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stt:line_of_business

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

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

For the quarterly period ended March 31, 2019

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 **Boston, Massachusetts**	**02111**
(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 x No ¨

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

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

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

Emerging growth company ¨

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

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

The number of shares of the registrant’s common stock outstanding as of April 29, 2019 was 373,163,922.

STATE STREET CORPORATION
QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTERLY PERIOD ENDED
March 31, 2019

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

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

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

GENERAL

State Street Corporation, referred to as the Parent Company, is a financial holding company organized in 1969 under the laws of the Commonwealth of Massachusetts. Our executive offices are located at One Lincoln Street, Boston, Massachusetts 02111 (telephone (617) 786-3000). For purposes of this Quarterly Report on Form 10-Q for the quarter ended March 31, 2019 (Form 10-Q), unless the context requires otherwise, references to "State Street," "we," "us," "our" or similar terms mean State Street Corporation and its subsidiaries on a consolidated basis. The Parent Company is a source of financial and managerial strength to our subsidiaries. Through our subsidiaries, including our principal banking subsidiary, State Street Bank and Trust Company, referred to as State Street Bank, we provide a broad range of financial products and services to institutional investors worldwide, with $32.64 trillion of AUC/A and $2.81 trillion of AUM as of March 31, 2019.

As of March 31, 2019, we had consolidated total assets of $228.33 billion, consolidated total deposits of $162.47 billion, consolidated total shareholders' equity of $25.04 billion and 39,969 employees. We operate in more than 100 geographic markets worldwide, including in the U.S., Canada, Europe, the Middle East and Asia.

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

Additional information about our lines of business is provided in Line of Business Information in this Management's Discussion and Analysis and Note 18 to the consolidated financial statements in this Form 10-Q.

This Management's Discussion and Analysis is part of the Form 10-Q and updates the Management's Discussion and Analysis in our 2018 Annual Report on Form 10-K previously filed with the SEC (2018 Form 10-K). You should read the financial information contained in this Management's Discussion and Analysis and elsewhere in this Form 10-Q in conjunction with the financial and other information contained in our 2018 Form 10-K. 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;
- OTTI of investment securities;
- impairment of goodwill and other intangible assets; and
- contingencies.

These significant accounting policies require the most subjective or complex judgments, and underlying estimates and assumptions could be subject to revision as new information becomes available. For additional information about these significant accounting policies refer to pages 115 to 116, "Significant Accounting Estimates" included under Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, in our 2018 Form 10-K. We did not change these significant accounting policies in the first three months of 2019.

Certain financial information provided in this Form 10-Q, including in this Management's Discussion and Analysis, is prepared on both a U.S. GAAP, or reported basis, and a non-GAAP basis, including certain

non-GAAP measures used in the calculation of identified regulatory ratios. We measure and compare certain financial information on a non-GAAP basis, including information (such as capital ratios calculated under regulatory standards then scheduled to be effective in the future) that management uses in evaluating our business and activities.

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

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

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

We provide additional disclosures required by applicable bank regulatory standards, including supplemental qualitative and quantitative information with respect to regulatory capital (including market risk associated with our trading activities) and the LCR, summary results of semi-annual State Street-run stress tests which we conduct under the Dodd-Frank Act, and resolution plan disclosures required under the Dodd-Frank Act. These additional disclosures are accessible on the "Investor Relations" section of our corporate website at *www.statestreet.com*.

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

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

Forward-Looking Statements

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

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

Forward-looking statements are subject to various risks and uncertainties, which change over time, are based on management's expectations and assumptions at the time the statements are made, and are not guarantees of future results. Management's expectations and assumptions, and the continued validity of the forward-looking statements, are subject

to change due to a broad range of factors affecting the U.S. and global economies, regulatory environment and the equity, debt, currency and other financial markets, as well as factors specific to State Street and its subsidiaries, including State Street Bank. Factors that could cause changes in the expectations or assumptions on which forward-looking statements are based cannot be foreseen with certainty and include, but are not limited to:

- the financial strength of the counterparties with which we or our clients do business and to which we have investment, credit or financial exposures or to which our clients have such exposures as a result of our acting as agent, including as an asset manager or securities lending agent;
- increases in the volatility of, or declines in the level of, our NII; changes in the composition or valuation of the assets recorded in our consolidated statement of condition (and our ability to measure the fair value of investment securities); and changes in the manner in which we fund those assets;
- the volatility of servicing fee, management fee, trading fee and securities finance revenues due to, among other factors, the value of equity and fixed-income markets, market interest and FX rates, the volume of client transaction activity, competitive pressures in the investment servicing and asset management industries, and the timing of revenue recognition with respect to processing fees and other revenues;

- the liquidity of the U.S. and international securities markets, particularly the markets for fixed-income securities and inter-bank credits; the liquidity of the assets on our balance sheet and changes or volatility in the sources of such funding, particularly the deposits of our clients; and demands upon our liquidity, including the liquidity demands and requirements of our clients;
- the level and volatility of interest rates, the valuation of the U.S. dollar relative to other currencies in which we record revenue or accrue expenses and the performance and volatility of securities, credit, currency and other markets in the U.S. and internationally; and the impact of monetary and fiscal policy in the U.S. and internationally on prevailing rates of interest and currency exchange rates in the markets in which we provide services to our clients;
- the credit quality, credit-agency ratings and fair values of the securities in our investment securities portfolio, a deterioration or downgrade of which could lead to OTTI of such securities and the recognition of an impairment loss in our consolidated statement of income;

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

- our ability to attract deposits and other low-cost, short-term funding; our ability to manage the level and pricing of such deposits and the relative portion of our deposits that are determined to be operational under regulatory guidelines; and our ability to deploy deposits in a profitable manner consistent with our liquidity needs, regulatory requirements and risk profile;
- the manner and timing with which the Federal Reserve and other U.S. and non-U.S. regulators implement or reevaluate the regulatory framework applicable to our operations (as well as changes to that framework), including implementation or modification of the Dodd-Frank Act and related stress testing and resolution planning requirements and implementation of international standards applicable to financial institutions, such as those proposed by the Basel Committee and European legislation (such as Undertakings for Collective Investments in Transferable Securities (UCITS) V, the Money Market Fund Regulation and the Markets in Financial Instruments Directive (MiFID II)/Markets in Financial Instruments Regulation (MiFIR)); among other consequences, these regulatory changes impact the levels of regulatory capital, long-term debt and liquidity we must maintain, acceptable levels of credit exposure to third parties, margin requirements applicable to derivatives, restrictions on banking and financial activities and the manner in which we structure and implement our global operations and servicing relationships. In addition, our regulatory posture and related expenses have been and will continue to be affected by heightened standards and changes in regulatory expectations for global systemically important financial institutions applicable to, among other things, risk management, liquidity and capital planning, resolution planning and compliance programs, as well as changes in governmental enforcement approaches to perceived failures to comply with regulatory or legal obligations;
- adverse changes in the regulatory ratios that we are, or will be, required to meet, whether arising under the Dodd-Frank Act or implementation of international standards applicable to financial institutions, such as those proposed by the Basel Committee, or due to changes in regulatory positions, practices or regulations in jurisdictions in which we engage in banking activities, including changes in internal or external data, formulae, models, assumptions or other advanced systems used in the calculation of our capital or liquidity ratios that cause changes in those ratios as they are measured from period to period;
- requirements to obtain the prior approval or non-objection of the Federal Reserve or other U.S. and non-U.S. regulators for the use, allocation or distribution of our capital or other specific capital actions or corporate activities, including, without limitation, acquisitions, investments in subsidiaries, dividends and stock repurchases, 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, without limitation, additional or increased taxes or assessments thereon, capital adequacy requirements, margin requirements and changes that expose us to risks related to the adequacy of our controls or compliance programs;
- economic or financial market disruptions in the U.S. or internationally, including those which may result from recessions or political instability; for example, the U.K.'s exit from the European Union or actual or potential changes in trade policy, such as tariffs or bilateral and multilateral trade agreements;
- our ability to create cost efficiencies through changes in our operational processes and to further digitize our processes and interfaces with our clients, any failure of which, in whole or in part, may among other things, reduce our competitive position, diminish the cost-effectiveness of our systems and processes or provide an insufficient return on our associated investment;
- our ability to promote a strong culture of risk management, operating controls, compliance oversight, ethical behavior and governance that meets our expectations and those of our clients and our regulators,

and the financial, regulatory, reputational and other consequences of our failure to meet such expectations;

- the impact on our compliance and controls enhancement programs associated with the appointment of a monitor under the deferred prosecution agreement with the DOJ and compliance consultant appointed under a settlement with the SEC, including the potential for such monitor and compliance consultant to require changes to our programs or to identify other issues that require substantial expenditures, changes in our operations, payments to clients or reporting to U.S. authorities;
- the results of our review of our billing practices, including additional findings or amounts we may be required to reimburse clients, as well as

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

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

- our ability to expand our use of technology to enhance the efficiency, accuracy and reliability of our operations and our dependencies on information technology; to replace and consolidate systems, particularly those relying upon older technology, and to adequately incorporate resiliency and business continuity into our systems management; to implement robust management processes into our technology development and maintenance programs; and to control risks related to use of technology, including cyber-crime and inadvertent data disclosures;
- our ability to address threats to our information technology infrastructure and systems (including those of our third-party service providers); the effectiveness of our and our third party service providers' efforts to manage the resiliency of the systems on which we rely; controls regarding the access to, and integrity of, our and our clients' data; and complexities and costs of protecting the security of such systems and data;
- the results of, and costs associated with, governmental or regulatory inquiries and investigations, litigation and similar claims, disputes, or civil or criminal proceedings;
- changes or potential changes in the amount of compensation we receive from clients for our services, and the mix of services provided by us that clients choose;
- the large institutional clients on which we focus are often able to exert considerable market influence and have diverse investment activities, and this, combined with strong competitive market forces, subjects us to significant pressure to reduce the fees we charge, to potentially significant changes in our AUC/A or our AUM in the event of the acquisition or loss of a client, in whole or in part, and to potentially significant changes in our revenue in the event a client re-balances or changes its investment approach, re-directs assets to lower- or higher-fee asset classes or changes the mix of products or services that it receives from us;
- the potential for losses arising from our investments in sponsored investment funds;
- the possibility that our clients will incur substantial losses in investment pools for which we act as agent; the possibility of significant reductions in the liquidity or valuation of assets underlying those pools and the potential that clients will seek to hold us liable for such losses; and the possibility that our clients or regulators will assert claims that our fees, with respect to such investment products, are not appropriate;
- our ability to anticipate and manage the level and timing of redemptions and withdrawals from our collateral pools and other collective investment products;
- the credit agency ratings of our debt and depositary obligations and investor and client perceptions of our financial strength;
- adverse publicity, whether specific to us or regarding other industry participants or industry-wide factors, or other reputational harm;
- our ability to control operational risks, data security breach risks and outsourcing risks; our ability to protect our intellectual property rights; the possibility of errors in the quantitative models we use to manage our business; and the possibility that our controls will prove insufficient, fail or be circumvented;
- changes or potential changes to the competitive environment, due to, among other things, regulatory and technological changes, the effects of industry consolidation and perceptions of us, as a suitable service provider or counterparty;
- our ability to complete acquisitions, joint ventures and divestitures, including, without limitation, our ability to obtain regulatory approvals, the ability to arrange financing as required and the ability to satisfy closing conditions;
- the risks that our acquired businesses, including, without limitation, our acquisition of Charles River Systems, Inc. (CRD), and joint ventures will not achieve their anticipated financial, operational and product

innovation benefits or will not be integrated successfully, or that the integration will take longer than anticipated; that expected synergies will not be achieved or unexpected negative synergies or liabilities will be experienced; that client and deposit retention goals will not be met; that other regulatory or operational challenges will be experienced; and that disruptions from the transaction will harm our relationships with our clients, our employees or regulators;

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

- our ability to integrate CRD's front office software solutions with our middle and back office capabilities to develop a front-to-middle-to-back office platform that is competitive, generates revenues in line with our expectations and meets our clients' requirements;
- our ability to recognize evolving needs of our clients and to develop products that are responsive to such trends and profitable to us; the performance of and demand for the products and services we offer; and the potential for new products and services to impose additional costs on us and expose us to increased operational risk;
- our ability to grow revenue, manage expenses, attract and retain highly skilled people and raise the capital necessary to achieve our business goals and comply with regulatory requirements and expectations;
- changes in accounting standards and practices; and
- the impact of the U.S. tax legislation enacted in 2017, and changes in tax legislation and in the interpretation of existing tax laws by U.S. and non-U.S. tax authorities that affect the amount of taxes due.

Actual outcomes and results may differ materially from what is expressed in our forward-looking statements and from our historical financial results due to the factors discussed in this section and elsewhere in this Form 10-Q or disclosed in our other SEC filings. Forward-looking statements in this Form 10-Q should not be relied on as representing our expectations or assumptions as of any time subsequent to the time this Form 10-Q is filed with the SEC. We undertake no obligation to revise our forward-looking statements after the time they are made. The factors discussed herein are not intended to be a complete statement of all risks and uncertainties that may affect our businesses. We cannot anticipate all developments that may adversely affect our business or operations or our consolidated results of operations, financial condition or cash flows.

Forward-looking statements should not be viewed as predictions, and should not be the primary basis on which investors evaluate State Street. Any investor in State Street should consider all risks and uncertainties disclosed in our SEC filings, including our filings under the Securities Exchange Act of 1934, in particular our annual reports on Form 10-K, our quarterly reports on Form 10-Q and our current reports on Form 8-K, or registration statements filed under the Securities Act of 1933, all of which are accessible on the SEC's website at *www.sec.gov* or on the “Investor Relations” section of our corporate website at *www.statestreet.com*.

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

OVERVIEW OF FINANCIAL RESULTS

In the first quarter of 2019, we voluntarily changed our accounting method under Financial Accounting Standards Board (FASB) ASC 323, *Investments-Equity Method and Joint Ventures,* for investments in Low Income Housing Tax Credit (LIHTC) from the equity method of accounting to the proportional amortization method of accounting. The change was applied retrospectively and affects multiple financial statement line items. For additional information about changes in accounting, refer to Note 1 of our consolidated financial statements in this Form 10-Q.

TABLE 1: OVERVIEW OF FINANCIAL RESULTS

	Three Months Ended March 31,		
(Dollars in millions, except per share amounts)	**2019**	**2018**	**% Change**
Total fee revenue[(1)(2)]	**$2,260**	$2,415	(6)%
Net interest income[(1)]	**673**	643	5
Gains (losses) related to investment securities, net	**(1)**	(2)	nm
Total revenue[(2)]	**2,932**	3,056	(4)
Provision for loan losses	**4**	—	nm
Total expenses[(2)]	**2,293**	2,268	1
Income before income tax expense	**635**	788	(19)
Income tax expense	**127**	129	(2)
Net income	**$508**	$659	(23)
Adjustments to net income:			
Dividends on preferred stock[(3)]	**$(55)**	$(55)	—
Earnings allocated to participating securities[(4)]	**(1)**	(1)	—
Net income available to common shareholders	**$452**	$603	(25)
Earnings per common share:			
Basic	**$1.20**	$1.64	(27)
Diluted	**1.18**	1.62	(27)
Average common shares outstanding (in thousands):			
Basic	**377,915**	367,439	3
Diluted	**381,703**	372,619	2
Cash dividends declared per common share	**$.47**	$.42	12
Return on average common equity	**8.7 %**	12.8 %	(410) bps
Pre-tax Margin	**21.7**	25.8	(410)

(1) In the first quarter of 2018, approximately $15 million of swap costs were reclassified from processing fees and other revenue within fee revenue to net interest income to conform to current presentation.

