STATE STREET CORP
Form 10-Q
November 10, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
Form 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2014

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<br>Boston, Massachusetts | 02111 |
| (Address of principal executive office) | (Zip Code) |

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

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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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

| | | | |
|---|---|---|---|
| Large accelerated filer x | Accelerated filer ¨ | Non-accelerated filer ¨<br>(Do not check if a smaller reporting company) | Smaller reporting company ¨ |

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 October 31, 2014 was 417,495,288.

STATE STREET CORPORATION
QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTERLY PERIOD ENDED
September 30, 2014

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

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

## GENERAL

State Street Corporation, or the parent company, is a financial holding company headquartered in Boston, Massachusetts. Unless otherwise indicated or unless the context requires otherwise, all references in this Management's Discussion and Analysis to “State Street,” “we,” “us,” “our” or similar terms mean State Street Corporation and its subsidiaries on a consolidated basis. Our principal banking subsidiary is State Street Bank and Trust Company, or State Street Bank. As of September 30, 2014, we had consolidated total assets of $274.81 billion, consolidated total deposits of $207.97 billion, consolidated total shareholders' equity of $21.16 billion and 29,510 employees. With $28.47 trillion of assets under custody and administration and $2.42 trillion of assets under management as of September 30, 2014, we are a leading specialist in meeting the needs of institutional investors worldwide.

We have two lines of business:

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

Investment Management, through State Street Global Advisors, or SSgA, provides a broad array of investment management, investment research and investment advisory services to corporations, public funds and other sophisticated investors. SSgA offers active and passive asset management strategies across equity, fixed-income and cash asset classes. Products are distributed directly and through intermediaries using a variety of investment vehicles, including exchange-traded funds, or ETFs, such as the SPDR® ETF brand.

For financial and other information about our lines of business, refer to “Line of Business Information” included in this Management's Discussion and Analysis and note 17 to the consolidated financial statements included in this Form 10-Q.

This Management's Discussion and Analysis is part of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2014, and updates the Management's Discussion and Analysis in our Annual Report on Form 10-K for the year ended December 31, 2013, referred to as our 2013 Form 10-K, and in our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2014 and June 30, 2014, all of which we previously filed with the SEC. You should read the financial information contained in this Management's Discussion and Analysis and elsewhere in this Form 10-Q in conjunction with the financial and other information contained in those reports. 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 accounting principles generally accepted in the U.S., referred to as GAAP. The preparation of financial statements in conformity with 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 consist of accounting for fair value measurements; other-than-temporary impairment of investment securities; and impairment of goodwill and other intangible assets. 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.

Additional information about these significant accounting policies is included under “Significant Accounting Estimates” in Management's Discussion and Analysis in our 2013 Form 10-K. We did not change these significant accounting policies in the first nine months of 2014.

Certain financial information provided in this Management's Discussion and Analysis is prepared on both a GAAP, or reported basis, and a non-GAAP, or operating basis, including certain non-GAAP measures used in the calculation of identified regulatory capital ratios. We measure and compare certain financial information on an operating basis, as we believe that this presentation supports meaningful comparisons from period to period and the analysis of comparable financial trends with respect to State Street's normal ongoing business operations. We believe that operating-basis financial information,

which reports non-taxable revenue, such as interest revenue associated with tax-exempt investment securities, on a fully taxable-equivalent basis, facilitates an investor's understanding and analysis of State Street's underlying financial performance and trends in addition to financial information prepared and reported in conformity with GAAP.

We also believe that the use of certain non-GAAP measures in the calculation of identified regulatory capital ratios is useful in understanding State Street's capital position and is of interest to investors. Operating-basis financial information should be considered in addition to, not as a substitute for or superior to, financial information prepared in conformity with GAAP. Any non-GAAP, or operating-basis, financial information presented in this Management’s Discussion and Analysis is reconciled to its most directly comparable GAAP-basis measure.

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 summary results of semi-annual State Street-run stress tests which we conduct under the Dodd-Frank Wall Street Reform and Consumer Protection Act, or Dodd-Frank Act. These additional disclosures are accessible under "Filings and Reports" 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.

