>(3)</sup>	Cash and Securities Provided <sup>(4)</sup>	Net Amount <sup>(5)</sup>
<b>Derivatives:</b>					
Foreign exchange contracts	\$ 15,956	\$ (8,253)	\$ 7,703		\$ 7,703
Interest-rate contracts	348	(73)	275		275
Other derivative contracts	380	—	380		380
Cash collateral and securities netting	NA	(2,356)	(2,356)	\$(180)	(2,536)
Total derivatives	16,684	(10,682)	6,002	(180)	5,822
<b>Other financial instruments:</b>					
Resale agreements and securities lending <sup>(7)</sup>	44,933	(35,517)	9,416	(7,059)	2,357
Total derivatives and other financial instruments	\$61,617	\$ (46,199)	\$ 15,418	\$(7,239)	\$ 8,179

- (1) Amounts include all transactions regardless of whether or not they are subject to an enforceable netting arrangement.
- (2) Derivative amounts are carried at fair value and securities financing amounts are carried at amortized cost, except for securities collateral which is also carried at fair value. For additional information about the measurement basis of these instruments, refer to pages 131 to 142 in Notes 1 and 2 to the consolidated financial statements included under Item 8, Financial Statements and Supplementary Data, in our 2016 Form 10-K.
- (3) Amounts subject to netting arrangements which have been determined to be legally enforceable and eligible for netting in the consolidated statement of condition.
- (4) Includes securities provided in connection with our securities lending transactions.
- (5) Includes amounts secured by collateral not determined to be subject to enforceable netting arrangements.
- (6) Variation margin payments presented as settlements rather than collateral.
- (7) Included in the \$8,171 million as of June 30, 2017 were \$3,856 million of repurchase agreements and \$4,315 million of collateral received related to securities lending. Included in the \$9,416 million as of December 31, 2016 were \$4,400 million of repurchase agreements and \$5,016 million of collateral received related to securities lending. 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. Additional information about principal securities finance transactions is provided in Note 9 to the consolidated financial statements in this Form 10-Q.

<sup>NA</sup> Not applicable

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

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

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

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

(In millions)	Remaining Contractual Maturity of the Agreements As of June 30, 2017			Total
	Overnight and Continuous	Up to 30 days	30 – 90 days	
Repurchase agreements:				
U.S. Treasury and agency securities	\$33,960	\$ —	\$ —	\$33,960
Total	33,960	—	—	33,960
Securities lending transactions:				
Corporate debt securities	45	—	—	45
Equity securities	8,670	—	437	9,107
Non-U.S. sovereign debt	56	—	—	56
Total	8,771	—	437	9,208
Gross amount of recognized liabilities for repurchase agreements and securities lending	\$42,731	\$ —	\$437	\$43,168

(In millions)	Remaining Contractual Maturity of the Agreements As of December 31, 2016			Total
	Overnight and Continuous	Up to 30 days	30 – 90 days	
Repurchase agreements:				
U.S. Treasury and agency securities	\$35,509	\$ —	\$ —	\$35,509
Total	35,509	—	—	35,509
Securities lending transactions:				
Corporate debt securities	53	—	—	53
Equity securities	8,337	—	1,034	9,371
Total	8,390	—	1,034	9,424
Gross amount of recognized liabilities for repurchase agreements and securities lending	\$43,899	\$ —	\$1,034	\$44,933



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

## Note 9. Commitments and Guarantees

For additional information about our commitments and guarantees, refer to pages 171 to 172 in Note 12 to the consolidated financial statements included under Item 8, Financial Statements and Supplementary Data, in our 2016 Form 10-K.

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

(In millions)	June 30, 2017	December 31, 2016
Commitments:		
Unfunded credit facilities	\$26,708	\$ 26,993
Guarantees <sup>(1)</sup> :		
Indemnified securities financing	\$370,472	\$ 360,452
Stable value protection	25,400	27,182
Standby letters of credit	3,410	3,459

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

## Unfunded Credit Facilities

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

As of June 30, 2017, approximately 72% of our unfunded commitments to extend credit expire within one year. Since many of these commitments are expected to expire or renew without being drawn upon, the gross contractual amounts do not necessarily represent our future cash requirements.

## Indemnified Securities Financing

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

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

(In millions)	June 30, 2017	December 31, 2016
Fair value of indemnified securities financing	\$370,472	\$ 360,452
Fair value of cash and securities held by us, as agent, as collateral for indemnified securities financing	387,747	377,919
Fair value of collateral for indemnified securities financing invested in indemnified repurchase agreements	64,824	60,003
Fair value of cash and securities held by us or our agents as collateral for investments in indemnified repurchase agreements	69,100	63,959

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 a State Street 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 accrued expenses and other liabilities, respectively, in our consolidated statement of condition. As of June 30, 2017 and December 31, 2016, we had approximately \$22.53 billion and \$21.20 billion, respectively, of collateral provided and approximately \$4.31 billion and \$5.02 billion, respectively, of



collateral received from clients in connection with our participation in principal securities finance transactions.  
Stable Value Protection

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

State Street Corporation | 87

---

Table of Contents

STATE STREET CORPORATION

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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

Standby Letters of Credit

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

Note 10. Contingencies

Legal and Regulatory Matters:

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

We evaluate our needs for accruals of loss contingencies related to legal and regulatory proceedings on a case-by-case basis. When we have a liability that we deem probable, and we deem the amount of such liability can be reasonably estimated as of the date of our consolidated financial statements, we accrue for 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 (collectively, "factors influencing reasonable estimates"), 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.

As of June 30, 2017, our aggregate accruals for loss contingencies for legal and regulatory matters totaled approximately \$45 million (excluding approximately \$32 million relating to client reimbursements in connection with errors in invoicing certain of our Investment Servicing clients, described below). To the extent that we have established accruals in our consolidated statement of condition for probable loss contingencies, such accruals may not be sufficient to cover our ultimate financial exposure associated with any settlements or judgments. Any such ultimate financial exposure, or proceedings to which we may become subject in the future, could have a material adverse effect on our businesses, on our future consolidated financial statements or on our reputation. Except where otherwise noted below, we have not established accruals with respect to the claims discussed and do not believe that potential exposure is probable and can be reasonably estimated.