(2) CRD contributed approximately $99 million and $41 million in total revenue and total expenses, respectively, in the first quarter of 2019, including approximately $95 million in processing fees and other revenue and $4 million in brokerage and other trading services, within foreign exchange trading services, and expenses contributed approximately $31 million in compensation and employee benefits and $10 million in other expense lines. In addition, CRD-related expenses in the first quarter of 2019 include $15 million in amortization of other intangible assets.

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

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

nm Not meaningful

The following "Financial Results and Highlights" section provides information related to significant events, as well as highlights of our consolidated financial results in the first quarter of 2019 presented in Table 1: Overview of Financial Results. More detailed information about our consolidated financial results, including

comparisons of our financial results in the first quarter of 2019 compared to the same period in 2018, is provided under “Consolidated Results of Operations”, "Line of Business Information" and "Capital" which follows these sections, as well as in our consolidated financial statements in this Form 10-Q. In this Management’s Discussion and Analysis, where we describe the effects of changes in FX rates, those effects are determined by applying applicable weighted average FX rates from the relevant 2018 period to the relevant 2019 period results.

Financial Results and Highlights

- EPS of $1.18 in the first quarter of 2019 decreased 27% compared to $1.62 in the same period in 2018. The first quarter of 2019 includes the impact of the following notable items:
  - Acquisition and restructuring costs of $9 million, consisting of acquisition costs related to CRD of $13 million, partially offset by a $4 million accrual release for restructuring; and
  - Legal and related expenses of approximately $14 million.
- We had no notable items in the first quarter of 2018.
- In the first quarter of 2019, revenues were impacted by challenging industry conditions and lower average equity market levels, partially offset by CRD revenue and NII. In light of challenging market and industry headwinds, we are executing on our previously announced expense savings program.
- In the first quarter of 2019, return on equity of 8.7% decreased from 12.8% in the same period in 2018. Pre-tax margin of 21.7% in the first quarter of 2019 decreased from 25.8% in the same period in 2018.
- Operating leverage was (5.2)% in the first quarter of 2019. Operating leverage represents the difference between the percentage change in total revenue and the percentage change in total expenses, in each case relative to the prior year period.

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

- We repurchased $300 million of our common stock in the first quarter of 2019 under our previously announced common stock purchase program (the 2018 Program). We may repurchase up to $300 million of our common stock under the 2018 Program in the second quarter of 2019.

Revenue

- Total revenue and fee revenue decreased 4% and 6%, respectively, in the first quarter of 2019 compared to the same period of 2018, primarily driven by lower servicing fees, lower management fees, and lower markets revenues, partially offset by higher processing fees and other revenues, and, in the case of total revenue, by higher NII. Processing fees and other revenues in the first quarter of 2019 include revenue from CRD, which we acquired in October 2018.
Total revenues contributed by CRD in the first quarter of 2019 were approximately $99 million, including $95 million in processing fees and other revenue, of which approximately $3 million were project-related fees associated with State Street Global Advisors, and $4 million in brokerage and other trading services, within foreign exchange trading services.
- Servicing fee revenue decreased 12% in the first quarter of 2019 compared to the same period in 2018, primarily due to challenging industry conditions including fee concessions, lower client activity and flows, weaker average equity market levels and a previously announced client transition, partially offset by new business.
- Management fee revenue decreased 11% in the first quarter of 2019 compared to the same period in 2018, reflecting product mix and weaker average equity market levels.
- Foreign exchange trading services decreased 8% in the first quarter of 2019 compared to the same period in 2018 due to lower client volumes and market volatility.
- Securities finance revenue decreased 16% in the first quarter of 2019 compared to the same period in 2018, reflecting a balance sheet repositioning initiative in the second half of 2018.
- Processing fees and other revenue increased 148% in the first quarter of 2019 compared to the same period in 2018, primarily due to $95 million in the first quarter of 2019 from CRD, which we acquired in October 2018.

- NII increased 5% in the first quarter of 2019 compared to the same period in 2018, primarily due to higher U.S. interest rates and disciplined liability pricing, partially offset by lower average deposit balances.

Expenses

- Total expenses increased 1% in the first quarter of 2019 compared to the same period in 2018, primarily driven by technology infrastructure spend and the impact of the CRD acquisition, partially offset by savings associated with our 2019 expense savings program through resource discipline, process re-engineering and automation benefits.
Total expenses contributed by CRD in the first quarter of 2019 were approximately $41 million, including $31 million in compensation and employee benefits, and $10 million in other expense lines. In addition, CRD-related expenses in the first quarter of 2019 included $15 million in amortization of other intangible assets.
In the first quarter of 2019, we achieved approximately $78 million of gross expense savings related to our previously announced $350 million 2019 expense savings program through expense savings of $31 million in resource discipline and $47 million in process re-engineering and automation benefits.

AUC/A and AUM

- AUC/A decreased 2% as of March 31, 2019 compared to March 31, 2018, primarily due to the negative impact of FX translation and a previously announced client transition. In the first quarter of 2019, newly announced asset servicing mandates totaled approximately $120 billion. Servicing assets remaining to be installed in future periods totaled approximately $310 billion as of March 31, 2019.

- AUM increased 3% as of March 31, 2019 compared to March 31, 2018, primarily driven by higher equity markets, growth from institutional and ETF inflows, partially offset by year-end cash outflows.

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Capital

- In the first quarter of 2019, we returned a total of approximately $480 million to our shareholders in the form of common stock dividends and share purchases.
We declared aggregate common stock dividends of $0.47 per share, totaling $177 million in the first quarter of 2019, compared to $0.42 per share, totaling $154 million in the first quarter of 2018, representing an increase of approximately 12% on a per share basis.
In the first quarter of 2019, we acquired 4.2 million shares of common stock at an average per share cost of $70.93 and an aggregate cost of approximately $300 million under the 2018 Program.
- Our standardized CET1 capital ratio decreased to 11.5% as of March 31, 2019 compared to 11.7% as of December 31, 2018, and Tier 1 leverage ratio increased to 7.4% as of March 31, 2019 compared to 7.2% as of December 31, 2018.

CONSOLIDATED RESULTS OF OPERATIONS

This section discusses our consolidated results of operations in the first quarter of 2019 compared to the same period in 2018, and should be read in conjunction with the consolidated financial statements and accompanying condensed notes to the consolidated financial statements in this Form 10-Q.

Total Revenue

TABLE 2: TOTAL REVENUE

(Dollars in millions)	Three Months Ended March 31, 2019	2018	% Change
Fee revenue:			
Servicing fees	**$1,251**	$1,421	(12)%
Management fees	**420**	472	(11)
Foreign exchange trading services[(1)]	**280**	304	(8)
Securities finance	**118**	141	(16)
Processing fees and other[(1)]	**191**	77	148
Total fee revenue[(1)]	**2,260**	2,415	(6)
Net interest income:			
Interest income	**1,027**	857	20
Interest expense	**354**	214	65
Net interest income	**673**	643	5
Gains (losses) related to investment securities, net	**(1)**	(2)	nm
Total revenue[(1)]	**$2,932**	$3,056	(4)

(1) CRD contributed approximately $99 million in total revenue for the first quarter of 2019, including approximately $95 million in processing fees and other revenue and $4 million in brokerage and other trading services within foreign exchange trading services.
nm Not meaningful

Fee Revenue

Table 2: Total Revenue, provides the breakout of fee revenue in the first quarters of 2019 and 2018. Servicing and management fees collectively made up approximately 74% of the total fee revenue in both the first quarter of 2019 and 2018.

Servicing Fee Revenue

Generally, our servicing fee revenues are affected by several factors including changes in market valuations, client activity and asset flows, net new business and the manner in which we price our services.

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

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

Changes in Market Valuations

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

Over the five years ended December 31, 2018, we estimate that worldwide market valuations impacted our servicing fee revenues by approximately (2%) to 5% annually. See Table 3: Daily, Month-End and Quarter-End Equity Indices for selected indices. While the specific indices presented are indicative of general market trends, the asset types and classes relevant to individual client portfolios can and do differ, and the performance of associated relevant indices and of client portfolios can therefore differ from the performance of the indices presented. In addition, our asset classifications may differ from those industry classifications presented.

We estimate, using relevant information as of March 31, 2019 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 fees are calculated, would result in a corresponding change in our total servicing fee revenues, on average and over time, of approximately 3%; and
- A 10% increase or decrease in worldwide fixed income valuations, on a weighted average basis, over the relevant periods for which our servicing fees are calculated, would result in a corresponding change in our total servicing fee revenues, on average and over time, of approximately 1%.

TABLE 3: DAILY AVERAGES, MONTH-END AVERAGES AND QUARTER-END EQUITY INDICES[1]

	Daily Averages of Indices			Month-End Averages of Indices			Quarter-End Indices		
	Three Months Ended March 31,			Three Months Ended March 31,			Three Months Ended March 31,		
	2019	2018	% Change	2019	2018	% Change	2019	2018	% Change
S&P 500®	**2,721**	2,733	— %	**2,774**	2,726	2 %	**2,834**	2,641	7 %
MSCI EAFE®	**1,833**	2,072	(12)	**1,860**	2,070	(10)	**1,875**	2,006	(7)
MSCI® Emerging Markets	**1,033**	1,204	(14)	**1,053**	1,207	(13)	**1,058**	1,171	(10)
HFRI Asset Weighted Composite®	**NA**	NA	NA	**1,413**	1,409	—	**1,425**	1,398	2

[1] The index names listed in the table are service marks of their respective owners.
NA Not applicable

Client Activity and Asset Flows

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

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

classifications may differ from those industry classifications presented.

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TABLE 4: INDUSTRY ASSET FLOWS

	Three Months Ended March 31,	
(In billions)	**2019**	**2018**
North America - ICI Market Data[1][2]		
Long-Term Funds[3]	**$47.3**	$38.0
Money Market	**54.0**	(52.2)
Exchange-Traded Fund	**43.3**	62.8
Total ICI Flows	**$144.6**	$48.6
Europe - Broadridge Market Data[1][4][5]		
Long-Term Funds[3]	**$(50.0)**	$160.5
Money Market	**19.8**	(10.3)
Total Broadridge Flows	**$(30.2)**	$150.2

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

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

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

[4] Source: © Copyright 2018, Broadridge Financial Solutions, Inc. Funds of funds have been excluded from Broadridge data (to avoid double counting). Therefore, a market total is the sum of all the investment categories excluding the three funds of funds categories (in-house, ex-house and hedge). ETFs are included in Broadridge's database on mutual funds, but this excludes exchange-traded commodity products that are not mutual funds.

[5] The first quarter of 2019 data is on a rolling 3 month basis and includes December 2018, January and February 2019 for EMEA (Copyright 2018 Broadridge Financial Solutions, Inc.).

Pricing

The industry in which we operate has historically faced pricing pressure, and our servicing fee revenues are also affected by such pressures today. On average, over the five years ended December 31, 2018, we estimate that pricing pressure with respect to existing clients has impacted our servicing fees by approximately (2%) annually, with the impact ranging from (1%) to (4%) in any given year. Pricing concessions can be a part of a contract renegotiation with a client including terms that may benefit us, such as extending the terms of our relationship with the client, expanding the scope of services that we provide or reducing our dependency on manual processes through the standardization of the services we provide. The timing of the impact of additional revenue generated by such additional services, and the amount of revenue generated, may differ from the impact of pricing concessions on existing services due to the necessary time required to onboard those new services and the nature of those services. These same market pressures also impact the fees we negotiate when we win business from new clients.

Net New Business

Over the five years ended December 31, 2018, net new business, which includes business both won and lost, has affected our servicing fee revenues by approximately 2% on average with a range of 1% to 3% annually. New business can include: custody; product and participant level accounting; daily valuation and administration; record-keeping; cash management; FX, brokerage and other trading services; securities finance; and other services. Revenues associated with new servicing mandates may vary based on the breadth

of services provided, the time required to install the assets, and the types of assets installed.

Management Fee Revenue

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

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

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

In light of the above, we estimate, using relevant information as of March 31, 2019 and assuming that all other factors remain constant, including the impact of business won and lost and client flows, that:

- A 10% increase or decrease in worldwide equity valuations, on a weighted average basis, over the relevant periods for which our management fees are calculated, would result in a corresponding change in our total management fee revenues, on average and over time, of approximately 5%; and
- A 10% increase or decrease in worldwide fixed-income valuations, on a weighted average basis, over the relevant periods for which our management fees are calculated, would result in a corresponding change in our total management fee revenues, on average and over time, of approximately 4%.

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

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

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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 in the first quarters of 2019 and 2018. NII was $673 million in the first quarter of 2019 compared to $643 million in the same period in 2018.

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

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

See Table 5: Average Balances and Interest Rates - Fully Taxable-Equivalent Basis, for the breakout of NII on a FTE basis for the first quarters of 2019 and 2018. NII on a FTE basis increased in the first quarter of 2019 compared to the same period in 2018, primarily due to higher U.S. interest rates and disciplined liability pricing, partially offset by lower average deposit balances.

TABLE 5: AVERAGE BALANCES AND INTEREST RATES - FULLY TAXABLE-EQUIVALENT BASIS[1]

	Three Months Ended March 31,					
	2019			**2018**		
(Dollars in millions; fully taxable-equivalent basis)	**Average Balance**	**Interest Revenue/ Expense**	**Average Rates**	**Average Balance**	**Interest Revenue/ Expense**	**Average Rates**
Interest-bearing deposits with banks	**$48,856**	**$ 119**	**0.99 %**	$51,492	$ 82	0.64 %
Securities purchased under resale agreements[2]	**2,775**	**98**	**14.33**	2,872	77	10.89
Trading account assets	**866**	**—**	**—**	1,138	—	—
Investment securities	**88,273**	**507**	**2.30**	95,362	484	2.03
Loans and leases	**23,056**	**199**	**3.49**	23,959	158	2.68
Other interest-earning assets	**15,286**	**109**	**2.89**	17,733	77	1.78
Average total interest-earning assets	**$179,112**	**$ 1,032**	**2.34**	$192,556	$ 878	1.85
Interest-bearing deposits:						
U.S.	**$64,531**	**$ 132**	**0.83**	$48,638	$ 34	0.28
Non-U.S.[3][4]	**59,775**	**39**	**0.26**	78,582	29	0.15
Total interest-bearing deposits[3][5]	**124,306**	**171**	**0.56**	127,220	63	0.20
Securities sold under repurchase agreements	**1,773**	**12**	**2.66**	2,617	—	—
Other short-term borrowings	**1,157**	**4**	**1.34**	1,255	3	1.09
Long-term debt	**10,955**	**106**	**3.89**	11,412	97	3.37
Other interest-bearing liabilities	**4,642**	**61**	**5.31**	5,260	51	3.87
Average total interest-bearing liabilities	**$142,833**	**$ 354**	**1.00**	$147,764	$ 214	0.59
Interest rate spread			**1.34**			1.26
Net interest income-fully taxable-equivalent basis		**$ 678**			$ 664	
Net interest margin-fully taxable-equivalent basis			**1.54**			1.40
Tax-equivalent adjustment		**(5)**			(21)	
Net interest income-GAAP basis		**$ 673**			$ 643	

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

[2] Reflects the impact of balance sheet netting under enforceable netting agreements of approximately $59.20 billion in the first quarter of 2019 compared to $32.18 billion in the same period in 2018. Excluding the impact of netting, the average interest rates would be approximately 0.64% in the first quarter of 2019 compared to 0.89% in the same period in 2018.