## FORWARD-LOOKING STATEMENTS

This Form 10-Q, as well as other reports 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, contain statements (including statements in this Management's Discussion and Analysis) that are considered “forward-looking statements” within the meaning of U.S. securities laws, including statements about our goals and expectations regarding our business, financial and capital condition, results of operations, strategies, financial portfolio performance, dividend and stock purchase programs, market growth, acquisitions, joint ventures and divestitures, new technologies, services and opportunities, and expected outcomes of legal proceedings, as well as regarding industry, regulatory, economic and market trends, initiatives and developments, the business environment and other matters that do not relate strictly to historical facts.

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

Forward-looking statements are subject to various risks and uncertainties, which change over time, are based on management's expectations and assumptions at the time the statements are made, and are not guarantees of future results. Management's expectations and assumptions, and the continued validity of the forward-looking statements, are subject to change due to a broad range of factors affecting the national and global economies, the equity, debt, currency and other financial markets, as well as factors specific to State Street and its subsidiaries, including State Street Bank. Factors that could cause changes in the expectations or assumptions on which forward-looking statements are based cannot be foreseen with certainty and include, but are not limited to:

- the financial strength and continuing viability of the counterparties with which we or our clients do business and to which we have investment, credit or financial exposure, including, for example, the direct and indirect effects on counterparties of the sovereign-debt risks in the U.S., Europe and other regions;
- increases in the volatility of, or declines in the level of, our net interest revenue, changes in the composition or valuation of the assets recorded in our consolidated statement of condition (and our ability to measure the fair value of investment securities) and the possibility that we may change the manner in which we fund those assets;
- the liquidity of the U.S. and international securities markets, particularly the markets for fixed-income securities and inter-bank credits, and the liquidity requirements of our clients;
- the level and volatility of interest rates and the performance and volatility of securities, credit, currency and other markets in the U.S. and internationally;
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the credit quality, credit-agency ratings and fair values of the securities in our investment securities portfolio, a deterioration or downgrade of which could lead to other-than-temporary impairment of the respective securities and the recognition of an impairment loss in our consolidated statement of income;



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- our ability to attract deposits and other low-cost, short-term funding, and our ability to deploy deposits in a profitable manner consistent with our liquidity requirements and risk profile;
- the manner and timing with which the Federal Reserve and other U.S. and non-U.S. regulators implement the Dodd-Frank Act, changes to the Basel III capital framework and European legislation, such as the Alternative Investment Fund Managers Directive and the Undertakings for Collective Investment in Transferable Securities Directives, with respect to the levels of regulatory capital we must maintain, our credit exposure to third parties, margin requirements applicable to derivatives, banking and financial activities and other regulatory initiatives in the U.S. and internationally, including regulatory developments that result in changes to our structure or operating model, increased costs or other changes to how we provide services;
- the impact of evolving and increasing regulatory compliance requirements and expectations;
- adverse changes in the regulatory capital ratios that we are required or will be required to meet, whether arising under the Dodd-Frank Act or the Basel III capital and liquidity standards, or due to changes in regulatory positions, practices or regulations in jurisdictions in which we engage in banking activities, including changes in internal or external data, formulae, models, assumptions or other advanced systems used in the calculation of our capital ratios that cause changes in those ratios as they are measured from period to period;
- increasing requirements to obtain the prior approval of the Federal Reserve or our other U.S. and non-U.S. regulators for the use, allocation or distribution of our capital or other specific capital actions or programs, including acquisitions, dividends and equity purchases, without which our growth plans, distributions to shareholders, equity purchase programs or other capital initiatives may be restricted;
- changes in law or regulation, or the enforcement of law or regulation, that may adversely affect our business activities or those of our clients or our counterparties, and the products or services that we sell, including additional or increased taxes or assessments thereon, capital adequacy requirements, margin requirements and changes that expose us to risks related to the

adequacy of our controls or compliance programs;