We have identified certain matters for which loss is reasonably possible (but not probable) in future periods, whether in excess of an accrued liability or where there is no accrued liability, and for which we are able to estimate a range of reasonably possible loss. As of June 30, 2017, our estimate of the range of reasonably possible loss for these matters is from zero to approximately \$15 million in the aggregate. Our estimate with respect to the aggregate range of reasonably possible loss is based upon currently available information and is subject to significant judgment and a

variety of assumptions and known and unknown uncertainties. The matters underlying the estimated range will change from time to time, and actual results may vary significantly from the current estimate.

In certain other pending matters, including the Invoicing Matter, Federal Reserve/Massachusetts Division of Banks Written Agreement and Shareholder Litigation discussed below, it is not currently feasible to reasonably estimate the amount or a range of reasonably possible loss (including reasonably possible loss in excess of amounts

State Street Corporation | 88

---

Table of Contents

STATE STREET CORPORATION

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

accrued), and such losses, which may be significant, are not included in the estimate of reasonably possible loss discussed above. This is due to, among other factors, one or more considerations consistent with the factors influencing reasonable estimates described in the above discussion of probable loss accruals. These considerations are particularly prevalent in governmental and regulatory inquiries and investigations and, as a result, reasonably possible loss estimates often are not feasible until the later stages of the inquiry or investigation or of any related legal or regulatory proceeding. An adverse outcome in one or more of the matters for which we do not estimate the amount or a range of reasonably possible loss, individually or in the aggregate, could have a material adverse effect on our businesses, on our future consolidated financial statements or on our reputation. Given that we cannot estimate reasonably possible loss for all legal and regulatory proceedings as to which we may be subject now or in the future, including matters that if adversely concluded may present material financial, regulatory and reputational risks, no conclusion as to the ultimate exposure from current pending or potential legal or regulatory proceedings should be drawn from the current estimate of reasonably possible loss.

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

**Transition Management**

In January 2014, we entered into a settlement with the FCA, pursuant to which we paid a fine of £22.9 million (approximately \$37.8 million), as a result of our having charged six clients of our U.K. transition management business during 2010 and 2011 amounts in excess of the contractual terms. The SEC and the DOJ opened separate investigations into this matter. The U.S. Attorney's office in Boston has charged three former employees in our transition management business with criminal fraud in connection with their alleged role in this matter. Two of these individuals have pled guilty to one count of criminal conspiracy. Charges remain pending against the third individual. The SEC has also commenced a parallel civil enforcement proceeding against that individual.

On January 18, 2017, we announced that we had entered into a settlement agreement with the DOJ and the United States Attorney for the District of Massachusetts to resolve their investigation. Under the terms of the agreement, we, among other things, paid a fine of \$32.3 million and entered into a deferred prosecution agreement. Under the deferred

prosecution agreement, we agreed to retain an independent compliance and ethics monitor for a term of three years (subject to extension) which will, among other things, review and monitor the effectiveness of our compliance controls and business ethics and make related recommendations.

We have reached an agreement in principle with the Staff of the SEC and have offered to pay a penalty of \$32.3 million (equal to the fine paid to the DOJ). The settlement, including our agreement to engage an independent ethics and compliance consultant, has been submitted to the SEC for its review and approval.

As of June 30, 2017, we had an accrual of \$32.3 million with respect to the SEC investigation but had not yet finalized a settlement.

**GovEx**

We have been cooperating in connection with an inquiry by the SEC relating to the GovEx electronic trading platform, which was offered and operated by State Street Global Markets, LLC from September 2009 to July 2015. The subjects of the inquiry are our communications related to volume, pricing and functionalities of the platform. We have reached an agreement in principle with the Staff of the SEC and have offered to pay a penalty of \$3 million. The settlement has been submitted to the SEC for its review and approval. As of June 30, 2017, we had accrued \$3 million for this matter.

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

On June 1, 2015, we entered into a written agreement with the Federal Reserve and the Massachusetts Division of Banks relating to deficiencies identified in our compliance programs with the requirements of the Bank Secrecy Act, AML regulations and U.S. economic sanctions regulations promulgated by OFAC. As part of this enforcement action, we are required to, among other things, implement improvements to our compliance programs and to retain an independent firm to conduct a review of account and transaction activity covering a prior three-month period to

evaluate whether any suspicious activity not previously reported should have been identified and reported in accordance with applicable regulatory requirements. To the extent deficiencies in our historical reporting are identified as a result of the transaction review or 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.

Invoicing Matter

In December 2015, we announced a review of the manner in which we invoiced certain expenses to

State Street Corporation | 89

---

Table of Contents

STATE STREET CORPORATION

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

some of our Investment Servicing clients, primarily in the United States, during an 18-year period going back to 1998, and our determination that we had incorrectly invoiced clients for certain expenses. We informed our clients in December 2015 that we will pay to them the amounts we concluded were incorrectly invoiced to them, plus interest. We currently expect the cumulative total of our payments to be at least \$340 million (including interest), in connection with that review, which is ongoing, of which approximately \$32 million has not yet been paid to clients and is accrued in our consolidated statement of condition at June 30, 2017. We are implementing enhancements to our billing processes, and we are reviewing the conduct of our employees and have taken appropriate steps to address conduct inconsistent with our standards, including, in some cases, termination of employment. We are also evaluating other billing practices relating to our Investment Servicing clients, including calculation of asset-based fees.

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. In addition, in March 2017, a purported class action was commenced against us alleging that our invoicing practices violated duties owed to retirement plan customers under ERISA.