[3] Average rate includes the impact of FX swap costs of approximately $39 million in the first quarter of 2019 compared to $34 million in the same period in 2018. Average rates for total interest-bearing deposits excluding the impact of FX swap costs were 0.43% in the first quarter of 2019 compared to 0.09% in the same period in 2018.

[4] In the first quarter of 2018, approximately $15 million of swap costs were reclassified from processing fees and other revenue within fee revenue to net interest income to conform to current presentation.

[5] Total deposits averaged $155.34 billion in the first quarter of 2019 compared to $165.01 billion in the same period in 2018.

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

Average total interest-earning assets were $179.11 billion in the first quarter of 2019 compared to $192.56 billion in the same period in 2018. The decrease is largely driven by lower average client deposits, which includes both interest-bearing and non-interest-bearing deposits.

Interest-bearing deposits with banks averaged $48.86 billion in the first quarter of 2019 compared to $51.49 billion in the same period in 2018. These deposits primarily reflect our maintenance of cash balances at the Federal Reserve, the European Central Bank (ECB) and other non-U.S. central banks.

Securities purchased under resale agreements averaged $2.78 billion in the first quarter of 2019 compared to $2.87 billion in the same period in 2018. While the on-balance sheet amount has remained stable, the impact of balance sheet netting has increased to $59.20 billion in the first quarter of 2019 compared to $32.18 billion in the same period in 2018. We maintain an agreement with the Fixed Income Clearing Corporation (FICC), a clearing organization that enables us to net all securities sold under repurchase agreements against those purchased under resale agreements with counterparties that are also members of the clearing organization. The increase in balance sheet netting, in the first quarter of 2019 compared to the same period in 2018, is primarily due to the expansion of our program with the FICC and new client activity.

Investment securities averaged $88.27 billion in the first quarter of 2019 compared to $95.36 billion in the same period in 2018. The decrease in average investment securities was primarily driven by our investment repositioning strategy to prioritize capital efficient client lending while managing OCI sensitivity.

Loans and leases averaged $23.06 billion in the first quarter of 2019 compared to $23.96 billion in the same period in 2018.

Average other interest-earning assets, largely associated with our enhanced custody business, decreased to $15.29 billion in the first quarter of 2019 from $17.73 billion in the same period in 2018, primarily driven by a reduction in the level of cash collateral posted. Enhanced custody is our securities financing business where we act as principal with respect to our custody clients and generate securities finance revenue. The NII earned on these transactions is generally lower than the interest earned on other alternative investments.

Aggregate average total interest-bearing deposits decreased to $124.31 billion in the first quarter of 2019 from $127.22 billion in the same period in 2018. Average U.S. interest-bearing deposits increased as a result of a gradual shift from non-interest bearing deposits and a reclassification from non-U.S. into U.S. interest-bearing deposits that occurred in the third quarter of 2018. The overall decrease was primarily driven by lower client deposit levels. Future deposit levels will be influenced by the underlying asset servicing business, client deposit behavior and market conditions, including the general levels of U.S. and non-U.S. interest rates.

Average other short-term borrowings, largely associated with our tax-exempt investment program, decreased to $1.16 billion in the first quarter of 2019 from $1.26 billion in the same period in 2018.

Average long-term debt was $10.96 billion in the first quarter of 2019 compared to $11.41 billion in the same period in 2018. These amounts reflect issuances and maturities of senior debt during the respective periods.

Average other interest-bearing liabilities were $4.64 billion in the first quarter of 2019 compared to $5.26 billion in the same period in 2018. Other interest-bearing liabilities primarily reflect our level of cash collateral received from clients in connection with our enhanced custody business, which is presented on a net basis where we have enforceable netting agreements.

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

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

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

Expenses

Table 6: Expenses, provides the breakout of expenses in the first quarters of 2019 and 2018.

TABLE 6: EXPENSES

	Three Months Ended March 31,		% Change
(Dollars in millions)	2019	2018	
Compensation and employee benefits[1]	**$1,229**	$1,249	(2)%
Information systems and communications	**362**	315	15
Transaction processing services	**242**	254	(5)
Occupancy	**116**	120	(3)
Acquisition costs	**13**	—	nm
Restructuring charges, net	**(4)**	—	nm
Amortization of other intangible assets[1]	**60**	50	20
Other:			
Professional services	**80**	79	1
Regulatory fees and assessments	**18**	27	(33)
Other	**177**	174	2
Total other	**275**	280	(2)
Total expenses[1]	**$2,293**	$2,268	1
Number of employees at quarter-end	**39,969**	37,192	7

(1) CRD contributed approximately $41 million in total expenses in the first quarter of 2019, including approximately $31 million in compensation and employee benefits, and $10 million in other expense lines. In addition, CRD-related expenses in the first quarter of 2019 include $15 million in amortization of other intangible assets.

nm Not meaningful

Compensation and employee benefits expenses decreased 2% in the first quarter of 2019 compared to the same period in 2018, partially due to lower seasonal deferred incentive compensation expenses for retirement eligible employees and related payroll taxes. These seasonal expenses were $137 million in the first quarter of 2019 compared to $148 million in the same period in 2018. The decrease is also a result of lower contractor service costs in the first quarter of 2019 compared to the same period in 2018, and is partially offset by $31 million of CRD compensation and employee benefits expenses in the first quarter of 2019 and annual merit increases.

Headcount increased 7% in the first quarter of 2019 compared to the same period in 2018, primarily driven by growth in our low cost locations and the impact of CRD, partially offset by a reduction in headcount in our high cost locations. Total headcount decreased by approximately 0.5% as of March 31, 2019 compared to December 31, 2018, primarily driven by a reduction in high cost locations headcount.

Information systems and communications expenses increased 15% in the first quarter of 2019 compared to the same period in 2018. The increase was primarily related to technology infrastructure enhancements.

Transaction processing services expenses decreased 5% in the first quarter of 2019 compared to the same period in 2018, due to lower sub-custodian costs.

Occupancy expenses decreased 3% in the first quarter of 2019 compared to the same period in 2018, primarily driven by the advancement of our global footprint strategy.

Amortization of other intangible assets increased 20% in the first quarter of 2019 compared to the same period in 2018, primarily due to the CRD acquisition.

Other expenses decreased 2% in the first quarter of 2019 compared to the same period in 2018, primarily due to lower travel and insurance costs.

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

Acquisition Costs

We recorded approximately $13 million of acquisition costs in the first quarter of 2019 related to our acquisition of CRD. As we integrate CRD into our business, we expect to incur a total of approximately $200 million of acquisition costs, including merger and integration costs, through 2021, out of which $44 million has been incurred as of March 31, 2019.

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

Restructuring and Repositioning Charges

Repositioning Charges

In 2018, we initiated a new expense program to accelerate efforts to become a higher-performing organization and help navigate challenging market and industry conditions. Through our new expense savings program, we expect to realize $350 million in gross expense savings in 2019. In the first quarter of 2019, we achieved approximately $78 million of gross expense savings, including $31 million in resource discipline and $47 million in process re-engineering and automation benefits. Resource discipline benefits can include reducing senior management headcount, rigorous performance management, vendor management and optimization of real estate. Process re-engineering and automation benefits can include high-cost location workforce reductions, reducing manual/bespoke and redundant activities, streamlining operational centers and moving to common platforms/retiring legacy applications.

Beacon

In the first quarter of 2019, we released $4 million of restructuring accruals related to Beacon as the program continues to wind down. We recorded no restructuring charges in the same period in 2018.

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

TABLE 7: RESTRUCTURING AND REPOSITIONING CHARGES

(In millions)	Employee Related Costs	Real Estate Actions	Asset and Other Write-offs	Total
Accrual balance at December 31, 2017	$ 166	$ 32	$ 3	$ 201
Accruals for Beacon	—	—	—	—
Payments and other adjustments	(22)	(4)	—	(26)
Accrual balance at March 31, 2018	$ 144	$ 28	$ 3	$ 175
Accrual balance at December 31, 2018	$ 303	$ 37	$ 1	$ 341
Accruals for Beacon	**(4)**	**—**	**—**	**(4)**
Payments and other adjustments	**(53)**	**(25)**	**—**	**(78)**
Accrual balance at March 31, 2019	**$ 246**	**$ 12**	**$ 1**	**$ 259**

Income Tax Expense

Income tax expense was $127 million in the first quarter of 2019 compared to $129 million in the same period in 2018. Our effective tax rate in the first quarter of 2019 was 20.1% compared to 16.4% in the same period in 2018. The effective tax rate in the first quarter of 2019 included a decrease in excess deductions related to stock based compensation. The effective tax rate in the first quarter of 2018 included one-time benefits related to audit settlements and the realization of a tax loss.

LINE OF BUSINESS INFORMATION

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

Investment Servicing provides services for institutional clients, including mutual funds, collective investment funds and other investment pools, corporate and public retirement plans, insurance companies, investment managers, foundations and endowments worldwide. Products include: custody; product- and participant-level accounting; daily pricing and administration; master trust and master custody; record-keeping; cash management; FX, brokerage and other trading services; securities finance; our enhanced custody product, which integrates principal securities lending and custody; deposit and short-term investment facilities; loans and lease financing; investment manager and alternative investment manager operations outsourcing; and performance, risk and compliance analytics to support institutional

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

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

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

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

Investment Servicing

TABLE 8: INVESTMENT SERVICING LINE OF BUSINESS RESULTS

(Dollars in millions)	Three Months Ended March 31,		
	2019	**2018**	**% Change**
Servicing fees	**$1,251**	$1,421	(12)%
Foreign exchange trading services	**246**	274	(10)
Securities finance	**117**	141	(17)
Processing fees and other[1]	**180**	77	134
Total fee revenue[1]	**1,794**	1,913	(6)
Net interest income	**679**	648	5
Gains (losses) related to investment securities, net	**(1)**	(2)	nm
Total revenue[1]	**2,472**	2,559	(3)
Provision for loan losses	**4**	—	nm
Total expenses	**1,864**	1,870	—
Income before income tax expense	**$604**	$689	(12)
Pre-tax margin	**24%**	27%	

(1) CRD contributed approximately $99 million and $41 million in total revenue and total expenses, respectively, in the first quarter of 2019, including approximately $95 million in processing fees and other revenue and $4 million in brokerage and other trading services within foreign exchange trading services, and expenses contributed approximately $31 million in compensation and employee benefits and $10 million in other expense lines. In addition, CRD-related expenses in the first quarter of 2019 include $15 million in amortization of other intangible assets.

Servicing Fees

Servicing fees decreased 12% in the first quarter of 2019 compared to the same period in 2018, primarily due to challenging industry conditions including fee concessions, lower client activity and flows, weaker average equity market levels and a previously announced client transition, partially offset by new business. Servicing fees, excluding the impact of FX rates, decreased 10% in the first quarter of 2019 compared to the same period in 2018.

Servicing fees generated outside the U.S. were approximately 46% of total servicing fees in the first quarter of both 2019 and 2018.

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

(In billions)	March 31, 2019	December 31, 2018	March 31, 2018
Collective funds	**$9,436**	$ 8,999	$9,908
Mutual funds	**8,586**	7,912	7,503
Insurance and other products	**8,108**	8,220	9,071
Pension products	**6,513**	6,489	6,802
Total	**$32,643**	$ 31,620	$33,284

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

(In billions)	March 31, 2019	December 31, 2018	March 31, 2018
Equities	**$18,924**	$ 18,041	$19,198
Fixed-income	**9,831**	9,758	10,186
Short-term and other investments	**3,888**	3,821	3,900

Total	**$32,643**	$ 31,620	$33,284

TABLE 11: ASSETS UNDER CUSTODY AND/OR ADMINISTRATION BY GEOGRAPHY[1]

(In billions)	**March 31, 2019**	**December 31, 2018**	**March 31, 2018**
Americas	**$23,979**	$ 23,203	$24,336
Europe/Middle East/Africa	**6,875**	6,699	7,211
Asia/Pacific	**1,789**	1,718	1,737
Total	**$32,643**	$ 31,620	$33,284

[1] Geographic mix is generally based on the domicile of the entity servicing the funds and is not necessarily representative of the underlying asset mix.

Asset servicing mandates newly announced in the first quarter of 2019 totaled approximately $120 billion. Servicing assets remaining to be installed in future periods totaled approximately $310 billion as of March 31, 2019, which will be reflected in AUC/A in future periods after installation and will generate servicing fee revenue in subsequent periods. The full revenue impact

of such mandates will be realized over several quarters as the assets are installed and additional services are added over that period.

New asset servicing mandates and servicing assets remaining to be installed in future periods exclude certain new business which has been contracted, but for which the client has not yet provided

permission to publicly disclose and the expected installation date extends beyond one quarter. These excluded assets, which from time to time may be significant, will be included in new asset servicing mandates and reflected in servicing assets remaining to be installed in the period in which the client provides its permission. Servicing mandates and servicing assets remaining to be installed in future periods are presented on a gross basis and therefore also do not include the impact of clients who have notified us during the period of their intent to terminate or reduce their relationship with us, which may from time to time be significant.

With respect to these new servicing mandates, once installed we may provide various services, including, accounting, bank loan servicing, compliance reporting and monitoring, custody, depository banking services, FX, fund administration, hedge fund servicing, middle office outsourcing, performance and analytics, private equity administration, real estate administration, securities finance, transfer agency and wealth management services. Revenues associated with new servicing mandates may vary based on the breadth of services provided and the timing of installation, and the types of assets.

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

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

Foreign Exchange Trading Services

Foreign exchange trading services revenue, as presented in Table 8: Investment Servicing Line of Business Results, decreased 10% in the first quarter of 2019 compared to the same period in 2018, primarily due to lower FX client volumes and market volatility. Foreign exchange trading services is composed of revenue generated by FX trading, as well as revenue generated by brokerage and other trading services. FX trading and brokerage and other trading services represented approximately 57% and 43%, respectively, of our total foreign exchange trading services revenue in the first quarter of 2019, compared to 60% and 40%, respectively, in the same period in 2018.