- financial market disruptions or economic recession, whether in the U.S., Europe, Asia or other regions;
- our ability to promote a strong culture of risk management, operating controls, compliance oversight and governance that meet our expectations and those of our clients and our regulators;
- the results of, and costs associated with, governmental or regulatory inquiries and investigations, litigation and similar claims, disputes, or proceedings;
- delays or difficulties in the execution of our previously announced Business Operations and Information Technology Transformation program, which could lead to changes in our estimates of the charges, expenses or savings associated with the planned program and may cause volatility of our earnings;
- the potential for losses arising from our investments in sponsored investment funds;
- the possibility that our clients will incur substantial losses in investment pools for which we act as agent, and the possibility of significant reductions in the liquidity or valuation of assets underlying those pools;
- our ability to anticipate and manage the level and timing of redemptions and withdrawals from our collateral pools and other collective investment products;
- the credit agency ratings of our debt and depository obligations and investor and client perceptions of our financial strength;
- adverse publicity, whether specific to State Street or regarding other industry participants or industry-wide factors, or other reputational harm;
- our ability to control operational risks, data security breach risks and outsourcing risks, our ability to protect our intellectual property rights, the possibility of errors in the quantitative models we use to manage our business and the possibility that our controls will prove insufficient, fail or be circumvented;
- dependencies on information technology and our ability to control related risks, including cyber-crime and other threats to our information technology infrastructure and systems and their effective operation both independently and

with external systems, and complexities and costs of protecting the security of our systems and data;

- our ability to grow revenue, control expenses, attract and retain highly skilled people and raise the capital necessary to achieve our

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business goals and comply with regulatory requirements;

- changes or potential changes to the competitive environment, including changes due to regulatory and technological changes, the effects of industry consolidation and perceptions of State Street as a suitable service provider or counterparty;
- changes or potential changes in how and in what amounts clients compensate us for our services, and the mix of services provided by us that clients choose;
- our ability to complete acquisitions, joint ventures and divestitures, including the ability to obtain regulatory approvals, the ability to arrange financing as required and the ability to satisfy closing conditions;
- the risks that our acquired businesses and joint ventures will not achieve their anticipated financial and operational benefits or will not be integrated successfully, or that the integration will take longer than anticipated, that expected synergies will not be achieved or unexpected negative synergies will be experienced, that client and deposit retention goals will not be met, that other regulatory or operational challenges will be experienced, and that disruptions from the transaction will harm our relationships with our clients, our employees or regulators;
- our ability to recognize emerging needs of our clients and to develop products that are responsive to such trends and profitable to us, the performance of and demand for the products and services we offer, and the potential for new products and services to impose additional costs on us and expose us to increased operational risk;
- changes in accounting standards and practices; and
- changes in tax legislation and in the interpretation of existing tax laws by U.S. and non-U.S. tax authorities that affect the amount of taxes due.

Actual outcomes and results may differ materially from what is expressed in our forward-looking statements and from our historical financial results due to the factors discussed in this section and elsewhere in this Form 10-Q or disclosed in our other SEC filings, including the risk factors discussed in our 2013 Form 10-K. Forward-looking statements in this Form 10-Q should not be relied on as representing our expectations or beliefs as of any date 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 above 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 or financial condition.

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.

OVERVIEW OF FINANCIAL RESULTS

The following tables present our financial results for the quarters and nine months ended September 30, 2014 and 2013:

| | Quarters Ended September 30, | | | | |
|---|---|---|---|---|---|
| (Dollars in millions, except per share amounts) | 2014 | 2013 | | % Change | |
| Total fee revenue | $2,012 | $1,883 | | 7 | % |
| Net interest revenue | 570 | 546 | | 4 | |
| Gains (losses) related to investment securities, net | — | (4 | ) | | |
| Total revenue | 2,582 | 2,425 | | 6 | |
| Provision for loan losses | 2 | — | | | |
| Total expenses | 1,892 | 1,722 | | 10 | |
| Income before income tax expense | 688 | 703 | | (2 | ) |

| | | | | | |
|---|---|---|---|---|---|
| Income tax expense | 128 | | 163 | | |
| Net income | $560 | | $540 | | 4 |
| Adjustments to net income: | | | | | |
| Dividends on preferred stock | (18 | ) | (7 | ) | |
| Earnings allocated to participating securities | — | | (2 | ) | |
| Net income available to common shareholders | $542 | | $531 | | |
| Earnings per common share: | | | | | |
| Basic | $1.28 | | $1.20 | | |
| Diluted | 1.26 | | 1.17 | | 8 |
| Average common shares outstanding (in thousands): | | | | | |
| Basic | 421,974 | | 442,860 | | |
| Diluted | 429,736 | | 452,154 | | |
| Cash dividends declared per common share | $.30 | | $.26 | | |
| Return on average common equity | 10.6 | % | 10.8 | % | |