We are also responding to requests for information from, and are cooperating with investigations by, governmental and regulatory authorities on these matters, including the civil and criminal divisions of the DOJ, the SEC, the DOL and the Massachusetts Attorney General, which could result in significant fines or other sanctions, civil and criminal, against us. If these governmental or regulatory authorities were to conclude that all or a portion of the billing error 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 of the overcharging. The governmental and regulatory authorities have significant discretion in civil and criminal matters as to the fines and other penalties they seek to impose. The severity of such fines or other penalties could take into account factors such as the amount and duration of our incorrect invoicing, the government's or regulator's assessment of the conduct of our employees, as well as prior conduct such as that

which resulted in our January 2017 deferred prosecution agreement in connection with transition management services and our recent settlement of civil claims regarding our indirect foreign exchange business.

Any governmental or regulatory proceeding or sanction or the outcome of any litigation could have a material adverse effect on our reputation or business, including the imposition of restrictions on the operation of our business or a reduction in client demand. Resolution of these matters could also have a material adverse effect on our consolidated results of operations for the period or periods in which such matters are resolved or an accrual is determined to be required. No accrual, other than a reserve for client reimbursement, is reflected on our consolidated statement of condition as of June 30, 2017.

Shareholder Litigation

In January 2017, a State Street shareholder filed a purported class action complaint against the Company alleging that statements made by the Company in its annual reports for the 2011-2015 period regarding its internal controls and procedures were misleading due to the failure of those controls and procedures to detect the practices at issue in the Transition Management and Invoicing Matters discussed above. In July 2017, a State Street shareholder filed a derivative complaint against the Company demanding that the Company take legal action against its past and present officers and directors to recover alleged damages from the incorrect invoicing of certain expenses and from the January 2016 settlement with the SEC concerning Ohio public retirement plans and that the Company institute various corporate governance reforms.

Income Taxes:

In determining our provision for income taxes, we make certain judgments and interpretations with respect to tax laws in jurisdictions in which we have business operations. Because of the complex nature of these laws, in the normal course of our business, we are subject to challenges from U.S. and non-U.S. income tax authorities regarding the

amount of income taxes due. These challenges may result in adjustments to the timing or amount of taxable income or deductions or the allocation of taxable income among tax jurisdictions. We recognize a tax benefit when it is more likely than not that our position will result in a tax deduction or credit. Unrecognized tax benefits of approximately \$63 million as of June 30, 2017 decreased from \$71 million as of December 31, 2016.

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

State Street Corporation | 90

---

Table of Contents

STATE STREET CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

the tax years 2014 and 2015. The earliest tax year open to examination in jurisdictions where we have material operations is 2010. Management believes that we have sufficiently accrued liabilities as of June 30, 2017 for tax exposures.

State Street Corporation | 91

---



Table of Contents

STATE STREET CORPORATION

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note 11. Variable Interest Entities

For additional information on our VIEs, refer to pages 174 to 175 in Note 14 to the consolidated financial statements included under Item 8, Financial Statements and Supplementary Data, in our 2016 Form 10-K.

Tax-Exempt Investment Program:

In the normal course of our business, we structure and sell certificated interests in pools of tax-exempt investment-grade assets, principally to our mutual fund clients. We structure these pools as partnership trusts, and the assets and liabilities of the trusts are recorded in our consolidated statement of condition as AFS investment securities and other short-term borrowings. As of June 30, 2017 and December 31, 2016, we carried AFS investment securities, composed of securities related to state and political subdivisions, with a fair value of \$1.31 billion and \$1.35 billion, respectively, and other short-term borrowings of \$1.11 billion and \$1.16 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 4.3 years as of June 30, 2017, compared to approximately 4.5 years as of December 31, 2016.

Under separate legal agreements, we provide liquidity facilities to these trusts and, with respect to certain securities, letters of credit. As of June 30, 2017, our commitments to the trusts under these liquidity facilities and letters of credit totaled \$1.13 billion and \$351 million, respectively, and none of the liquidity facilities were utilized.

Interests in Investment Funds:

As of June 30, 2017 and December 31, 2016, we had no consolidated funds.

As of June 30, 2017 and December 31, 2016, 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 \$94 million and \$121 million as of June 30, 2017 and December 31, 2016, respectively, and represented the carrying value of our investments, which are recorded in either AFS investment securities or other assets in our consolidated statement of condition. The amount of loss we may recognize during any period is limited to the carrying amount of our investments in the unconsolidated funds.

State Street Corporation | 92

---

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

## 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 June 30, 2017:

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

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

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

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

	Three Months Ended June 30, 2017			2016		
	Dividends Declared per Share	Dividends Declared per Depository Share	Total (In millions) <sup>(1)</sup>	Dividends Declared per Share	Dividends Declared per Depository Share	Total (In millions)
Preferred Stock:						
Series C	\$ 1,313	\$ 0.33	\$ 7	\$ 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	—	—	—	—	—	—
Series G	1,338	0.33	7	951	0.24	5
Total			\$ 36			\$ 33

Edgar Filing: STATE STREET CORP - Form 10-Q

	Six Months Ended June 30, 2017			2016		
	Dividends Declared per Share	Dividends Declared per Depositary Share	Total (In millions)	Dividends Declared per Share	Dividends Declared per Depositary Share	Total (In millions)
Preferred Stock:						
Series C	\$2,626	\$ 0.66	\$ 13	\$2,626	\$ 0.66	\$ 13
Series D	2,950	0.74	22	2,950	0.74	22
Series E	3,000	0.76	22	3,000	0.76	22
Series F	2,625	26.25	20	2,625	26.25	20
Series G	2,676	0.66	14	951	0.24	5
Total			\$ 91			\$ 82

<sup>(1)</sup> Dividends were paid in June 2017.

In July 2017, we declared dividends on our Series C, D, E, F and G preferred stock of approximately \$1,313, \$1,475, \$1,500, \$2,625 and \$1,338, respectively, per share, or approximately \$0.33, \$0.37, \$0.38, \$26.25 and

State Street Corporation | 93

---

Table of Contents

## STATE STREET CORPORATION

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

\$0.33, respectively, per depositary share. These dividends total approximately \$6 million, \$11 million, \$11 million, \$20 million and \$7 million on our Series C, D, E, F and G preferred stock, respectively, which will be paid in September 2017.