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

- *Direct sales and trading*: Represent FX transactions at negotiated rates with clients and investment managers that contact our trading desk directly. These principal market-making activities include transactions for funds serviced by third party custodians or prime brokers, as well as those funds under custody with us.
- *Indirect FX trading*: Represent FX transactions with clients or their investment managers routed to our FX desk through our asset-servicing operation, and to all of which, we are the funds' custodian. We execute indirect FX trades as a principal at rates disclosed to our clients.

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

Our clients that utilize indirect FX trading can, in addition to executing their FX transactions through dealers not affiliated with us, transition from indirect FX trading to either direct sales and trading execution,

including our “Street FX” service, or to one of our electronic trading platforms. Street FX, in which we continue to act as a principal market-maker, enables our clients to define their FX execution strategy and automate the FX trade execution process, both for funds under custody with us as well as those under custody at another bank.

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

- Electronic FX services: Our clients may choose to execute FX transactions through one of our electronic trading platforms. These transactions generate revenue through a “click” fee.
- Other trading, transition management and brokerage revenue: As our clients look to us to enhance and preserve portfolio values, they may choose to utilize our Transition or Currency Management capabilities or transact with our Equity Trade execution group. These transactions generate revenue via commissions charged for trades transacted during the management of these portfolios.

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Our transition management revenue has been adversely affected by compliance issues in our U.K. business during 2010 and 2011, including settlements with the U.K. Financial Conduct Authority in 2014 and the DOJ and SEC in 2017, including a deferred prosecution agreement. The reputational and regulatory impact of those compliance issues continues and may continue to adversely affect our results in future periods.

Securities Finance

Our securities finance business consists of three components:
(1) an agency lending program for State Street Global Advisors managed investment funds with a broad range of investment objectives, which we refer to as the State Street Global Advisors lending funds;
(2) an agency lending program for third-party investment managers and asset owners, which we refer to as the agency lending funds; and
(3) security lending transactions which we enter into as principal, which we refer to as our enhanced custody business.

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

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

Securities finance revenue, as presented in Table 8: Investment Servicing Line of Business Results, decreased 17% in the first quarter of 2019 compared to the same period in 2018, primarily due to balance sheet repositioning efforts in the second half of 2018 within our enhanced custody business and lower client activity.

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

revised or proposed capital and liquidity standards, interpretations of those standards, and our own balance sheet management activities, may influence modifications to the way in which we deliver our agency lending or enhanced custody businesses, the volume of our securities lending activity and related revenue and profitability in future periods.

Processing Fees and Other

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

Processing fees and other revenue, presented in Table 8: Investment Servicing Line of Business Results, increased 134% in the first quarter of 2019 compared to the same period in 2018, and reflects approximately $95 million from CRD in the first quarter of 2019. Revenue related to the front office solutions provided by CRD is primarily driven by the sale of term software licenses and software as a service arrangement inclusive of professional services such as consulting and implementation services, software

support and maintenance.

Expenses

Total expenses for Investment Servicing were flat in the first quarter of 2019 compared to the same period in 2018, primarily due to $41 million of expenses from CRD, higher technology costs and higher investments to support new business, offset by benefits of our previously announced expense savings initiative and lower seasonal deferred incentive compensation. In addition, CRD-related expenses in the first quarter of 2019 include $15 million in amortization of other intangible assets. Seasonal deferred incentive compensation expense and payroll taxes was $116 million in the first quarter of 2019 compared to $132 million in the same period in 2018.

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

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

Investment Management

TABLE 12: INVESTMENT MANAGEMENT LINE OF BUSINESS RESULTS

(Dollars in millions)	Three Months Ended March 31,		% Change
	2019	2018	
Management fees	**$420**	$472	(11)%
Foreign exchange trading services[1]	**34**	30	13
Securities finance	**1**	—	nm
Processing fees and other	**11**	—	nm
Total fee revenue	**466**	502	(7)
Net interest income	**(6)**	(5)	20
Total revenue	**460**	497	(7)
Total expenses	**406**	398	2
Income before income tax expense	**$54**	$99	(45)
Pre-tax margin	**12%**	20%	

[1] Includes revenues from distributing and marketing activities for U.S. mutual funds and ETFs associated with State Street Global Advisors.
nm Not meaningful

Management Fees

Management fees decreased 11% in the first quarter of 2019 compared to the same period in 2018, reflecting product mix and weaker average equity market levels.

Management fees generated outside the U.S. were approximately 27% of total management fees in the first quarter of both 2019 and 2018.

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

(In billions)	March 31, 2019	December 31, 2018	March 31, 2018
Equity:			
Active	**$85**	$ 80	$94
Passive	**1,696**	1,464	1,576
Total Equity	**1,781**	1,544	1,670
Fixed-Income:			
Active	**88**	81	79
Passive	**341**	341	354
Total Fixed-Income	**429**	422	433
Cash[1]	**314**	287	336
Multi-Asset-Class Solutions:			
Active	**22**	19	18
Passive	**125**	113	128
Total Multi-Asset-Class Solutions	**147**	132	146
Alternative Investments[2]:			
Active	**21**	21	23
Passive	**113**	105	121
Total Alternative Investments	**134**	126	144
Total	**$2,805**	$ 2,511	$2,729

(1) Includes both floating- and constant-net-asset-value portfolios held in commingled structures or separate accounts.
(2) Includes real estate investment trusts, currency and commodities, including SPDR® Gold Shares ETF and SPDR® Long Dollar Gold Trust ETF. We are not the investment manager for the SPDR® Gold Shares ETF and SPDR® Long Dollar Gold Trust ETF, but act as the marketing agent.

TABLE 14: EXCHANGE-TRADED FUNDS BY ASSET CLASS[1]

(In billions)	**March 31, 2019**	**December 31, 2018**	**March 31, 2018**
Alternative Investments[2]	**$ 45**	$ 43	$ 48
Cash	**8**	9	3
Equity	**535**	482	513
Fixed-Income	**73**	66	65
Total Exchange-Traded Funds	**$ 661**	$ 600	$ 629

(1) ETFs are a component of AUM presented in the preceding table.
(2) Includes real estate investment trusts, currency and commodities, including SPDR® Gold Shares ETF and SPDR® Long Dollar Gold Trust ETF. We are not the investment manager for the SPDR® Gold Shares ETF and SPDR® Long Dollar Gold Trust ETF, but act as the marketing agent.

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

TABLE 15: GEOGRAPHIC MIX OF ASSETS UNDER MANAGEMENT(1)

(In billions)	March 31, 2019	December 31, 2018	March 31, 2018
North America	**$1,899**	$ 1,731	$1,885
Europe/Middle East/Africa	**447**	421	511
Asia/Pacific	**459**	359	333
Total	**$2,805**	$ 2,511	$2,729

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

TABLE 16: ACTIVITY IN ASSETS UNDER MANAGEMENT BY PRODUCT CATEGORY

(In billions)	Equity	Fixed-Income	Cash(1)	Multi-Asset-Class Solutions	Alternative Investments(2)	Total
Balance as of December 31, 2017	$1,745	$ 414	$ 330	$ 147	$ 146	$2,782
Long-term institutional flows, net(3)	(45)	12	—	(3)	(2)	(38)
Exchange-Traded Fund flows, net	(3)	7	6	—	(2)	8
Cash fund flows, net	—	—	(50)	—	—	(50)
Total flows, net	(48)	19	(44)	(3)	(4)	(80)
Market appreciation (depreciation)	(142)	(7)	3	(10)	(10)	(166)
Foreign exchange impact	(11)	(4)	(2)	(2)	(6)	(25)
Total market/foreign exchange impact	(153)	(11)	1	(12)	(16)	(191)
Balance as of December 31, 2018	$1,544	$ 422	$ 287	$ 132	$ 126	$2,511
Long-term institutional flows, net(3)	**53**	**(9)**	**1**	**5**	**2**	**52**
Exchange-Traded Fund flows, net	**(6)**	**4**	**(1)**	**—**	**—**	**(3)**
Cash fund flows, net	**—**	**—**	**24**	**—**	**—**	**24**
Total flows, net	**47**	**(5)**	**24**	**5**	**2**	**73**
Market appreciation (depreciation)	**191**	**13**	**3**	**10**	**6**	**223**
Foreign exchange impact	**(1)**	**(1)**	**—**	**—**	**—**	**(2)**
Total market/foreign exchange impact	**190**	**12**	**3**	**10**	**6**	**221**
Balance as of March 31, 2019	**$1,781**	**$ 429**	**$ 314**	**$ 147**	**$ 134**	**$2,805**

(1) Includes both floating- and constant-net-asset-value portfolios held in commingled structures or separate accounts.
(2) Includes real estate investment trusts, currency and commodities, including SPDR® Gold Shares ETF and SPDR® Long Dollar Gold Trust ETF. We are not the investment manager for the SPDR® Gold Shares ETF and SPDR® Long Dollar Gold Trust ETF, but act as the marketing agent.
(3) Amounts represent long-term portfolios, excluding ETFs.

The preceding table does not include approximately $25 billion of new asset management business which was awarded but not installed as of March 31, 2019. New business will be reflected in AUM in future periods after installation, and will generate management fee revenue in subsequent periods. Total AUM as of March 31, 2019 included managed assets lost but not liquidated. Lost business occurs from time to time and it is difficult to predict the timing of client behavior in transitioning these assets as the timing can vary significantly.

Expenses

Total expenses for Investment Management increased 2% in the first quarter of 2019 compared to the same period in 2018, primarily due to annual merit increases and seasonal deferred incentive compensation. Seasonal deferred incentive compensation expense and payroll taxes was $21 million in the

first quarter of 2019 compared to $16 million in the same period in 2018.
Additional information about expenses is provided under "Expenses" in "Consolidated Results of Operations" included in this Management's Discussion and Analysis.

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

FINANCIAL CONDITION

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

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

TABLE 17: AVERAGE STATEMENT OF CONDITION[(1)]

(In millions)	Three Months Ended March 31, 2019	2018
Assets:		
Interest-bearing deposits with banks	**$48,856**	$51,492
Securities purchased under resale agreements	**2,775**	2,872
Trading account assets	**866**	1,138
U.S. Treasury and federal agencies:		
Direct obligations	**15,427**	17,183
Mortgage-and asset-backed securities	**39,216**	28,307
State and political subdivisions	**1,914**	8,622
Other investments:		
Asset-backed securities	**9,078**	19,543
Collateralized mortgage-backed securities and obligations	**980**	2,088
Other debt investments and equity securities	**21,658**	19,619
Total Investment securities	**88,273**	95,362
Loans and leases	**23,056**	23,959
Other interest-earning assets	**15,286**	17,733
Average total interest-earning assets	**179,112**	192,556
Cash and due from banks	**3,078**	3,081
Other non-interest-earning assets	**37,370**	31,233
Average total assets	**$219,560**	$226,870
Liabilities and shareholders' equity:		
Interest-bearing deposits:		
U.S.	**$64,531**	$48,638
Non-U.S.	**59,775**	78,582

Total interest-bearing deposits[2]	**124,306**	127,220
Securities sold under repurchase agreements	**1,773**	2,617
Other short-term borrowings	**1,157**	1,255
Long-term debt	**10,955**	11,412
Other interest-bearing liabilities	**4,642**	5,260
Average total interest-bearing liabilities	**142,833**	147,764
Non-interest-bearing deposits[2]	**31,037**	37,790
Other non-interest-bearing liabilities	**20,921**	18,942
Preferred shareholders’ equity	**3,690**	3,197
Common shareholders’ equity	**21,079**	19,177
Average total liabilities and shareholders’ equity	**$219,560**	$226,870

[1] Additional information about our average statement of condition, primarily our interest-earning assets and interest-bearing liabilities, is provided in "Net Interest Income" included in this Management's Discussion and Analysis.
[2] Total deposits averaged $155.34 billion in the first quarter of 2019 compared to $165.01 billion in the same period in 2018.

Investment Securities

TABLE 18: CARRYING VALUES OF INVESTMENT SECURITIES

(In millions)	March 31, 2019	December 31, 2018
Available-for-sale:		
U.S. Treasury and federal agencies:		
Direct obligations	**$1,041**	$ 1,039
Mortgage-backed securities	**20,043**	15,968
Total U.S. Treasury and federal agencies	**21,084**	17,007
Asset-backed securities:		
Student loans[1]	**481**	541
Credit cards	**586**	583
Other	**886**	593
Total asset-backed securities	**1,953**	1,717
Non-U.S. debt securities:		
Mortgage-backed securities	**1,517**	1,682
Asset-backed securities	**1,511**	1,574
Government securities	**12,572**	12,793
Other	**6,576**	6,602
Total non-U.S. debt securities	**22,176**	22,651
State and political subdivisions	**1,940**	1,918
Collateralized mortgage obligations	**129**	197
Other U.S. debt securities	**1,720**	1,658
Total	**$49,002**	$ 45,148
Held-to-maturity[2]:		
U.S. Treasury and federal agencies:		
Direct obligations	**$13,369**	$ 14,794
Mortgage-backed securities	**22,568**	21,647
Total U.S. Treasury and federal agencies	**35,937**	36,441
Asset-backed securities:		
Student loans[1]	**3,286**	3,191
Credit cards	**—**	193
Other	**1**	1
Total asset-backed securities	**3,287**	3,385
Non-U.S. debt securities:		
Mortgage-backed securities	**575**	638
Asset-backed securities	**98**	223
Government securities	**399**	358
Other	**44**	46
Total non-U.S. debt securities	**1,116**	1,265
Collateralized mortgage obligations	**805**	823
Total	**$41,145**	$ 41,914

[1] Primarily comprised of securities guaranteed by the federal government with respect to at least 97% of defaulted principal and accrued interest on the underlying loans.
[2] Includes securities at amortized cost or fair value on the date of transfer from AFS.

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

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

Average duration of our investment securities portfolio was 2.8 years and 3.1 years as of March 31, 2019 and December 31, 2018, respectively. The decrease in securities duration reflects reinvestment into shorter duration securities and lower long-end U.S. interest rates.

Approximately 91% and 90% of the carrying value of the portfolio was rated “AAA” or “AA” as of March 31, 2019 and December 31, 2018, respectively.

TABLE 19: INVESTMENT PORTFOLIO BY EXTERNAL CREDIT RATING

	March 31, 2019	December 31, 2018
AAA[1]	**78 %**	76 %
AA	**13**	14
A	**5**	5
BBB	**4**	5
Below BBB	**—**	—
	100 %	100 %

[1] Includes U.S. Treasury and federal agency securities that are split-rated, “AAA” by Moody’s Investors Service and “AA+” by Standard & Poor’s and also includes Agency MBS securities which are not explicitly rated but which have an explicit or assumed guarantee from the U.S. government.

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

TABLE 20: INVESTMENT PORTFOLIO BY ASSET CLASS

	March 31, 2019	December 31, 2018
U.S. Agency Mortgage-backed securities	**44 %**	40 %
Foreign Sovereign	**18**	19
U.S. Treasuries	**16**	18
Asset-backed securities	**10**	11
Other Credit	**12**	12
	100 %	100 %

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MANAGEMENT'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 March 31, 2019, compared to approximately 27% as of December 31, 2018.