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS (Continued)

| | Nine Months Ended September 30, | | |
|---|---|---|---|
| (Dollars in millions, except per share amounts) | 2014 | 2013 | % Change |
| Total fee revenue | $5,975 | $5,711 | 5 % |
| Net interest revenue | 1,686 | 1,718 | (2 ) |
| Gains (losses) related to investment securities, net | 4 | (9 ) | |
| Total revenue | 7,665 | 7,420 | 3 |
| Provision for loan losses | 6 | — | |
| Total expenses | 5,770 | 5,346 | 8 |
| Income before income tax expense | 1,889 | 2,074 | (9 ) |
| Income tax expense | 344 | 491 | |
| Net income | $1,545 | $1,583 | (2 ) |
| Adjustments to net income: | | | |
| Dividends on preferred stock | (43 ) | (20 ) | |
| Earnings allocated to participating securities | (2 ) | (6 ) | |
| Net income available to common shareholders | $1,500 | $1,557 | |
| Earnings per common share: | | | |
| Basic | $3.52 | $3.46 | |
| Diluted | 3.45 | 3.40 | 1 |
| Average common shares outstanding (in thousands): | | | |
| Basic | 426,775 | 449,742 | |
| Diluted | 434,510 | 458,392 | |
| Cash dividends declared per common share | $.86 | $.78 | |
| Return on average common equity | 10.0 % | 10.4 % | |

The following "Highlights" and "Financial Results" sections provide information related to significant events, as well as highlights of our consolidated financial results for the third quarter of 2014. More detailed information about our consolidated financial results, including comparisons of our financial results for the third quarter of 2014 to those for the third quarter of 2013 and for the nine months ended September 30, 2014 to those for the nine months ended September 30, 2013, is provided under "Consolidated Results of Operations," which follows these sections.

Highlights

- In the third quarter of 2014, we purchased approximately 5.8 million shares of our common stock at an average price of $70.61 per share and an aggregate cost of approximately $410 million.
- In the third quarter of 2014, we declared a quarterly common stock dividend of $0.30 per share, totaling approximately $126 million, which was paid in October 2014.

Additional information about our common stock purchase program, as well as our

common stock dividends, is provided under "Financial Condition – Capital" in this Management's Discussion and Analysis. Information about our common stock purchase program is also provided in Part II Item 2, "Unregistered Sales of Equity Securities and Use of Proceeds," included in this Form 10-Q.

- State Street is registered with the Federal Reserve as a bank holding company pursuant to the Bank Holding Company Act of 1956. The Bank Holding Company Act limits the activities in which we (and non-banking entities that we are deemed to control under that Act) may engage to activities the Federal Reserve considers to be closely related to banking or to managing or controlling banks. Financial holding company status expands the activities permissible for a bank holding company to those that are deemed to be "financial in nature" by the Federal Reserve. State Street elected to become a financial holding company under the Bank Holding Company Act. Financial holding company status requires State Street and its banking subsidiaries to remain well capitalized and well managed and to comply with Community Reinvestment Act obligations. Currently, under the Bank Holding Company Act, we may not be able to engage in new activities or acquire shares or control of other businesses.

In addition, we meet the criteria for a systemically important financial institution under the Dodd-Frank Act and we are one of 29 banking organizations identified as a global systemically important bank, or G-SIB, by the Financial Stability Board.

Our compliance obligations have increased significantly due to new regulations in the U.S. and internationally that have been adopted or proposed in response to the financial crisis. As a systemically important financial institution, we are subject to enhanced supervision and prudential standards. In Europe, certain of our European banking subsidiaries are subject to the European Central Bank's new supervisory authority. Our status as a G-SIB has also resulted in heightened prudential and conduct expectations of our U.S., non-U.S. and international regulators with respect to our capital and liquidity management and our compliance and risk oversight programs. These heightened expectations have increased our regulatory compliance costs,

including personnel and systems, as well as significant additional implementation and related costs to enhance our programs.