## Common Stock:

In June 2017, our Board approved a common stock purchase program authorizing the purchase of up to \$1.4 billion of our common stock through June 30, 2018 (the 2017 Program). No shares were purchased by us under this program in the quarter ended June 30, 2017.

In June 2016, our Board approved a common stock purchase program authorizing the purchase of up to \$1.4 billion of our common stock through June 30, 2017 (the 2016 Program). The table below presents the activity under the 2016 Program during the periods indicated:

	Three Months Ended June 30, 2017		Six Months Ended June 30, 2017			
	Shares Acquired (In millions)	Average Cost per Share (In millions)	Total Acquired (In millions)	Shares Acquired (In millions)	Average Cost per Share (In millions)	Total Acquired (In millions)
2016 Program <sup>(1)</sup>	2.7	\$ 83.84	\$ 227	9.4	\$ 79.93	\$ 750

<sup>(1)</sup> Includes \$158 million relating to shares acquired in exchange for BFDS stock during the first quarter of 2017. Additional information about the exchange is provided in Note 1 to the consolidated financial statements included in this Form 10-Q.

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

	Three Months Ended June 30, 2017		Six Months Ended June 30, 2016	
	Dividends Declared per Share (In millions)	Total Dividends Declared (In millions)	Dividends Declared per Share (In millions)	Total Dividends Declared (In millions)
Common Stock	\$0.38	\$ 142	\$0.34	\$ 133
Accumulated Other Comprehensive Income (Loss):				
	\$0.76	\$ 286	\$0.68	\$ 268

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

(In millions)	June 30, 2017	December 31, 2016
Net unrealized gains (losses) on cash flow hedges	\$(18 )	\$ 229
Net unrealized gains (losses) on available-for-sale securities portfolio	254	(225 )
Net unrealized gains (losses) related to reclassified available-for-sale securities	18	25
Net unrealized gains (losses) on available-for-sale securities	272	(200 )
Net unrealized losses on available-for-sale securities designated in fair value hedges	(77 )	(86 )
Net unrealized gains (losses) on hedges of net investments in non-U.S. subsidiaries	(6 )	95
Other-than-temporary impairment on held-to-maturity securities related to factors other than credit	(7 )	(9 )
Net unrealized losses on retirement plans	(186 )	(194 )
Foreign currency translation	(1,248 )	(1,875 )
Total	\$(1,270)	\$(2,040 )

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

Six Months Ended June 30, 2017

Edgar Filing: STATE STREET CORP - Form 10-Q

(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- Impairment on Held-to-Maturity Securities	Net Temporary Unrealized Losses on Retirement Plans	Foreign Currency Translation	Total
Balance as of December 31, 2016	\$229	\$ (286 )	\$ 95	\$ (9 )	\$ (194 )	\$ (1,875 )	\$ (2,040)
Other comprehensive income (loss) before reclassifications	(247 )	505	(101 )	2	(1 )	627	785
Amounts reclassified into (out of) earnings	—	(24 )	—	—	9	—	(15 )
Other comprehensive income (loss)	(247 )	481	(101 )	2	8	627	770
Balance as of June 30, 2017	\$(18 )	\$ 195	\$ (6 )	\$ (7 )	\$ (186 )	\$ (1,248 )	\$(1,270)

State Street Corporation | 94

Table of Contents

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

(In millions)	Six Months Ended June 30, 2016							Total
	Net Unrealized Gains (Losses) on Cash Flow Hedges	Net Unrealized Gains (Losses) on Available-for- Sale Securities	Net Unrealized Gain (Losses) on Hedges of Net Sale Investments in Non-U.S. Subsidiaries	Other-Than-Temporary Impairment on Held-to-Maturity Securities	Net Unrealized Losses on Retirement Plans	Foreign Currency Translation		
Balance as of December 31, 2015	\$293	\$ (128 )	\$ (14 )	\$ (16 )	\$ (183 )	\$ (1,394 )	\$ (1,442)	
Other comprehensive income (loss) before reclassifications	(174 )	522	51	4	(4 )	43	442	
Amounts reclassified into (out of) earnings	—	2	—	(1 )	2	—	3	
Other comprehensive income (loss)	(174 )	524	51	3	(2 )	43	445	
Balance as of June 30, 2016	\$119	\$ 396	\$ 37	\$ (13 )	\$ (185 )	\$ (1,351 )	\$ (997 )	

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

(In millions)	Three Months Ended June 30, 2017	2016	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	\$ —	\$ (1 )		Net gains (losses) from sales of available-for-sale securities
Held-to-maturity securities:				
Other-than-temporary impairment on held-to-maturity securities related to factors other than credit	—	(1 )		Losses reclassified (from) to other comprehensive income
Retirement plans:				
Amortization of actuarial losses, net of related taxes of \$1 and (\$1), respectively	3	1		Compensation and employee benefits expenses
Total reclassifications (out of) into AOCI	\$ 3	\$ (1 )		

(In millions)	Six Months Ended June 30, 2017	2016	Amounts Reclassified	Affected Line Item in Consolidated Statement of Income
---------------	---	------	-------------------------	---

into  
(out of)  
Earnings

Available-for-sale securities:

Net realized gains (losses) from sales of available-for-sale securities, net of related taxes of \$16 and (\$1), respectively	\$ (24 )	\$ 2	Net gains (losses) from sales of available-for-sale securities
Held-to-maturity securities:			
Other-than-temporary impairment on held-to-maturity securities related to factors other than credit	—	(1 )	Losses reclassified (from) to other comprehensive income
Retirement plans:			
Amortization of actuarial losses, net of related taxes of (\$2) and (\$3), respectively	9	2	Compensation and employee benefits expenses
Total reclassifications (out of) into AOCI	\$ (15 )	\$ 3	

State Street Corporation | 95

---

Table of Contents

STATE STREET CORPORATION

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note 13. Regulatory Capital

We are subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum regulatory capital requirements can initiate certain mandatory and discretionary actions by regulators that, if undertaken, could have a direct material effect on our consolidated financial condition. Under current regulatory capital adequacy guidelines, we must meet specified capital requirements that involve quantitative measures of our consolidated assets, liabilities and off-balance sheet exposures calculated in conformity with regulatory accounting practices. Our capital components and their classifications are subject to qualitative judgments by regulators about components, risk weightings and other factors. For additional information on regulatory capital, and the requirements to which we are subject, refer to pages 179 to 180 in Note 16 to the consolidated financial statements included under Item 8, Financial Statements and Supplementary Data, in our 2016 Form 10-K.