TABLE 21: NON-U.S. DEBT SECURITIES

(In millions)	March 31, 2019	December 31, 2018
Available-for-sale:		
Australia	**$2,533**	$ 2,847
United Kingdom	**2,488**	2,580
Canada	**2,188**	2,185
France	**1,837**	1,875
Germany	**1,606**	1,547
Spain	**1,481**	1,504
Japan	**1,342**	1,352
Austria	**1,323**	1,312
Ireland	**1,285**	1,301
European[1]	**1,151**	1,087
Netherlands	**1,108**	1,116
Italy	**952**	1,010
Belgium	**944**	952
Finland	**777**	789
Asian[1]	**338**	338
Hong Kong	**309**	458
Sweden	**189**	186
Brazil	**90**	—
Norway	**50**	94
Other[2]	**185**	118
Total	**$22,176**	$ 22,651
Held-to-maturity:		
Singapore	**$285**	$ 242
United Kingdom	**234**	363
Australia	**153**	158
Netherlands	**140**	187
Germany	**113**	115
Spain	**89**	92
Other[3]	**102**	108
Total	**$1,116**	$ 1,265

[1] Consists entirely of supranational bonds.

[2] Included approximately $145 million and $78 million as of March 31, 2019 and December 31, 2018, respectively, related to supranational bonds.

[3] Included approximately $58 million and $61 million as of March 31, 2019 and December 31, 2018, respectively, related to Italy and Portugal, all of which were related to MBS.

Approximately 73% and 74% of the aggregate carrying value of these non-U.S. debt securities was rated "AAA" or "AA" as of March 31, 2019 and December 31, 2018, respectively. The majority of these securities comprised senior positions within the security structures; these positions have a level of protection provided through subordination and other forms of credit protection. As of March 31, 2019 and December 31, 2018,

approximately 28% and 31%, respectively, of the aggregate carrying value of these non-U.S. debt securities was floating-rate.
As of March 31, 2019, our non-U.S. debt securities had an average market-to-book ratio of 100.9%, and an aggregate pre-tax net unrealized gain of $205 million, composed of gross unrealized gains of $240 million and

gross unrealized losses of $35 million. These unrealized amounts included:
- a pre-tax net unrealized loss of $130 million, composed of gross unrealized gains of $157 million and gross unrealized losses of $27 million, associated with non-U.S. AFS debt securities; and
- a pre-tax net unrealized gain of $75 million, composed of gross unrealized gains of $83 million and gross unrealized losses of $8 million, associated with non-U.S. HTM debt securities.

As of March 31, 2019, the underlying collateral for non-U.S. MBS and ABS primarily included U.K., Australian, Italian and Dutch mortgages as well as U.K., German and Spanish consumer ABS. The securities listed under “Canada” were composed of Canadian government securities and corporate debt and covered bonds. The securities listed under “France” were composed of sovereign bonds and corporate debt and covered bonds. The securities listed under “Japan” were substantially composed of Japanese government securities.

Municipal Obligations

We carried approximately $1.94 billion of municipal securities classified as state and political subdivisions in our investment securities portfolio as of March 31, 2019 as shown in Table 18: Carrying Values of Investment Securities, all of which were classified as AFS. As of March 31, 2019, we also provided approximately $9.25 billion of credit and liquidity facilities to municipal issuers.

TABLE 22: STATE AND MUNICIPAL OBLIGORS[1]

(Dollars in millions)	Total Municipal Securities	Credit and Liquidity Facilities[2]	Total	% of Total Municipal Exposure
March 31, 2019				
State of Issuer:				
Texas	**$ 299**	**$ 2,467**	**$2,766**	**25 %**
California	**115**	**1,693**	**1,808**	**16**
New York	**283**	**1,518**	**1,801**	**16**
Massachusetts	**465**	**778**	**1,243**	**11**
Tennessee	**7**	**502**	**509**	**5**
Total	**$ 1,169**	**$ 6,958**	**$8,127**	
December 31, 2018				
State of Issuer:				
Texas	$ 315	$ 2,467	$2,782	25 %
California	108	1,693	1,801	16
New York	231	1,518	1,749	15
Massachusetts	467	978	1,445	13
Total	$ 1,121	$ 6,656	$7,777	

(1) Represented 5% or more of our aggregate municipal credit exposure of approximately $11.19 billion and $11.35 billion across our businesses as of March 31, 2019 and December 31, 2018, respectively.
(2) Includes municipal loans which are also presented within Table 23: U.S. and Non-U.S. Loans and Leases.

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Our aggregate municipal securities exposure presented in Table 22: State and Municipal Obligors, was concentrated primarily with highly-rated counterparties, with approximately 81% of the obligors rated "AAA" or "AA" as of March 31, 2019. As of that date, approximately 22% and 78% of our aggregate municipal securities exposure was associated with general obligation and revenue bonds, respectively. The portfolios are also diversified geographically, with the states that represent our largest exposures widely dispersed across the U.S.

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

Impairment

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

We conduct periodic reviews of individual securities to assess whether OTTI exists. Our assessment of OTTI involves an evaluation of economic and security-specific factors. Such factors are based on estimates, derived by management, which contemplate current market conditions and security-specific performance. To the extent that market conditions are worse than management's expectations or due to idiosyncratic bond performance, OTTI could increase, in particular the credit-related component that would be recorded in our consolidated statement of income. Additional information with respect to OTTI, net impairment losses and gross unrealized losses is provided in Note 3 to the consolidated financial statements in this Form 10-Q.

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

Loans and Leases

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

(In millions)	March 31, 2019	December 31, 2018
Domestic:		
Commercial and financial	**$16,451**	$ 19,479
Commercial real estate	**976**	874
Total domestic	**17,427**	20,353
Non-U.S.:		
Commercial and financial	**5,954**	5,436
Total loans and leases	**$23,381**	$ 25,789

The decrease in loans in the domestic commercial and financial segment as of March 31, 2019 compared to December 31, 2018 was primarily driven by lower levels of client overdrafts.

As of March 31, 2019 and December 31, 2018, our investment in senior secured loans totaled approximately $4.5 billion and $4.4 billion, respectively. In addition, we had binding unfunded commitments as of March 31, 2019 and December 31, 2018 of $114 million and $238 million, respectively, to participate in such syndications. The decrease in unfunded commitments is due to lower activity in the leveraged loans market in the first quarter of 2019 compared to the fourth quarter of 2018. Unfunded commitments as of

December 31, 2018 settled in the first quarter of 2019 and are now funded commitments. Additional information about these unfunded commitments is provided in Note 9 to the consolidated financial statements in this Form 10-Q.

These senior secured loans, which are primarily rated “speculative” under our internal risk-rating framework (refer to Note 4 to the consolidated financial statements in this Form 10-Q), are externally rated “BBB,” “BB” or “B,” with approximately 88% and 90% of the loans rated “BB” or “B” as of March 31, 2019 and December 31, 2018, respectively. Our investment strategy involves generally limiting our investment to larger, more liquid credits underwritten by major global financial institutions, applying our internal credit analysis process to each potential investment and diversifying our exposure by counterparty and industry segment. However, these loans have significant exposure to credit losses relative to higher-rated loans in our portfolio.

Loans to municipalities included in the commercial and financial segment were $0.97 billion and $0.90 billion as of March 31, 2019 and December 31, 2018, respectively.

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

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

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TABLE 24: ALLOWANCE FOR LOAN AND LEASE LOSSES

	Three Months Ended March 31,	
(In millions)	2019	2018
Allowance for loan and lease losses:		
Beginning balance	**$ 67**	$ 54
Provision for loan and lease losses[1]	**4**	—
Other[2]	**(1)**	—
Ending balance	**$ 70**	$ 54

[1] The provision for loan and lease losses is primarily related to commercial and financial loans.
[2] Consists primarily of FX translation.

We recorded a provision for loan losses of $4 million in the first quarter of 2019 compared to less than $1 million provision for loan losses recorded in the same period in 2018. The increase was primarily due to a higher volume of loans to non-investment grade borrowers composed of senior secured loans that we purchased in connection with our participation in loan syndications in the non-investment grade lending market.

In the first quarter of 2019, approximately $62 million of our ALLL was related to senior secured loans included in the commercial and financial segment compared to $46 million in the same period in 2018. As this portfolio grows and matures, our ALLL related to these loans may increase through additional provisions for credit losses. The remaining $8 million in both the first quarter of 2019 and 2018 was related to other components of commercial and financial loans.

Cross-Border Outstandings

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

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

increased counterparty risk, leading to negative ratings volatility.

The cross-border outstandings presented in Table 25: Cross-Border Outstandings, represented approximately 28% of our consolidated total assets as of both March 31, 2019 and December 31, 2018.

TABLE 25: CROSS-BORDER OUTSTANDINGS[1]

(In millions)	Investment Securities and Other Assets	Derivatives and Securities on Loan	Total Cross-Border Outstandings
March 31, 2019			
Germany	**$ 18,962**	**$ 441**	**$ 19,403**

Japan	**12,444**	**1,384**	**13,828**
United Kingdom	**11,750**	**1,057**	**12,807**
Australia	**4,072**	**512**	**4,584**
Luxembourg	**2,420**	**1,299**	**3,719**
Canada	**2,612**	**606**	**3,218**
Ireland	**1,878**	**1,193**	**3,071**
France	**2,479**	**352**	**2,831**
December 31, 2018			
Germany	$ 20,157	$ 489	$ 20,646
Japan	13,985	1,084	15,069
United Kingdom	12,623	1,176	13,799
Australia	4,217	1,349	5,566
Canada	3,010	1,507	4,517
Ireland	2,019	809	2,828
France	2,495	294	2,789
Luxembourg	2,033	710	2,743

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

As of March 31, 2019, aggregate cross-border outstandings in Switzerland amounted to between 0.75% and 1% of our consolidated assets, at approximately $1.85 billion. As of December 31, 2018, there were no countries whose aggregate cross-border outstandings amounted to between 0.75% and 1% of our consolidated assets.

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

Risk Management

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

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

Many of these risks, as well as certain of the factors underlying each of these risks that could affect our businesses and our consolidated financial statements, are discussed in detail on pages 17 to 46 included under Item 1A, Risk Factors, in our 2018 Form 10-K.

For additional information about our risk management, including our risk appetite framework and risk governance committee structure, refer to pages 79 to 83 included under Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, "Risk Management Framework" in our 2018 Form 10-K.

Credit Risk Management

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

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

for credit losses, refer to pages 83 to 88 included under Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, "Risk Management Framework", in our 2018 Form 10-K.

Liquidity Risk Management

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

We manage our liquidity on a global, consolidated basis. We also manage liquidity on a stand-alone basis at the Parent Company, as well as at certain branches and subsidiaries of State Street Bank. State Street

Bank generally has access to markets and funding sources limited to banks, such as the federal funds market and the Federal Reserve's discount window. The Parent Company is managed to a more conservative liquidity profile, reflecting narrower market access. Additionally, the Parent Company typically holds, or has direct access to, primarily through State Street Intermediate Funding, LLC (SSIF), a direct subsidiary of the Parent Company, and the support agreement, as discussed in the "Uses of Liquidity" section of this Management's Discussion and Analysis, enough cash to meet its current debt maturities and cash needs, as well as those projected over the next one-year period. Reference our SPOE Strategy as discussed in the "Uses of Liquidity" section of this Management's Discussion and Analysis. Absent financial distress at the Parent Company, the liquid assets available at SSIF continue to be available to the Parent Company. As of March 31, 2019, the Parent Company and State Street Bank had no senior notes or subordinated debentures outstanding that will mature in the next twelve months.

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

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

For additional information on our liquidity risk management, as well as liquidity risk metrics, refer to pages 88 to 92 included under Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operation, in our 2018 Form 10-K. For additional information on our liquidity ratios, including LCR and the net stable funding ratio, refer to pages 7 to 8 included under Item 1, Business, in our 2018 Form 10-K.

Asset Liquidity

Central to the management of our liquidity is asset liquidity, which consists primarily of unencumbered highly liquid securities, cash and cash equivalents reported on our consolidated statement of condition. We restrict the eligibility of securities to be characterized as asset liquidity to U.S. Government and federal agency securities (including MBS), securities of selected non-U.S. Governments and supranational organizations as well as certain other high-quality securities which generally are more liquid than other types of assets even in times of stress. As a banking organization, we are subject to a minimum LCR under the LCR rule approved by U.S. banking regulators. The LCR is intended to promote the short-term resilience of internationally active banking organizations, like us, to improve the banking industry's ability to absorb shocks arising from market stress over a 30 calendar day period and improve the measurement and management of liquidity risk. The LCR measures an institution's HQLA against its net cash outflows. HQLA primarily consists of unencumbered cash and certain high quality liquid securities that qualify for inclusion under the LCR rule. The LCR was fully implemented beginning on January 1, 2017. We report LCR to the Federal Reserve daily. For the quarters ended March 31, 2019 and December 31, 2018, daily average LCR for the Parent Company was 110% and 108%, respectively. The average HQLA for the Parent Company under the LCR final rule was $93.50 billion and $91.67 billion, post-prescribed haircuts, for the quarters ended March 31, 2019 and December 31, 2018, respectively.

We maintained average cash balances in excess of regulatory requirements governing deposits with the Federal Reserve of approximately $39.26 billion at the Federal Reserve, the ECB and other non-U.S. central banks for the quarter ended March 31, 2019, compared to $44.17 billion for the quarter ended December 31,

2018. The lower levels of average cash balances with central banks reflect levels of client deposits.

Liquid securities carried in our asset liquidity include securities pledged without corresponding advances from the Federal Reserve Bank of Boston (FRBB), the FHLB and other non-U.S. central banks. State Street Bank is a member of the FHLB. This membership allows for advances of liquidity in varying terms against high-quality collateral, which helps facilitate asset-and-liability management. As of March 31, 2019, we had no outstanding borrowings from the FHLB. As of December 31, 2018, we had approximately $2 billion of outstanding borrowings from the FHLB.

Access to primary, intra-day and contingent liquidity provided by these utilities is an important source of contingent liquidity with utilization subject to underlying conditions. As of March 31, 2019 and December 31, 2018, we had no outstanding primary credit borrowings from the FRBB discount window or any other central bank facility.

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

The average fair value of total unencumbered securities was $70.17 billion for the quarter ended March 31, 2019 compared to $65.94 billion for the quarter ended December 31, 2018.

Uses of Liquidity

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

We had unfunded commitments to extend credit with gross contractual amounts totaling $29.95 billion and $28.95 billion and standby letters of credit totaling $2.97 billion and $2.99 billion as of March 31, 2019 and December 31, 2018, respectively. These amounts do not reflect the value of any collateral. As of March 31, 2019, approximately 75% of our unfunded commitments to extend credit and 29% of our standby letters of credit expire within one year. Since many of our commitments are expected to expire or renew without being drawn upon, the gross contractual amounts do not necessarily represent our future cash requirements.