In addition, we and other large banking organizations are required under the Dodd-Frank Act to periodically submit a resolution plan to the Federal Reserve and the Federal Deposit Insurance Corporation, or FDIC, describing our strategy for rapid and orderly resolution in the event of material financial distress or failure. In August 2014, the Federal Reserve and the FDIC announced the completion of their reviews of resolution plans submitted in 2013 by 11 large, complex banking organizations, including State Street, under the requirements of the Dodd-Frank Act, and informed each of these organizations of specific shortcomings with their respective 2013 resolution plans. If we fail to meet regulatory expectations to the satisfaction of the Federal Reserve and the FDIC in the submission of our 2015 resolution plan, we could be subject to more stringent capital, leverage or liquidity requirements, restrictions on our growth, activities or operations, or be required to divest certain of our assets or operations.

Financial Results

- Total revenue in the third quarter of 2014 increased 6%, and total fee revenue increased 7%, compared to the third quarter of 2013. Increases in servicing fee and management fee revenue, trading services revenue, net interest revenue and securities finance revenue were partly offset by a decline in processing fees and other revenue.
- Servicing fee revenue in the third quarter of 2014 increased 8% compared to the third quarter of 2013, mainly the result of stronger global equity markets and the positive revenue impact of net new business. Servicing fees generated outside the U.S. in both the third quarter of 2014 and the third quarter of 2013 were approximately 42% of total servicing fees for those periods.
- Management fee revenue increased 14% in the third quarter of 2014 compared to the third quarter of 2013, primarily the result of stronger global equity markets, net inflows, higher performance fees and the positive revenue impact of net new business. Management fees generated outside the U.S. in the third quarter of 2014 and the third quarter of 2013 were approximately 38% and 37%, respectively, of total management fees for those periods.
- In the third quarter of 2014, trading services revenue, composed of revenue generated by foreign exchange trading and revenue from brokerage and other trading services, increased 5% compared to the third quarter of 2013. Revenue from foreign exchange trading increased 10%, with direct sales and trading foreign exchange revenue up 39% and estimated indirect foreign exchange revenue down 21%, from the third quarter of 2013. Direct sales and trading foreign exchange revenue benefited from higher volumes, while indirect foreign exchange revenue declined mainly due to lower volatility and lower spreads.
- Securities finance revenue increased 34% in the third quarter of 2014 compared to the third quarter of 2013, mainly reflective of growth in our enhanced custody business, where we participate in securities finance transactions as a principal, and the impact of higher lending volumes associated with our agency lending program.
- Net interest revenue in the third quarter of 2014 increased 4% compared to the third quarter of 2013, primarily driven by the investment of a higher level of client deposits, an increase in the investment portfolio, and our continued investment in senior secured bank loans in the third quarter of 2014.

Net interest margin, calculated on fully taxable-equivalent net interest revenue, declined 21 basis points to 1.12% in the third quarter of 2014 from 1.33% in the third quarter of 2013. Continued elevated levels of client deposits increased our average interest-earning assets, but negatively affected our net interest margin, as we placed a portion of these deposits with U.S. and non-U.S. central banks and earned the relatively low interest rates paid by the central banks on those balances.

Fully taxable-equivalent net interest revenue and net interest margin are discussed in more detail under "Consolidated Results of Operations - Net Interest Revenue" in this Management's Discussion and Analysis.

- Total expenses in the third quarter of 2014 increased 10% compared to the third quarter of 2013. Compensation and employee benefits expenses increased 6% in the quarterly comparison, primarily due to costs for additional staffing to support new business, the impact of merit increases and promotions, and higher regulatory compliance costs. These

aggregate

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increases were partly offset by savings generated from the implementation of our Business Operations and Information Technology Transformation program.

Other expenses increased 40% in the third quarter of 2014 compared to the third quarter of 2013, primarily due to a legal accrual (refer to "Consolidated Results of Operations - Trading Services Revenue" in this Management's Discussion and Analysis) and a charitable contribution to the State Street Foundation, as well as the impact of gains and recoveries associated with Lehman Brothers-related assets recorded in the third quarter of 2013.

We anticipate that evolving and increasing regulatory compliance requirements and expectations will continue to affect our expenses. Our employee compensation and benefits, information systems and other expenses could increase, as we further adjust our operations in response to new or proposed requirements and heightened expectations.