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

The methods for the calculation of our and State Street Bank's risk-based capital ratios will change as the provisions of the Basel III final rule related to the numerator (capital) and denominator (risk-weighted assets) are phased in, and as we begin calculating our risk-weighted assets using the advanced approaches. These ongoing methodological changes will result in differences in our reported capital ratios from one reporting period to the next that are independent of applicable changes to our capital base, our asset composition, our off-balance sheet exposures or our risk profile. As of June 30, 2017, State Street and State Street Bank exceeded all regulatory capital adequacy requirements to which they were subject. As of June 30, 2017, 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 June 30, 2017 that have changed the capital categorization of State Street Bank.

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



Table of Contents

## STATE STREET CORPORATION

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(In millions)	State Street				State Street Bank			
	Basel III Advanced Approaches June 30, 2017 <sup>(1)</sup>	Basel III Standardized Approach June 30, 2017 <sup>(2)</sup>	Basel III Advanced Approaches December 31, 2016 <sup>(1)</sup>	Basel III Standardized Approach December 31, 2016 <sup>(2)</sup>	Basel III Advanced Approaches June 30, 2017 <sup>(1)</sup>	Basel III Standardized Approach June 30, 2017 <sup>(2)</sup>	Basel III Advanced Approaches December 31, 2016 <sup>(1)</sup>	Basel III Standardized Approach December 31, 2016 <sup>(2)</sup>
Common shareholders' equity:								
Common stock and related surplus	\$10,307	\$10,307	\$10,286	\$10,286	\$11,382	\$11,382	\$11,376	\$11,376
Retained earnings	18,202	18,202	17,459	17,459	12,188	12,188	12,285	12,285
Accumulated other comprehensive income (loss)	(1,266 )	(1,266 )	(1,936 )	(1,936 )	(1,060 )	(1,060 )	(1,648 )	(1,648 )
Treasury stock, at cost	(8,367 )	(8,367 )	(7,682 )	(7,682 )	—	—	—	—
Total	18,876	18,876	18,127	18,127	22,510	22,510	22,013	22,013
Regulatory capital adjustments:								
Goodwill and other intangible assets, net of associated deferred tax liabilities <sup>(3)</sup>	(6,714 )	(6,714 )	(6,348 )	(6,348 )	(6,417 )	(6,417 )	(6,060 )	(6,060 )
Other adjustments	(155 )	(155 )	(155 )	(155 )	(91 )	(91 )	(148 )	(148 )
Common equity tier 1 capital	12,007	12,007	11,624	11,624	16,002	16,002	15,805	15,805
Preferred stock	3,196	3,196	3,196	3,196	—	—	—	—
Trust preferred capital securities subject to phase-out from tier 1 capital	—	—	—	—	—	—	—	—
Other adjustments	(38 )	(38 )	(103 )	(103 )	—	—	—	—
Tier 1 capital	15,165	15,165	14,717	14,717	16,002	16,002	15,805	15,805
Qualifying subordinated long-term debt	1,074	1,074	1,172	1,172	1,078	1,078	1,179	1,179
Trust preferred capital securities phased out of tier 1 capital	—	—	—	—	—	—	—	—
ALLL and other	4	75	19	77	—	75	15	77

Edgar Filing: STATE STREET CORP - Form 10-Q

Other adjustments	—	—	1	1	—	—	—	—
Total capital	\$16,243	\$16,314	\$15,909	\$15,967	\$17,080	\$17,155	\$16,999	\$17,061
Risk-weighted assets:								
Credit risk	\$52,755	\$105,785	\$50,900	\$98,125	\$50,010	\$102,642	\$47,383	\$94,413
Operational risk <sup>(4)</sup>	44,123	NA	44,579	NA	43,552	NA	44,043	NA
Market risk <sup>(5)</sup>	3,387	1,284	3,822	1,751	3,388	1,284	3,822	1,751
Total risk-weighted assets	\$100,265	\$107,069	\$99,301	\$99,876	\$96,950	\$103,926	\$95,248	\$96,164
Adjusted quarterly average assets	\$216,940	\$216,940	\$226,310	\$226,310	\$214,022	\$214,022	\$222,584	\$222,584

	2017		2016		2017		2016		2017		2016	
Capital Ratios:	Common equity tier 1 capital	Tier 1 capital	Total capital	Tier 1 capital	Total capital	Tier 1 leverage	Common equity tier 1 capital	Tier 1 capital	Total capital	Tier 1 leverage	Common equity tier 1 capital	Tier 1 capital
Minimum Requirements Including Capital Conservation Buffer and G-SIB Surcharge <sup>(6)</sup>	6.5%	5.5%	12.0%	11.2%	11.7%	11.6%	6.5%	5.5%	12.0%	11.2%	11.7%	11.6%
Conservation Buffer and G-SIB Surcharge <sup>(7)</sup>	16.5%	15.4%	16.6%	16.4%	16.5%	15.4%	16.6%	16.4%	17.6%	16.5%	17.8%	17.7%

(1) Common equity tier 1 capital, tier 1 capital and total capital ratios as of June 30, 2017 and December 31, 2016 were calculated in conformity with the advanced approaches provisions of the Basel III final rule. Tier 1 leverage ratio as of June 30, 2017 and December 31, 2016 were calculated in conformity with the Basel III final rule.

(2) Common equity tier 1 capital, tier 1 capital and total capital ratios as of June 30, 2017 and December 31, 2016 were calculated in conformity with the standardized approach provisions of the Basel III final rule. Tier 1 leverage ratio as of June 30, 2017 and December 31, 2016 were calculated in conformity with the Basel III final rule.