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

Resolution Planning
State Street, like other bank holding companies with total consolidated assets of $50 billion or more, periodically submits a plan for rapid and orderly resolution in the event of material financial distress or failure, commonly referred to as a resolution plan or a living will, to the Federal Reserve and the FDIC under Section 165(d) of the Dodd-Frank Act. Through resolution planning, we seek, in the event of our insolvency, to maintain State Street Bank's role as a key infrastructure provider within the financial system, while minimizing risk to the financial system and maximizing value for the benefit of our stakeholders. We have and will continue to focus management attention and resources to meet regulatory expectations with respect to resolution planning.
We submitted our 2017 resolution plan describing our preferred resolution strategy to the Federal Reserve and FDIC on June 30, 2017. Subsequently, the Federal Reserve and FDIC extended the next resolution plan filing deadline for eight large domestic banks, including us, to July 1, 2019. The agencies completed their review of our 2017 165(d) resolution plan in December 2017 and found no deficiencies or shortcomings in the plan.
In the event of material financial distress or failure, our preferred resolution strategy is the SPOE Strategy. For additional information about the SPOE Strategy, refer to pages 11 and 12 included under Item 1, Business, in our 2018 Form 10-K. The SPOE Strategy provides that prior to the bankruptcy of the Parent Company and pursuant to a support agreement among the Parent Company, SSIF, our Beneficiary Entities (as defined below) and certain other of our entities, SSIF is obligated, up to its available resources, to recapitalize and/or provide liquidity to State Street Bank and our other entities benefiting from such capital and/or liquidity (collectively with State Street Bank, "Beneficiary Entities"), in amounts designed to prevent the Beneficiary Entities from themselves entering into resolution proceedings. Following the recapitalization of, or provision of liquidity to the Beneficiary Entities, the Parent Company would enter into a bankruptcy proceeding under the U.S. Bankruptcy Code. The Beneficiary Entities and our subsidiaries would be transferred to a newly organized holding company held by a reorganization trust for the benefit of the Parent Company's claimants.
Under the support agreement, the Parent Company has pre-funded SSIF by contributing certain of its assets (primarily its liquid assets, cash deposits, debt investments, investments in marketable securities and other cash and non-cash equivalent investments) to SSIF contemporaneous with entering into the support agreement and will continue to contribute such assets, to the extent available, on an on-going basis. In consideration for these contributions, SSIF has agreed

in the support agreement to provide capital and liquidity support to the Parent Company and all of the Beneficiary Entities in accordance with the Parent Company's capital and liquidity policies. Under the support agreement, the Parent Company is only permitted to retain certain amounts of cash needed to meet its upcoming obligations and to fund expenses during a potential bankruptcy proceeding. SSIF has provided the Parent Company with a committed credit line and issued (and may issue) one or more promissory notes to the Parent Company (the "Parent Company Funding Notes") that together are intended to allow us to continue to meet our obligations throughout the period prior to the occurrence of a "Recapitalization Event" (as defined below). The support agreement does not contemplate that SSIF is obligated to maintain any specific level of resources and SSIF may not have sufficient resources to implement the SPOE Strategy.
In the event a Recapitalization Event occurs, the obligations outstanding under the Parent Company Funding Notes would automatically convert into or be exchanged for capital contributed to SSIF. The obligations of the Parent Company and SSIF under the support agreement are secured through a security agreement that grants a lien on the assets that the Parent Company and SSIF would use to fulfill their

obligations under the support agreement to the Beneficiary Entities. SSIF is a distinct legal entity separate from the Parent Company and the Parent Company's other affiliates.

In accordance with its policies, we are required to monitor, on an ongoing basis, the capital and liquidity needs of State Street Bank and the other Beneficiary Entities. To support this process, we have established a trigger framework that identifies key actions that would need to be taken or decisions that would need to be made if certain events tied to our financial condition occur. In the event that we experience material financial distress, the support agreement requires us to model and calculate certain capital and liquidity triggers on a regular basis to determine whether or not the Parent Company should commence preparations for a bankruptcy filing and whether or not a Recapitalization Event has occurred.

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

creditor's perspective or determining whether to enter into a contractual relationship with any of our entities, on any of our affiliates being or remaining a Beneficiary Entity or receiving capital or liquidity support pursuant to the support agreement.

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

There can be no assurance that credit rating agencies, in response to our 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 Insured Depository Institution (IDI) plan. We filed our most recent IDI plan on June 28, 2018.

Funding

Deposits

We provide products and services including custody, accounting, administration, daily pricing, FX services, cash management, financial asset management, securities finance and investment advisory services. As a provider of these products and services, we generate client deposits, which have generally provided a stable, low-cost source of funds. As a global custodian, clients place deposits with our

entities in various currencies. As of both March 31, 2019 and December 31, 2018, approximately 60% of our average total deposit balances were denominated in U.S. dollars, approximately 20% in EUR, 10% in GBP and 10% in all other currencies.

Short-Term Funding

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

Short-term secured funding also comes in the form of securities lent or sold under agreements to repurchase. These transactions are short-term in nature, generally overnight and are collateralized by high-quality investment securities. These balances were $1.42 billion and $1.08 billion as of March 31, 2019 and December 31, 2018, respectively.

State Street Bank currently maintains a line of credit with a financial institution of CAD 1.40 billion, or approximately $1.05 billion, as of March 31, 2019, to support its Canadian securities processing operations. The line of credit has no stated termination date and is cancelable by either party with prior notice. As of both March 31, 2019 and December 31, 2018, there was no balance outstanding on this line of credit.

Long-Term Funding

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

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Agency Credit Ratings

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

- diverse and stable core earnings;
- relative market position;
- strong risk management;
- strong capital ratios;
- diverse liquidity sources, including the global capital markets and client deposits;
- strong liquidity monitoring procedures; and
- preparedness for current or future regulatory developments.

High ratings limit borrowing costs and enhance our liquidity by:

- providing assurance for unsecured funding and depositors;
- increasing the potential market for our debt and improving our ability to offer products;
- serving markets; and
- engaging in transactions in which clients value high credit ratings.

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

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

Operational Risk Management

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

For additional information about our operational risk framework, refer to pages 93 to 96 included under Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, "Risk Management Framework", in our 2018 Form 10-K.

Information Technology Risk Management

We define information technology risk as the risk associated with the use, ownership, operation, involvement, influence and adoption of information technology. Information technology risk includes risks

potentially triggered by technology non-compliance with regulatory obligations, information security and privacy incidents, business disruption, technology internal control and process gaps, technology operational events and adoption of new business technologies.
For additional information about our information technology risk framework, refer to pages 96 to 97 included under Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, "Risk Management" in our 2018 Form 10-K.

Market Risk Management

Market risk is defined by U.S. banking regulators as the risk of loss that could result from broad market movements, such as changes in the general level of interest rates, credit spreads, FX rates or commodity prices. We are exposed to market risk in both our trading and certain of our non-trading, or asset-and-liability management, activities.
Information about the market risk associated with our trading activities is provided below under “Trading Activities.” Information about the market risk associated with our non-trading activities, which consists primarily of interest-rate risk, is provided below under “Asset-and-Liability Management Activities.”

Trading Activities

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

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For additional information about the market risk associated with our trading activities, refer to pages 97 to 98 included under Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, in our 2018 Form 10-K.

As part of our trading activities, we assume positions in the FX and interest-rate markets by buying and selling cash instruments and entering into derivative instruments, including FX forward contracts, FX and interest-rate options and interest-rate swaps, interest-rate forward contracts, and interest-rate futures. As of March 31, 2019, the notional amount of these derivative contracts was $2.30 trillion, of which $2.29 trillion was composed of FX forward, swap and spot contracts. We seek to match positions closely with the objective of minimizing related currency and interest-rate risk. All FX contracts are valued daily at current market rates.

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

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

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

For additional information about our VaR measurement tools and methodologies, refer to pages

99 to 103 included under Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, in our 2018 Form 10-K.

Stress Testing

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

Stress testing results and limits are actively monitored on a daily basis by Enterprise Risk Management (ERM) and reported to the Trading and Markets Risk Committee (TMRC). Limit breaches are addressed by ERM risk managers in conjunction with the business units, escalated as appropriate, and reviewed by the

TMRC if material. In addition, we have established several action triggers that prompt immediate review by management and the implementation of a remediation plan.

Validation and Back-Testing

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

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

We had no back-testing exceptions in the quarters ended March 31, 2019, December 31, 2018 and March 31, 2018.

The following tables present VaR and stressed VaR associated with our trading activities for covered positions held during the quarters ended March 31, 2019, December 31, 2018 and March 31, 2018. As of March 31, 2019, December 31, 2018 and March 31, 2018, as measured by our VaR methodology, a covered

position is generally defined by U.S. banking regulators as an on-or off-balance sheet position associated with the organization's trading activities that is free of any restrictions on its tradability, but does not include intangible assets, certain credit derivatives recognized as guarantees and certain equity positions not publicly traded.

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

TABLE 26: TEN-DAY VALUE-AT-RISK ASSOCIATED WITH TRADING ACTIVITIES FOR COVERED POSITIONS

	Three Months Ended									As of March 31, 2019	As of December 31, 2018	As of March 31, 2018
	March 31, 2019			December 31, 2018			March 31, 2018					
(In thousands)	Avg.	Max.	Min.	Avg.	Max.	Min.	Avg.	Max.	Min.	VaR	VaR	VaR
Global Markets	**$10,030**	**$18,397**	**$4,201**	$10,459	$19,160	$3,721	$6,496	$11,390	$2,967	**$16,571**	$10,588	$4,233
Global Treasury	**614**	**2,615**	**207**	1,281	3,579	392	764	1,940	100	**865**	1,354	1,187
Diversification	**(772)**	**(2,738)**	**(157)**	(1,100)	(3,348)	278	(640)	(1,982)	513	**(939)**	(1,435)	(1,309)
Total VaR	**$9,872**	**$18,274**	**$4,251**	$10,640	$19,391	$4,391	$6,620	$11,348	$3,580	**$16,497**	$10,507	$4,111

TABLE 27: TEN-DAY STRESSED VALUE-AT-RISK ASSOCIATED WITH TRADING ACTIVITIES FOR COVERED POSITIONS

	Three Months Ended									As of March 31, 2019	As of December 31, 2018	As of March 31, 2018
	March 31, 2019			December 31, 2018			March 31, 2018					
(In thousands)	Avg.	Max.	Min.	Avg.	Max.	Min.	Avg.	Max.	Min.	Stressed VaR	Stressed VaR	Stressed VaR
Global Markets	**$26,810**	**$49,359**	**$15,052**	$30,678	$58,221	$14,875	$34,136	$56,764	$20,411	**$39,238**	$26,512	$45,984
Global Treasury	**4,999**	**9,530**	**1,953**	4,495	8,896	1,838	4,118	10,177	342	**6,761**	7,683	7,024
Diversification	**(5,426)**	**(10,857)**	**(1,710)**	(4,804)	(8,898)	(1,818)	(4,194)	(10,644)	(275)	**(8,592)**	(7,919)	(8,019)
Total VaR	**$26,383**	**$48,032**	**$15,295**	$30,369	$58,219	$14,895	$34,060	$56,297	$20,478	**$37,407**	$26,276	$44,989

The three month average of our stressed VaR-based measure was approximately $26 million for the quarter ended March 31, 2019 compared to an average of approximately $30 million for the quarter ended December 31, 2018 and $34 million for the quarter ended March 31, 2018. The decrease in the stressed VaR is primarily attributed to lower interest-rate basis risk in emerging markets.

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

We may in the future modify and adjust our models and methodologies used to calculate VaR and stressed VaR, subject to regulatory review and approval, and these modifications and adjustments may result in changes in our VaR-based and stressed VaR-based measures. The following tables present the VaR and stressed-VaR associated with our trading activities attributable to FX risk, interest-rate risk and volatility risk as of March 31, 2019, December 31, 2018 and March 31, 2018. Diversification effect in the table below represents the difference between total VaR and the sum of the VaRs for each risk category. This effect arises because the risk categories are not perfectly correlated.

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TABLE 28: TEN-DAY VALUE-AT-RISK ASSOCIATED WITH TRADING ACTIVITIES BY RISK FACTOR FOR COVERED POSITIONS[(1)]

	As of March 31, 2019			As of December 31, 2018			As of March 31, 2018		
(In thousands)	Foreign Exchange Risk	Interest Rate Risk	Volatility Risk	Foreign Exchange Risk	Interest Rate Risk	Volatility Risk	Foreign Exchange Risk	Interest Rate	Volatility Risk
By component:									
Global Markets	**$3,837**	**$14,401**	**$ 327**	$2,679	$11,850	$ —	$2,407	$3,806	$ 243
Global Treasury	**47**	**836**	**—**	53	1,377	—	62	1,148	—
Diversification	**(62)**	**(746)**	**—**	(39)	(1,436)	—	(54)	(1,575)	—
Total VaR	**$3,822**	**$14,491**	**$ 327**	$2,693	$11,791	$ —	$2,415	$3,379	$ 243

TABLE 29: TEN-DAY STRESSED VALUE-AT-RISK ASSOCIATED WITH TRADING ACTIVITIES BY RISK FACTOR FOR COVERED POSITIONS[(1)]

	As of March 31, 2019			As of December 31, 2018			As of March 31, 2018		
(In thousands)	Foreign Exchange Risk	Interest Rate Risk	Volatility Risk	Foreign Exchange Risk	Interest Rate Risk	Volatility Risk	Foreign Exchange Risk	Interest Rate	Volatility Risk
By component:									
Global Markets	**$12,870**	**$45,137**	**$ 421**	$10,465	$23,324	$ —	$10,520	$44,416	$ 273
Global Treasury	**126**	**7,121**	**—**	74	8,202	—	126	7,173	—
Diversification	**(162)**	**(10,467)**	**—**	(132)	(7,835)	—	(225)	(8,218)	—
Total VaR	**$12,834**	**$41,791**	**$ 421**	$10,407	$23,691	$ —	$10,421	$43,371	$ 273

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

Asset and Liability Management Activities

The primary objective of asset and liability management is to provide sustainable NII under varying economic conditions, while protecting the economic value of the assets and liabilities carried 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. EVE sensitivity is a discounted cash flow model designed to estimate the fair value of assets and liabilities under a series of interest rate shocks over a long-term horizon. Each approach is routinely monitored as market conditions change and within internally approved risk limits and guidelines.

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

In the table below, we report the expected change in NII over the next twelve months from +/-100 bps instantaneous shocks to all tenors on the yield curves. We also shock the short-end through a 100 basis point change to rates three months and less with a gradual reduction to a zero basis point shock at the five

year tenor. These are referred to as "short-end shocks" in the NII sensitivity table. We separately shock the long-end 100 basis points from the five year tenor and longer, with a gradual reduction to a zero basis point shock at the three month tenor. These are referred to as "long-end shocks" in the NII sensitivity table. Each scenario assumes no management action is taken to mitigate the adverse effects of interest rate changes on our financial performance. While investment securities balances can fluctuate with the level of rates as prepayment assumptions change, our deposit balances remain consistent with the baseline.