- With respect to our Business Operations and Information Technology Transformation program, we expect to achieve additional pre-tax expense savings for full-year 2014 of approximately $130 million. These pre-tax expense savings relate only to the Business Operations and Information Technology Transformation program and are based on projected improvement from our total 2010 expenses from operations, all else being equal. Our actual total expenses have increased since 2010, and may in the future increase or decrease, due to other factors.

Additional information with respect to our expenses, including our Business Operations and Information Technology Transformation program, is provided under "Consolidated Results of Operations - Expenses" in this Management's Discussion and Analysis.

- In the third quarter of 2014, we secured an estimated $302 billion of new business in assets to be serviced; of that total, approximately $173 billion was installed prior to September 30, 2014, with the remaining $129 billion expected to be installed in the remainder of 2014 or later. In the third quarter of 2014, we also installed approximately $121 billion of new asset servicing business that we were awarded in prior periods. As of September 30, 2014, we had an estimated $250 billion of new business in assets to be serviced, including

the $129 billion referenced above, which remained to be installed in future periods. New business in assets to be serviced includes assets from new servicing clients, as well as additional assets to be serviced for existing clients. The new business not installed by September 30, 2014 was not included in our assets under custody and administration as of that date, and had no impact on our servicing fee revenue in the third quarter of 2014, as the assets are not included until their installation is complete and we begin to service them. Once installed, the assets generate servicing fee revenue in subsequent periods in which the assets are serviced.

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

- In the third quarter of 2014, SSgA added approximately $3 billion of net new business in assets to be managed, composed primarily of approximately $8 billion of net inflows, substantially into ETFs and managed cash, partly offset by net outflows of approximately $5 billion from institutional products.

In addition, approximately $1 billion of new business awarded to SSgA but not installed by September 30, 2014 was not included in our assets under management as of that date, and had no impact on our management fee revenue for the third quarter of 2014, as the assets are not included until their installation is complete and we begin to manage them. Once installed, the assets generate management fee revenue in subsequent periods in which the assets are managed.

## CONSOLIDATED RESULTS OF OPERATIONS

This section discusses our consolidated results of operations for the third quarter and first nine months of 2014 compared to the same periods in 2013 in more detail, and should be read in conjunction with the consolidated financial statements and accompanying condensed notes included in this Form 10-Q.

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MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS (Continued)

Total Revenue
Additional information with respect to the sources of our revenue, the products and activities that generate it, and the factors that influence the levels of revenue generated during any period is provided under “Consolidated Results of Operations – Total Revenue” in Management’s Discussion and Analysis included in our 2013 Form 10-K.
The following tables present the components of total revenue for the periods indicated:

| | Quarters Ended September 30, | | |
|---|---|---|---|
| | 2014 | 2013 | % Change |
| (Dollars in millions) | | | |
| Fee revenue: | | | |
| Servicing fees | $1,302 | $1,211 | 8 % |
| Management fees | 316 | 276 | 14 |
| Trading services: | | | |
| Foreign exchange trading | 161 | 147 | 10 |
| Brokerage and other trading services | 117 | 118 | (1) |
| Total trading services | 278 | 265 | 5 |
| Securities finance | 99 | 74 | 34 |
| Processing fees and other | 17 | 57 | (70) |
| Total fee revenue | 2,012 | 1,883 | 7 |
| Net interest revenue: | | | |
| Interest revenue | 671 | 643 | 4 |
| Interest expense | 101 | 97 | 4 |
| Net interest revenue | 570 | 546 | 4 |
| Gains (losses) related to investment securities, net | — | (4) | |
| Total revenue | $2,582 | $2,425 | 6 |

| | Nine Months Ended September 30, | | |
|---|---|---|---|
| (Dollars in millions) | 2014 | 2013 | % Change |
| Fee revenue: | | | |
| Servicing fees | $3,828 | $3,587 | 7 % |
| Management fees | 908 | 816 | 11 |
| Trading services: | | | |
| Foreign exchange trading | 439 | 464 | (5) |
| Brokerage and other trading services | 352 | 394 | (11) |
| Total trading services | 791 | 858 | (8) |
| Securities finance | 331 | 283 | 17 |
| Processing fees and other | 117 | 167 | (30) |
| Total fee revenue | 5,975 | 5,711 | 5 |
| Net interest revenue: | | | |
| Interest revenue | 1,976 | 2,030 | (3) |
| Interest expense | 290 | 312 | (7) |
| Net interest revenue | 1,686 | 1,718 | (2) |
| Gains (losses) related to investment securities, net | 4 | (9) | |
| Total revenue | $7,665 | $7,420 | 3 |