(3) Amounts for State Street and State Street Bank as of June 30, 2017 consisted of goodwill, net of associated deferred tax liabilities, and 80% of other intangible assets, net of associated deferred tax liabilities. Amounts for State Street and State Street Bank as of December 31, 2016 consisted of goodwill, net of deferred tax liabilities and 60% of other intangible assets, net of associated deferred tax liabilities. Intangible assets, net of associated deferred tax liabilities is phased in as a deduction from capital, in conformity with the Basel III final rule.

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

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

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

(6) Minimum requirements will be phased in up to full implementation beginning on January 1, 2019; minimum requirements listed are as of June 30, 2017.

(7) Minimum requirements will be phased in up to full implementation beginning on January 1, 2019; minimum requirements listed are as of December 31, 2016.

<sup>NA</sup> Not applicable

Table of Contents

## STATE STREET CORPORATION

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

## Note 14. Net Interest Income

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

	Three		Six Months	
	Months	Months	Months	Months
	Ended June	Ended June	Ended June	Ended June
	30,	30,	30,	30,
(In millions)	2017	2016	2017	2016
Interest income:				
Deposits with banks	\$41	\$30	\$76	\$73
Investment securities:				
U.S. Treasury and federal agencies	208	209	420	420
State and political subdivisions	56	54	114	108
Other investments	164	189	323	371
Securities purchased under resale agreements	69	35	115	71
Loans and leases	118	93	224	184
Other interest-earning assets	44	10	78	22
Total interest income	700	620	1,350	1,249
Interest expense:				
Deposits	14	16	57	54
Securities sold under repurchase agreements	—	—	1	1
Short-term borrowings	3	2	5	2
Long-term debt	75	62	148	122
Other interest-bearing liabilities	33	19	54	37
Total interest expense	125	99	265	216
Net interest income	\$575	\$521	\$1,085	\$1,033

## Note 15. Expenses

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

	Three		Six Months	
	Months	Months	Months	Months
	Ended June	Ended June	Ended June	Ended June
	30,	30,	30,	30,
(In millions)	2017	2016	2017	2016
Insurance	\$28	\$21	\$58	\$44
Regulatory fees and assessments	18	18	45	38
Securities processing	9	6	16	10
Litigation	(17 )	—	(17 )	—
Other	94	93	181	158
Total other expenses	\$132	\$138	\$283	\$250

## Acquisition Costs

We recorded acquisition costs of \$9 million and \$7 million in the three months ended June 30, 2017 and 2016, respectively. Costs incurred in the three months ended June 30, 2017 related to our acquisition of GEAM on July 1, 2016.

## Restructuring Charges

In the second quarter and first six months of 2017, we recorded restructuring charges of \$62 million and \$79 million, respectively, compared to \$13 million and \$110 million in the same periods of 2016. The charges were primarily related to State Street Beacon.

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

(In millions)	Employee Related Costs	Real Estate Consolidation	Asset and Other Write-offs	Total
Accrual Balance at December 31, 2015	\$ 9	\$ 11	\$ 3	\$23
Accruals for State Street Beacon	86	—	11	97
Payments and Other Adjustments	(4 )	(1 )	(7 )	(12 )
Accrual Balance at March 31, 2016	\$ 91	\$ 10	\$ 7	\$108
Accruals for State Street Beacon	(1 )	15	(1 )	13
Payments and Other Adjustments	(35 )	(3 )	(1 )	(39 )
Accrual Balance at June 30, 2016	\$ 55	\$ 22	\$ 5	\$82
Accrual Balance at December 31, 2016	\$ 37	\$ 17	\$ 2	\$56
Accruals for State Street Beacon	14	—	2	16
Payments and Other Adjustments	(13 )	(3 )	(2 )	(18 )
Accrual Balance at March 31, 2017	\$ 38	\$ 14	\$ 2	\$54
Accruals for State Street Beacon	60	—	2	62
Payments and other adjustments	(11 )	(3 )	(2 )	(16 )
Accrual Balance at June 30, 2017	\$ 87	\$ 11	\$ 2	\$100

#### Note 16. Earnings Per Common Share

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

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

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

based awards that contain non-forfeitable rights to dividends, and are considered to participate with the common stock in undistributed earnings.

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

(Dollars in millions, except per share amounts)	Three Months	
	Ended June 30,	
	2017	2016
Net income	\$620	\$ 619
Less:		
Preferred stock dividends	(36 )	(33 )
Dividends and undistributed earnings allocated to participating securities <sup>(1)</sup>	—	(1 )
Net income available to common shareholders	\$584	\$ 585
Average common shares outstanding (In thousands):		
Basic average common shares	375,395	394,160
Effect of dilutive securities: equity-based awards	5,520	4,687
Diluted average common shares	380,915	398,847
Anti-dilutive securities <sup>(2)</sup>	293	3,277
Earnings per Common Share:		
Basic	\$1.56	\$ 1.48
Diluted <sup>(3)</sup>	1.53	1.47

(Dollars in millions, except per share amounts)	Six Months	
	Ended June 30,	
	2017	2016
Net income	\$1,122	\$ 987
Less:		
Preferred stock dividends	(91 )	(82 )
Dividends and undistributed earnings allocated to participating securities <sup>(1)</sup>	(1 )	(1 )
Net income available to common shareholders	\$1,030	\$ 904
Average common shares outstanding (In thousands):		
Basic average common shares	378,293	396,790
Effect of dilutive securities: equity-based awards	5,196	4,323
Diluted average common shares	383,489	401,113
Anti-dilutive securities <sup>(2)</sup>	527	3,426
Earnings per Common Share:		
Basic	\$2.72	\$ 2.28
Diluted <sup>(3)</sup>	2.69	2.25

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

<sup>(2)</sup> Represents equity-based awards outstanding but not included in the computation of diluted average common shares, because their effect was anti-dilutive. Additional information about equity-based awards is provided in Note 18 to the consolidated financial statements included under Item 8, Financial Statements and Supplementary Data, in our 2016 Form 10-K.