TABLE 30: NET INTEREST INCOME SENSITIVITY

(In millions)	March 31, 2019	March 31, 2018
Rate change:	Benefit (Exposure)	
Parallel shifts:		
+100 bps shock	**$ 341**	$ 524
–100 bps shock	**(142)**	(359)
Steeper yield curve:		
+100 bps long-end shock	**109**	162
-100 bps short-end shock	**2**	(180)
Flatter yield curve:		
+100 bps short-end shock	**239**	369
-100 bps long-end shock	**(137)**	(177)

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As of March 31, 2019, NII sensitivity remains positioned to benefit from rising interest-rates. Compared to March 31, 2018, our NII is less sensitive to instantaneous shifts in both higher and lower rate scenarios. For the short-end shocks, the reduction in NII sensitivity was driven by changes to the U.S. deposit composition and increasing pricing betas. For the long-end shocks, the reduction in NII sensitivity was driven by a continued shift toward more fixed-rate securities in the investment portfolio.

We also measure how much of the NII sensitivity change is a result of shifts in U.S. and non-U.S. rates, as shown in the table below.

TABLE 31: NET INTEREST INCOME SENSITIVITY BY CURRENCY

	March 31, 2019		
(In millions)	**U.S. Dollar**	**All Other Currencies**	**Total**
Rate change:	**Benefit (Exposure)**		
Parallel shifts:			
+100 bps shock	**$103**	**$ 238**	**$341**
–100 bps shock	**(165)**	**23**	**(142)**

	March 31, 2018		
(In millions)	**U.S. Dollar**	**All Other Currencies**	**Total**
Rate change:	**Benefit (Exposure)**		
Parallel shifts:			
+100 bps shock	$278	$ 246	$524
–100 bps shock	(368)	9	(359)

Compared to March 31, 2018, our U.S. rate sensitivity has decreased driven by changes to our deposit composition and rising pricing betas along with adding more fixed-rate securities to the investment portfolio. This has also resulted in the majority of our current U.S. rate impacts to be driven by the long-end of the curve. Non-U.S. rate sensitivities are largely unchanged versus March 31, 2018. The majority of the benefit to higher non-U.S.rates is driven by the short-end of the curve given deposit pricing expectations for currencies such as Euro and Sterling.

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

TABLE 32: ECONOMIC VALUE OF EQUITY SENSITIVITY

(In millions)	**March 31, 2019**	**March 31, 2018**
Rate change:	**Benefit (Exposure)**	
+200 bps shock	**$(1,615)**	$ (1,375)
–200 bps shock	**605**	145

As of March 31, 2019, EVE sensitivity remains exposed to upward shifts in interest rates. Compared to March 31, 2018, the change in the up 200 bps instantaneous shock was driven by investment portfolio purchases in fixed-rate securities, partially offset by lower long-end U.S. rates. The change in the down 200 bps instantaneous shock was primarily due to a modeling enhancement implemented in the second quarter of 2018 for negative rate currencies. The modeling enhancement allows for interest rate shocks to go below zero for certain currencies, such as Euro, where central banks have allowed negative rates. The March 31, 2018 position in the down 200 bps shock scenario, which does not reflect the modeling enhancement,

would have increased approximately $1 billion under the new modeling approach. This update aligns our modeling approaches for negative rates in both EVE and NII sensitivity simulations.

Model Risk Management

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

For additional information about our model risk management framework, including our governance and model validation, refer to pages 104 to 105 included under Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, "Risk Management Framework", in our 2018 Form 10-K.

Strategic Risk Management

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

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processes. Active management of strategic risk is an integral component of all aspects of our business. For additional information about our strategic risk management framework, refer to page 105 included under Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, "Risk Management Framework", in our 2018 Form 10-K.

Capital

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

Governance

We have a hierarchical structure supporting appropriate committee review of relevant risk and capital information. The ongoing responsibility for capital management rests with our Treasurer. The Capital Management group within Global Treasury is responsible for the Capital Policy and guidelines, development of the Capital Plan, the oversight of global capital management and optimization.

The Management Risk and Capital Committee (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 Risk Committee (RC) assists the Board in fulfilling its oversight responsibilities related to the assessment and management of risk and capital. Our Capital Policy is reviewed and approved annually by the Board's RC.

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

Global Systemically Important Bank

We are one among a group of 29 institutions worldwide that have been identified by the Financial Stability Board and the Basel Committee on Banking Supervision as G-SIBs. Our designation as a G-SIB is based on a number of factors, as evaluated by banking regulators, and requires us to maintain an additional capital surcharge above the minimum capital ratios set forth in the Basel III final rule.

In addition to the Basel III final rule, we are subject to the Federal Reserve's final rule imposing a capital surcharge on U.S. G-SIBs. The surcharge requirements within the final rule began to phase-in on January 2016 and became fully effective on January 1, 2019. The eight

U.S. banks deemed to be G-SIBs, including us, are required to calculate the G-SIB surcharge annually according to the following 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; or
- Method 2: Alters the calculation from Method 1 by factoring in a wholesale funding score in place of substitutability and applying a 2x multiplier to the sum of the five components.

Method 2 currently is the binding methodology for us, and our applicable surcharge for 2019 was calculated to be 1.5%, which is based on a calculation date of December 31, 2017. Assuming a countercyclical buffer of 0%, the minimum capital ratios as of January 1, 2019, including a capital conservation buffer of 2.5% and a G-SIB surcharge of 1.5%, are 8.5% for CET1 capital, 10.0% for tier 1 risk-based capital and 12.0% for total risk-based capital, in order for us to make capital distributions and discretionary bonus payments without limitation. Based on a calculation date of December 31, 2018, our G-SIB surcharge for 2020 will be reduced to 1.0%. This reduction was driven by 2018 strategic balance sheet repositioning and risk reduction actions.

Further, like all other U.S. G-SIBs, we are also currently subject to a 2.0% leverage buffer under the Basel III final rule, subject to the Federal Reserve's proposed changes to the SLR. If we fail to exceed the 2.0% leverage buffer, we will be subject to increased restrictions (depending upon the extent of the shortfall) regarding capital distributions and discretionary executive bonus payments. Not all of our competitors have similarly been designated as systemically important nor are all of them subject to the same degree of regulation as a bank or financial holding company, and therefore some of our competitors may not be subject to the same capital liquidity and other regulatory requirements.

Regulatory Capital

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

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

weights for certain on- and off-balance sheet exposures.
The advanced approaches consist of the Advanced Internal Ratings-Based Approach used for the calculation of RWA related to credit risk, and the Advanced Measurement Approach used for the calculation of RWA related to operational risk.
The final market risk capital rule requires us to use internal models to calculate daily measures of VaR, that reflect general market risk for certain of our trading positions defined by the rule as "covered positions," as well as stressed-VaR measures to supplement the VaR measures. The rule also requires a public disclosure composed of qualitative and quantitative information about the market risk associated with our trading activities and our related VaR and stressed-VaR measures. The qualitative and quantitative information required by the rule is provided under "Market Risk" included in this Management's Discussion and Analysis.
As required by the Dodd-Frank Act, we and State Street Bank, as advanced approaches banking organizations, are subject to a permanent "capital floor," also referred to as the Collins Amendment, in the assessment of our regulatory capital adequacy, including the capital conservation buffer and countercyclical capital buffer. Our risk-based capital ratios for regulatory assessment purposes are the lower of each ratio calculated under the standardized approach and the advanced approaches.
The requirement for the capital conservation buffer became effective with full implementation on January 1, 2019. Specifically, the final rule limits a banking organization's ability to make capital distributions and discretionary bonus payments to executive officers if it fails to maintain a CET1 capital conservation buffer of more than 2.5% of total RWA and, if deployed during

periods of excessive credit growth, a CET1 countercyclical capital buffer of up to 2.5% of total RWA, above each of the minimum CET1, tier 1, and total risk-based capital ratios. The countercyclical capital buffer is currently set at zero by U.S. banking regulators. To maintain the status of the Parent Company as a financial holding company, we and our insured depository institution subsidiaries are required, among other requirements, to be "well capitalized" as defined by the Prompt Corrective Action Framework.
The specific calculation of our and State Street Bank's risk-based capital ratios changed as the provisions of the Basel III final rule related to the numerator (capital) and denominator (RWA) were phased in, and as our RWA calculated using the advanced approaches changed due to changes in methodology. These methodological changes result in differences in our reported capital ratios from one reporting period to the next that are independent of applicable changes to our capital base, our asset composition, our off-balance sheet exposures or our risk profile.
The following table presents the regulatory capital structure and related regulatory capital ratios for us and State Street Bank as of the dates indicated. We are subject to the more stringent of the risk-based capital ratios calculated under the standardized approach and those calculated under the advanced approaches in the assessment of our capital adequacy under applicable bank regulatory standards.
As a result of changes in the methodologies used to calculate our regulatory capital ratios from period to period, as the provisions of the Basel III final rule were phased in, the ratios presented in the table for each period are not directly comparable. Refer to the footnotes following the table.

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TABLE 33: REGULATORY CAPITAL STRUCTURE AND RELATED REGULATORY CAPITAL RATIOS

	State Street				State Street Bank			
(Dollars in millions)	**Basel III Advanced Approaches March 31, 2019**	**Basel III Standardized Approach March 31, 2019**	**Basel III Advanced Approaches December 31, 2018(1)**	**Basel III Standardized Approach December 31, 2018(1)**	**Basel III Advanced Approaches March 31, 2019**	**Basel III Standardized Approach March 31, 2019**	**Basel III Advanced Approaches December 31, 2018(1)**	**Basel III Standardized Approach December 31, 2018(1)**
Common shareholders' equity:								
Common stock and related surplus	**$ 10,586**	**$ 10,586**	$ 10,565	$ 10,565	**$ 12,894**	**$ 12,894**	$ 12,894	$ 12,894
Retained earnings	**20,911**	**20,911**	20,606	20,606	**14,273**	**14,273**	14,261	14,261
Accumulated other comprehensive income (loss)	**(1,168)**	**(1,168)**	(1,332)	(1,332)	**(954)**	**(954)**	(1,112)	(1,112)
Treasury stock, at cost	**(8,969)**	**(8,969)**	(8,715)	(8,715)	**—**	**—**	—	—
Total	**21,360**	**21,360**	21,124	21,124	**26,213**	**26,213**	26,043	26,043
Regulatory capital adjustments:								
Goodwill and other intangible assets, net of associated deferred tax liabilities	**(9,294)**	**(9,294)**	(9,350)	(9,350)	**(9,016)**	**(9,016)**	(9,073)	(9,073)
Other adjustments(2)	**(167)**	**(167)**	(194)	(194)	**(1)**	**(1)**	(29)	(29)
Common equity tier 1 capital	**11,899**	**11,899**	11,580	11,580	**17,196**	**17,196**	16,941	16,941
Preferred stock	**3,690**	**3,690**	3,690	3,690	**—**	**—**	—	—
Tier 1 capital	**15,589**	**15,589**	15,270	15,270	**17,196**	**17,196**	16,941	16,941
Qualifying subordinated long-term debt	**787**	**787**	778	778	**785**	**785**	776	776
Allowance for loan and lease losses	**10**	**84**	14	83	**6**	**83**	11	83
Total capital	**$ 16,386**	**$ 16,460**	$ 16,062	$ 16,131	**$ 17,987**	**$ 18,064**	$ 17,728	$ 17,800
Risk-weighted assets:								
Credit risk(3)	**$ 49,451**	**$ 102,284**	$ 47,738	$ 97,303	**$ 47,106**	**$ 99,673**	$ 45,565	$ 94,776
Operational risk(4)	**47,213**	**NA**	46,060	NA	**44,416**	**NA**	44,494	NA
Market risk	**1,359**	**1,359**	1,517	1,517	**1,359**	**1,359**	1,517	1,517
Total risk-weighted assets	**$ 98,023**	**$ 103,643**	$ 95,315	$ 98,820	**$ 92,881**	**$ 101,032**	$ 91,576	$ 96,293
Adjusted quarterly average assets	**$ 210,099**	**$ 210,099**	$ 211,924	$ 211,924	**$ 207,417**	**$ 207,417**	$ 209,413	$ 209,413

Capital Ratios:	2019 Minimum Requirements Including Capital Conservation Buffer and G-SIB Surcharge(5)	2018 Minimum Requirements Including Capital Conservation Buffer and G-SIB Surcharge(6)								
Common equity tier 1 capital	**8.5 %**	7.5 %	**12.1 %**	**11.5 %**	12.1 %	11.7 %	**18.5 %**	**17.0 %**	18.5 %	17.6 %
Tier 1 capital	**10.0**	9.0	**15.9**	**15.0**	16.0	15.5	**18.5**	**17.0**	18.5	17.6
Total capital	**12.0**	11.0	**16.7**	**15.9**	16.9	16.3	**19.4**	**17.9**	19.4	18.5

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

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

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

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

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

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

NA Not applicable

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Our CET1 capital increased $0.32 billion as of March 31, 2019 compared to December 31, 2018, primarily driven by net income of $0.51 billion and accumulated other comprehensive income of $0.16 billion in the first quarter of 2019, partially offset by common stock repurchases of $0.30 billion and capital distributions of $0.23 billion from common and preferred stock dividends.

Our tier 1 capital increased $0.32 billion as of March 31, 2019 compared to December 31, 2018 under both the advanced approaches and standardized approach due to the changes in our CET1 capital. Total capital increased under the advanced approaches and standardized approach by $0.32 billion and $0.33 billion, respectively, due to the changes in our CET1 and tier 2 capital.

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

TABLE 34: CAPITAL ROLL-FORWARD

(In millions)	Basel III Advanced Approaches March 31, 2019	Basel III Standardized Approach March 31, 2019	Basel III Advanced Approaches December 31, 2018[1]	Basel III Standardized Approach December 31, 2018[1]
Common equity tier 1 capital:				
Common equity tier 1 capital balance, beginning of period	**$ 11,580**	**$ 11,580**	$ 12,204	$ 12,204
Net income	**508**	**508**	2,599	2,599
Changes in treasury stock, at cost	**(253)**	**(253)**	314	314
Dividends declared	**(233)**	**(233)**	(853)	(853)
Goodwill and other intangible assets, net of associated deferred tax liabilities	**56**	**56**	(2,473)	(2,473)
Effect of certain items in accumulated other comprehensive income (loss)	**163**	**163**	(360)	(360)
Other adjustments	**78**	**78**	149	149
Changes in common equity tier 1 capital	**319**	**319**	(624)	(624)
Common equity tier 1 capital balance, end of period	**11,899**	**11,899**	11,580	11,580
Additional tier 1 capital:				
Tier 1 capital balance, beginning of period	**15,270**	**15,270**	15,382	15,382
Change in common equity tier 1 capital	**319**	**319**	(624)	(624)
Net issuance of preferred stock	**—**	**—**	494	494
Other adjustments	**—**	**—**	18	18
Changes in tier 1 capital	**319**	**319**	(112)	(112)
Tier 1 capital balance, end of period	**15,589**	**15,589**	15,270	15,270
Tier 2 capital:				
Tier 2 capital balance, beginning of period	**792**	**861**	985	1,053
Net issuance and changes in long-term debt qualifying as tier 2	**9**	**9**	(202)	(202)
Changes in Allowance for loan and lease losses and other	**(4)**	**1**	10	11
Change in other adjustments	**—**	**—**	(1)	(1)
Changes in tier 2 capital	**5**	**10**	(193)	(192)
Tier 2 capital balance, end of period	**797**	**871**	792	861
Total capital:				
Total capital balance, beginning of period	**16,062**	**16,131**	16,367	16,435
Changes in tier 1 capital	**319**	**319**	(112)	(112)
Changes in tier 2 capital	**5**	**10**	(193)	(192)
Total capital balance, end of period	**$ 16,386**	**$ 16,460**	$ 16,062	$ 16,131

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

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The following table presents a roll-forward of the Basel III advanced approaches RWA for the first quarter of 2019 and for the year ended December 31, 2018.

TABLE 35: ADVANCED APPROACHES RISK-WEIGHTED ASSETS ROLL-FORWARD

(In millions)	March 31, 2019	December 31, 2018
Total risk-weighted assets, beginning of period	**$95,315**	$99,156
Changes in credit risk-weighted assets:		
Net increase (decrease) in investment securities-wholesale	**1,430**	(940)
Net increase (decrease) in loans and leases	**240**	(12)
Net increase (decrease) in securitization exposures	**(156)**	(3,666)
Net increase (decrease) in repo-style transaction exposures	**118**	(19)
Net increase (decrease) in Over-the-counter derivatives exposures	**(405)**	(1,170)
Net increase (decrease) in all other[1]	**486**	1,545
Net increase (decrease) in credit risk-weighted assets	**1,713**	(4,262)
Net increase (decrease) in market risk-weighted assets	**(158)**	183
Net increase (decrease) in operational risk-weighted assets	**1,153**	238
Total risk-weighted assets, end of period	**$98,023**	$95,315

[1] Includes assets not in a definable category, cleared transactions, non-material portfolio, other wholesale, cash and due from, and interest-bearing deposits with banks, equity exposures and 6% credit risk supervisory charge.

As of March 31, 2019, total advanced approaches RWA increased $2.71 billion compared to December 31, 2018, primarily due to increases in both credit RWA of $1.71 billion and operational risk RWA of $1.15 billion. The increase in credit RWA was primarily driven by an increase in investment securities RWA of $1.36 billion primarily due to purchases of HQLA securities.

The following table presents a roll-forward of the Basel III standardized approach RWA for the first quarter of 2019 and for the year ended December 31, 2018.

TABLE 36: STANDARDIZED APPROACH RISK-WEIGHTED ASSETS ROLL-FORWARD

(In millions)	March 31, 2019	December 31, 2018
Total risk-weighted assets, beginning of period[1]	**$98,820**	$102,683
Changes in credit risk-weighted assets:		
Net increase (decrease) in investment securities-wholesale	**1,483**	(2,887)
Net increase (decrease) in loans and leases	**(1,879)**	3,104
Net increase (decrease) in securitization exposures	**(156)**	(3,666)
Net increase (decrease) in repo-style transaction exposures	**5,158**	(3,156)
Net increase (decrease) in Over-the-counter derivatives exposures	**(303)**	(46)
Net increase (decrease) in all other[2]	**678**	2,605
Net increase (decrease) in credit risk-weighted assets	**4,981**	(4,046)
Net increase (decrease) in market risk-weighted assets	**(158)**	183
Total risk-weighted assets, end of period	**$103,643**	$98,820

[1] Standardized approach RWA as of the periods noted above were calculated using our estimates, based on our then current interpretation of the Basel III final rule.

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

As of March 31, 2019, total standardized approach RWA increased $4.82 billion compared to December 31, 2018, primarily due to higher credit RWA. The main drivers of the credit RWA change were an increase in securities finance RWA of $5.03 billion driven by new exposures and market appreciation, higher

investment securities RWA of $1.43 billion from the purchase of HQLA securities, and an increase in other exposures. These increases were partially offset by a reduction in domestic overdrafts RWA of $1.86 billion in the first quarter of 2019.

The regulatory capital ratios as of March 31, 2019, presented in Table 33: Regulatory Capital Structure and Related Regulatory Capital Ratios, are calculated under the standardized approach and advanced approaches in conformity with the Basel III final rule. The advanced approaches-based ratios reflect calculations and determinations with respect to our capital and related matters as of March 31, 2019, based on our and external data, quantitative formulae, statistical models, historical correlations and assumptions, collectively referred to as “advanced systems,” in effect and used by us for those purposes as of the time we first reported such ratios in a quarterly report on Form 10-Q or an annual report on Form 10-K. Significant components of these advanced systems involve the exercise of judgment by us and our regulators, and our advanced systems may not, individually or collectively, precisely represent or

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

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

Total Loss-Absorbing Capacity (TLAC)

In 2016, the Federal Reserve released its final rule on TLAC, long-term debt (LTD) and clean holding company requirements for U.S. domiciled G-SIBs, such as us, that is intended to improve the resiliency and resolvability of certain U.S. banking organizations through enhanced prudential standards. The TLAC final rule imposes: (1) external TLAC requirements (i.e., combined eligible tier 1 regulatory capital and LTD); (2) separate external LTD requirements; and (3) clean holding company requirements that impose restrictions on certain types of liabilities and limit non-TLAC related third party liabilities to 5.0% of external TLAC.

Among other things, the TLAC final rule requires us to comply with minimum requirements for external TLAC and external LTD effective January 1, 2019. Specifically, we must hold (1) combined eligible tier 1 regulatory capital and LTD in the amount equal to the greater of 21.5% of total RWA (18.0% minimum plus a 2.5% capital

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

The following table presents external LTD and external TLAC as of March 31, 2019:

TABLE 37: TOTAL LOSS-ABSORBING CAPACITY

As of March 31, 2019

(Dollars in millions)	Actual	Requirement[(1)]
Total loss-absorbing capacity (eligible Tier 1		

regulatory capacity and long term debt):				
Risk-weighted assets	$26,610	25.7%	$22,283	21.5%
Supplemental leverage ratio	26,610	11.3	22,419	9.5
Long term debt:				
Risk-weighted assets	9,813	9.5	7,773	7.5
Supplemental leverage ratio	9,813	4.2	10,619	4.5

(1) We have received a one year extension for compliance with LTD SLR to January 1, 2020; all other requirements of the TLAC final rule are effective January 1, 2019.

We requested and received from the Federal Reserve, a one year extension from January 1, 2019 to January 1, 2020, for compliance with the LTD SLR requirements of the TLAC final rule. In granting the extension request, the Federal Reserve noted the Economic Growth, Regulatory Relief, and Consumer Protection Act (EGRRCPA), under which the Federal Reserve and the other U.S. federal banking agencies must promulgate rules to exclude certain central bank placements from the calculation of SLR for custodial banks, such as us. This regulatory change is expected to reduce the LTD we are required to hold as calculated under the current requirements. The extension will allow us to determine the appropriate amount of LTD needed to comply with the LTD SLR requirements of the TLAC rule after the Federal Reserve and the other U.S. federal banking agencies have adopted this regulatory change.

Regulatory Developments

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

In addition, the FRB has issued a separate proposed rule replacing the current 2.5% capital conservation buffer with a firm specific buffer (referred to as the Stress Capital Buffer (SCB), updated annually and tailored to reflect the results of the most recent Federal Reserve’s CCAR supervisory severely adverse

scenario stress test. The proposal also introduces a Stress Leverage Buffer (SLB) applicable to the tier 1 leverage ratio. Under the proposal, both the SCB and SLB would become effective October 1, 2019. Changes to the final rules, if and when proposed, may be material and the application of the proposed rule involves estimates which cannot reasonably be made at present. Consequently, we have not estimated the impact of the proposed rule.

In April 2019, the FRB issued a proposed rule on the promulgation of regulation for section 402 of the EGRRCPA that was signed into law in May 2018. Under the legislation, specific modifications would allow certain central bank deposits to be excluded from the SLR denominator, or total leverage exposure for custody banks. In the first quarter of 2019, we estimated $46.10 billion of average balances held on deposit at central banks would be excluded from the SLR denominator under our interpretation of the proposed regulation. The EGRRCPA may also impact our TLAC and LTD requirements calibrated to SLR.

Tier 1 Capital and Supplementary Leverage Ratio

In 2014, U.S. banking regulators issued final rules implementing an SLR, for certain bank holding companies, like us, and their insured depository institution subsidiaries, like State Street Bank, which we refer to as the SLR final rule. The SLR final rule requires that, as of January 1, 2018, (i) State Street Bank maintains an SLR of at least 6.0% to be well capitalized under the U.S. banking regulators' Prompt Corrective Action Framework and (ii) we maintain an SLR of at least 5.0% to avoid limitations on capital distributions and discretionary bonus payments. In addition to the SLR, we are subject to a well capitalized tier 1 leverage ratio requirement of 5.0%, which differs from the SLR primarily in that the denominator of the tier 1 leverage ratio is only a quarterly average of on-balance sheet assets and does not include any off-balance sheet exposures.

TABLE 38: TIER 1 AND SUPPLEMENTARY LEVERAGE RATIOS

(Dollars in millions)	**March 31, 2019**	**December 31, 2018**
State Street:		
Tier 1 capital	**$15,589**	$ 15,270
Average assets	**219,560**	221,350
Less: adjustments for deductions from tier 1 capital	**(9,461)**	(9,426)
Adjusted average assets	**210,099**	211,924
Off-balance sheet exposures	**25,889**	29,279
Total assets for SLR	**$235,988**	$ 241,203
Tier 1 leverage ratio[1]	**7.4%**	7.2%
Supplementary leverage ratio	**6.6**	6.3
State Street Bank:		
Tier 1 capital	**$17,196**	$ 16,941
Average assets	**216,434**	218,402
Less: adjustments for deductions from tier 1 capital	**(9,017)**	(8,989)
Adjusted average assets	**207,417**	209,413
Off-balance sheet exposures	**26,072**	29,368
Total assets for SLR	**$233,489**	$ 238,781
Tier 1 leverage ratio [1]	**8.3%**	8.1%
Supplementary leverage ratio	**7.4**	7.1

[1] Tier 1 leverage ratios were calculated in conformity with the Basel III final rule.

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Capital Actions

Preferred Stock

The following table summarizes selected terms of each of the series of the preferred stock issued and outstanding as of March 31, 2019:

TABLE 39: PREFERRED STOCK ISSUED AND OUTSTANDING

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

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

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

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

TABLE 40: PREFERRED STOCK DIVIDENDS

	Three Months Ended March 31,					
	2019			2018		
(Dollars in millions, except per share amounts)	Dividends Declared per Share	Dividends Declared per Depositary Share	Total	Dividends Declared per Share	Dividends Declared per Depositary Share	Total
Preferred Stock:						
Series C	**$ 1,313**	**$ 0.33**	**$ 6**	$ 1,313	$ 0.33	$ 6
Series D	**1,475**	**0.37**	**11**	1,475	0.37	11
Series E	**1,500**	**0.38**	**11**	1,500	0.38	11
Series F	**2,625**	**26.25**	**20**	2,625	26.25	20
Series G	**1,338**	**0.33**	**7**	1,338	0.33	7
Series H	**—**	**—**	**—**	—	—	—
Total			**$ 55**			$ 55

Common Stock

In June 2018, the Federal Reserve issued a conditional non-objection to our 2018 capital plan, requiring State Street to enhance the management and analysis of counterparty exposures under stress, which was subsequently satisfied. In connection with our capital plan, we repurchased $300 million of our common stock under the 2018 Program in the first quarter of 2019 and may repurchase up to $300 million of our common stock under the 2018 Program in the second quarter of 2019.

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

TABLE 41: SHARES REPURCHASED

	Three Months Ended March 31, 2019		
	Shares Acquired (In millions)	Average Cost per Share	Total Acquired (In millions)
2018 Program	4.2	$ 70.93	$ 300

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

TABLE 42: COMMON STOCK DIVIDENDS

	Three Months Ended March 31,			
	2019		2018	
	Dividends Declared per Share	Total (In millions)	Dividends Declared per Share	Total (In millions)
Common Stock	**$0.47**	**$ 177**	$0.42	$ 154

Federal and state banking regulations place certain restrictions on dividends paid by subsidiary banks to the parent holding company. In addition, banking regulators have the authority to prohibit bank holding companies from paying dividends. For information concerning limitations on dividends from our subsidiary banks, refer to pages 50 and 51 included under Item 5, Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities, and to Note 15 on pages 165 to 167 to the consolidated financial statements included under Item 8, Financial Statements and Supplementary Data, in our 2018 Form 10-K. Our common stock and preferred stock dividends, including the declaration, timing and amount thereof, are subject to consideration and approval by the Board at the relevant times.

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

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 $387.31 billion and $342.34 billion as of March 31, 2019 and December 31, 2018, respectively. We require the borrower to provide collateral in an amount in excess of 100% of the fair market value of the securities borrowed. We hold the collateral received in connection with these securities lending services as agent, and the collateral is not recorded in our consolidated statement of condition. We revalue the securities on loan and the collateral daily to determine if additional collateral is

necessary or if excess collateral is required to be returned to the borrower. We held, as agent, cash and securities totaling $405.30 billion and $357.89 billion as collateral for indemnified securities on loan as of March 31, 2019 and December 31, 2018, respectively.

The cash collateral held by us as agent is invested on behalf of our clients. In certain cases, the cash collateral is invested in third-party repurchase agreements, for which we indemnify the client against loss of the principal invested. We require the counterparty to the indemnified repurchase agreement to provide collateral in an amount in excess of 100% of the amount of the repurchase agreement. In our role as agent, the indemnified repurchase agreements and the related collateral held by us are not recorded in our consolidated statement of condition. Of the collateral of $405.30 billion and $357.89 billion, referenced above, $47.56 billion and $42.61 billion was invested in indemnified repurchase agreements as of March 31, 2019 and December 31, 2018, respectively. We or our agents held $50.35 billion and $45.06 billion as collateral for indemnified investments in repurchase agreements as of March 31, 2019 and December 31,

2018, respectively.

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

RECENT ACCOUNTING DEVELOPMENTS

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

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

CONTROLS AND PROCEDURES
We have established and maintained disclosure controls and procedures that are designed to ensure that information related to us and our subsidiaries on a consolidated basis required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. For the quarter ended March 31, 2019, our management carried out an evaluation, with the participation of the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on the evaluation of these disclosure controls and procedures, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of March 31, 2019.
We have established and maintained internal control over financial reporting as a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in conformity with U.S. GAAP. In the ordinary course of business, we routinely enhance our internal controls and procedures for financial reporting by either upgrading our current systems or implementing new systems. Changes have been made and may be made to our internal controls and procedures for financial reporting as a result of these efforts. During the quarter ended March 31, 2019, no change occurred in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

STATE STREET CORPORATION
CONSOLIDATED STATEMENT OF INCOME
(UNAUDITED)

	Three Months Ended March 31,	
(Dollars in millions, except per share amounts)	**2019**	**2018**
Fee revenue:		
Servicing fees	**$1,251**	$1,421
Management fees	**420**	472
Foreign exchange trading services	**280**	304
Securities finance	**118**	141
Processing fees and other	**191**	77
Total fee revenue	**2,260**	2,415
Net interest income:		
Interest income	**1,027**	857
Interest expense	**354**	214
Net interest income	**673**	643
Gains (losses) related to investment securities, net:		
Gains (losses) from sales of available-for-sale securities, net	**—**	