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

State Street Corporation | 99

---

Table of Contents

## STATE STREET CORPORATION

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

## Note 17. Line of Business Information

Our operations are organized into two lines of business: Investment Servicing and Investment Management, which are defined based on products and services provided. The results of operations for these lines of business are not necessarily comparable with those of other companies, including companies in the financial services industry. For information about our two lines of business, as well as revenues, expenses and capital allocation methodologies associated with them, refer to pages 188 to 189 in Note 24 to the consolidated financial statements included under Item 8, Financial Statements and Supplementary Data, in our 2016 Form 10-K.

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

(Dollars in millions)	Three Months Ended June 30,								
	Investment Servicing		Investment Management		Other		Total		
	2017	2016	2017	2016	2017	2016	2017	2016	
Servicing fees	\$ 1,339	\$ 1,239	\$—	\$—	\$—	\$—	\$ 1,339	\$ 1,239	
Management fees	—	—	397	293	—	—	397	293	
Trading services	272	254	17	13	—	—	289	267	
Securities finance	179	156	—	—	—	—	179	156	
Processing fees and other	32	103	(1 )	(5 )	—	—	31	98	
Total fee revenue	1,822	1,752	413	301	—	—	2,235	2,053	
Net interest income	576	520	(1 )	1	—	—	575	521	
Gains (losses) related to investment securities, net	—	(1 )	—	—	—	—	—	(1 )	
Total revenue	2,398	2,271	412	302	—	—	2,810	2,573	
Provision for loan losses	3	4	—	—	—	—	3	4	
Total expenses	1,649	1,599	311	244	71	17	2,031	1,860	
Income before income tax expense	\$ 746	\$ 668	\$ 101	\$ 58	\$(71 )	\$(17 )	\$ 776	\$ 709	
Pre-tax margin	31	% 29	% 25	% 19	%		28	% 28	%

(Dollars in millions)	Six Months Ended June 30,							
	Investment Servicing		Investment Management		Other		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
Servicing fees	\$ 2,635	\$ 2,481	\$—	\$—	\$—	\$—	\$ 2,635	\$ 2,481
Management fees	—	—	779	563	—	—	779	563
Trading services	529	512	35	27	—	—	564	539
Securities finance	312	290	—	—	—	—	312	290
Processing fees and other	138	152	5	(2 )	—	—	143	150
Total fee revenue	3,614	3,435	819	588	—	—	4,433	4,023
Net interest income	1,085	1,032	—	1	—	—	1,085	1,033
Gains (losses) related to investment securities, net	(40 )	1	—	—	—	—	(40 )	1
Total revenue	4,659	4,468	819	589	—	—	5,478	5,057
Provision for loan losses	1	8	—	—	—	—	1	8
Total expenses	3,377	3,286	640	500	100	124	4,117	3,910
Income before income tax expense	\$ 1,281	\$ 1,174	\$ 179	\$ 89	\$(100)	\$(124)	\$ 1,360	\$ 1,139



Pre-tax margin	27	%	26	%	22	%	15	%	25	%	23	%
----------------	----	---	----	---	----	---	----	---	----	---	----	---

State Street Corporation | 100

---

Table of Contents

## STATE STREET CORPORATION

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

## Note 18. 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:

	Three Months Ended			Three Months Ended		
	June 30, 2017			June 30, 2016		
(In millions)	Non-U.S.	U.S.	Total	Non-U.S.	U.S.	Total
Total revenue	\$1,172	\$1,638	\$2,810	\$1,136	\$1,437	\$2,573
Income before income taxes	324	452	776	344	365	709

	Six Months Ended			Six Months Ended		
	June 30, 2017			June 30, 2016		
(In millions)	Non-U.S.	U.S.	Total	Non-U.S.	U.S.	Total
Total revenue	\$2,268	\$3,210	\$5,478	\$2,161	\$2,896	\$5,057
Income before income taxes	583	777	1,360	521	618	1,139

Non-U.S. assets were \$73.2 billion and \$84.6 billion as of June 30, 2017 and 2016, respectively.

Table of Contents

REVIEW REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Shareholders and Board of Directors of  
State Street Corporation

We have reviewed the consolidated statement of condition of State Street Corporation (the "Corporation") as of June 30, 2017, and the related consolidated statements of income and comprehensive income for the three-and-six month periods ended June 30, 2017 and 2016, and changes in shareholders' equity and cash flows for the six-month periods ended June 30, 2017 and 2016. These financial statements are the responsibility of the Corporation's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information 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 Public Company Accounting Oversight Board (United States), 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.

Based on our review, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above 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), the consolidated statement of condition of State Street Corporation as of December 31, 2016, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the year then ended, not presented herein and we expressed an unqualified audit opinion on those consolidated financial statements in our report dated February 16, 2017. In our opinion, the information set forth in the accompanying consolidated statement of condition of State Street Corporation as of December 31, 2016, is fairly stated, in all material respects, in relation to the consolidated statement of condition from which it has been derived.

/s/ Ernst & Young LLP  
Boston, Massachusetts  
August 4, 2017

State Street Corporation | 102

---

Table of Contents

## ACRONYMS

2016 Form 10-K	State Street Corporation Annual Report on Form 10-K for the year ended December 31, 2016, as amended	GAAP	Generally accepted accounting principles
ABS	Asset-backed securities	GEAM	General Electric Asset Management
AFS	Available-for-sale	G-SIB	Global systemically important bank
ALLL	Allowance for loan and lease losses	HQLA <sup>(1)</sup>	High-quality liquid assets
AML	Anti-money laundering	HTM	Held-to-maturity
AOCI	Accumulated other comprehensive income (loss)	IDI	Insured depository institution
ASU	Accounting Standards Update	IFDS U.K.	International Financial Data Services Limited U.K.
AUCA	Assets under custody and administration	LCR <sup>(1)</sup>	Liquidity coverage ratio
AUM	Assets under management	LGD	Loss given default
BCBS	Basel Committee on Banking Supervision	LTD	Long term debt
BFDS	Boston Financial Data Services, Inc.	MBS	Mortgage-backed securities
Board	Board of Directors	MRAC	Management Risk and Capital Committee
bps	basis points	NII	Net interest income
CAP	Capital adequacy process	NSFR <sup>(1)</sup>	Net stable funding ratio
CCAR	Comprehensive Capital Analysis and Review	OCI	Other comprehensive income (loss)
CD	Certificates of deposit	OCIO	Outsourced Chief Investment Officer
CET1 <sup>(1)</sup>	Common equity tier 1	OFAC	Office of Foreign Assets Control
CLO	Collateralized loan obligations	OTC	Over-the-counter
CRE	Commercial real estate	OTTI	Other-than-temporary-impairment
CVA	Credit valuation adjustment	Parent Company	State Street Corporation
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act	PCA	Prompt corrective action
DOJ	Department of Justice	P&L	Profit-and-loss
DOL	Department of Labor	RC	Risk Committee
ECB	European Central Bank	ROE	Return on average common equity
EPS	Earnings per share	RWA <sup>(1)</sup>	Risk-weighted assets
ERISA	Employee Retirement Income Security Act	SEC	Securities and Exchange Commission
ERM	Enterprise Risk Management	SERP	Supplemental executive retirement plans
ETF	Exchange-Traded Fund	SLR <sup>(1)</sup>	Supplementary leverage ratio
EVE	Economic value of equity	SPOE Strategy	Single Point of Entry Strategy
FASB	Financial Accounting Standards Board	SSGA	State Street Global Advisors
FCA	Financial Conduct Authority	SSIF	State Street Intermediate Funding, LLC
FDIC	Federal Deposit Insurance Corporation	State Street Bank	State Street Bank and Trust Company
Federal Reserve	Board of Governors of the Federal Reserve System	TLAC <sup>(1)</sup>	Total loss-absorbing capacity
FHLB	Federal Home Loan Bank of Boston	TMRC	Trading and Markets Risk Committee
FRBB	Federal Reserve Bank of Boston	UOM	Unit of measure
FSB	Financial Stability Board	VaR	Value-at-Risk
FX	Foreign exchange	VIE	Variable interest entity

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

State Street Corporation | 103

---

Table of Contents

GLOSSARY

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

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

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

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

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

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

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

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

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.

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

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

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

Other-than-temporary impairment charge taken on a security when its 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.

Qualified financial contracts: Securities contracts, commodity contracts, forward contracts, repurchase agreements, swap agreements and other contracts determined by

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

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

Supplementary leverage ratio: A 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 loss-bearing debt issued by us.

Value-at-Risk: A statistical measure used to measure the potential change in value of a portfolio that could occur in normal market conditions, over a defined 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 ability 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 returns.

State Street Corporation | 104

---



Table of Contents

## PART II. OTHER INFORMATION

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

(c) In June 2017, our Board approved a common stock purchase program authorizing the purchase of up to \$1.4 billion of our common stock through June 30, 2018 (the 2017 Program). No shares were purchased by us under this program in the quarter ended June 30, 2017.

In June 2016, our Board approved a common stock purchase program authorizing the purchase of up to \$1.4 billion of our common stock through June 30, 2017 (the 2016 Program).

Stock purchases may be made using various types of mechanisms, including open market purchases, accelerated share repurchases or

transactions off market, and may be made under Rule 10b5-1 trading programs. The timing of stock purchases, types of transactions and number of shares purchased will depend on several factors, including market conditions and State Street's capital positions, financial performance and investment opportunities. Our common stock purchase programs do not have specific price targets and may be suspended at any time.

The following table presents purchases of our common stock under the 2016 Program and related information for each of the months in the quarter ended June 30, 2017. We may employ third-party broker/dealers to acquire shares on the open market in connection with our common stock purchase programs.

(Dollars in millions, except per share amounts, shares in thousands)	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Approximate Dollar Value of Shares That May Yet be Purchased Under Publicly Announced Program
Period:				
April 1 - April 30, 2017	118	\$ 84.42	118	\$ 217
May 1 - May 31, 2017	1,748	82.39	1,748	73
June 1 - June 30, 2017	846	86.75	846	—
Total	2,712	\$ 83.84	2,712	\$ —

## ITEM 6. EXHIBITS

The exhibits listed in the Exhibit Index following the signature page of this Form 10-Q are filed herewith or are incorporated herein by reference to other SEC filings.

Table of Contents

SIGNATURES

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

STATE STREET CORPORATION  
(Registrant)

Date: August 4,  
2017

By: /s/ ERIC W. ABOAF

Eric W. Aboaf,  
Executive Vice President and Chief Financial Officer (Principal Financial Officer)

Date: August 4,  
2017

By: /s/ SEAN P. NEWTH

Sean P. Newth,  
Senior Vice President, Chief Accounting Officer and Controller (Principal Accounting Officer)

State Street Corporation | 106

---

Table of Contents

EXHIBIT INDEX

10.1†	State Street's 2017 Stock Incentive Plan, and forms of award agreements thereunder
12	Statement of Ratios of Earnings to Fixed Charges
15	Letter regarding unaudited interim financial information
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chairman and Chief Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
32	Section 1350 Certifications
* 101.INS	XBRL Instance Document
* 101.SCH	XBRL Taxonomy Extension Schema Document
* 101.CAL	XBRL Taxonomy Calculation Linkbase Document
* 101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
* 101.LAB	XBRL Taxonomy Label Linkbase Document
* 101.PRE	XBRL Taxonomy Presentation Linkbase Document

† Denotes management contract or compensatory plan or arrangement

\* Submitted electronically herewith

Attached as Exhibit 101 to this report are the following formatted in XBRL (Extensible Business Reporting Language): (i) consolidated statement of income for the three and six months ended June 30, 2017 and 2016, (ii) consolidated statement of comprehensive income for the three and six months ended June 30, 2017 and 2016, (iii) consolidated statement of condition as of June 30, 2017 and December 31, 2016, (iv) consolidated statement of changes in shareholders' equity for the six months ended June 30, 2017 and 2016, (v) consolidated statement of cash flows for the six months ended June 30, 2017 and 2016, and (vi) notes to consolidated financial statements.