Fee Revenue
Servicing and management fees collectively composed approximately 80% and 79% of our total fee revenue in the third quarter and first nine months of 2014, respectively, compared to approximately 79% and 77%, respectively, for the corresponding periods in 2013. The level of these fees is influenced by several factors, including the mix and

volume of our assets under custody and administration and our assets under management, the value and type of securities positions held (with respect to assets under custody) and the volume of portfolio transactions, and the types of products and services used by our clients, and is generally affected by changes in worldwide equity and fixed-income security valuations and trends in market asset class preferences.

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

Generally, management fees are affected by changes in month-end valuations of assets under management. Management fees for certain components of managed assets, such as ETFs, are affected by daily average valuations of assets under management. Management fee revenue is more sensitive to market valuations than servicing fee revenue, since 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, changes in service level and other factors, may have a significant effect on our management fee revenue. While certain management fees are directly determined by the values of assets under management and the investment strategies employed, management fees may reflect other factors as well, including performance fee arrangements, discussed later in this section, as well as our relationship pricing for clients using multiple services.

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

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In light of the above, we estimate, using relevant information as of September 30, 2014 and assuming that all other factors remain constant, that: (1) a 10% increase or decrease, over the relevant periods on which our servicing and management fees are calculated, in worldwide equity valuations would result in a corresponding change in our total revenue of approximately 2%; and (2) a 10% increase or decrease, over the relevant periods for or on which our servicing and management fees are calculated, in worldwide fixed-income security valuations would result in a corresponding change in our total revenue of approximately 1%.
The following table presents selected equity market indices. While the specific indices presented

are indicative of general market trends, the asset types and classes relevant to individual client portfolios can and do differ, and the performance of associated relevant indices can therefore differ from the performance of the indices presented.
Daily averages and the averages of month-end indices demonstrate worldwide changes in equity markets that affect our servicing and management fee revenue. Quarter-end indices affect the values of assets under custody and administration and assets under management as of those dates. The index names listed in the table are service marks of their respective owners.

| INDEX | Daily Averages of Indices | | | Averages of Month-End Indices | | | Quarter-End Indices | | |
|---|---|---|---|---|---|---|---|---|---|
| | Quarters Ended September 30, | | | Quarters Ended September 30, | | | As of September 30, | | |
| | 2014 | 2013 | % Change | 2014 | 2013 | % Change | 2014 | 2013 | % Change |
| S&P 500® | 1,976 | 1,675 | 18 % | 1,969 | 1,667 | 18 % | 1,972 | 1,682 | 17 % |
| NASDAQ® | 4,483 | 3,641 | 23 | 4,481 | 3,663 | 22 | 4,493 | 3,771 | 19 |
| MSCI EAFE® | 1,924 | 1,748 | 10 | 1,901 | 1,747 | 9 | 1,846 | 1,818 | 2 |
| | Daily Averages of Indices | | | Averages of Month-End Indices | | | | | |
| | Nine Months Ended September 30, | | | Nine Months Ended September 30, | | | | | |
| | 2014 | 2013 | % Change | 2014 | 2013 | % Change | | | |
| S&P 500® | 1,905 | 1,601 | 19 % | 1,910 | 1,602 | 19 % | | | |
| NASDAQ® | 4,298 | 3,400 | 26 | 4,313 | 3,416 | 26 | | | |
| MSCI EAFE® | 1,920 | 1,708 | 12 | 1,918 | 1,707 | 12 | | | |

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
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The following tables present the components of fee revenue for the periods indicated:
FEE REVENUE

| | Quarters Ended September 30, | | |
|---|---|---|---|
| (Dollars in millions) | 2014 | 2013 | % Change |
| Servicing fees | $1,302 | $1,211 | 8 % |
| Management fees | 316 | 276 | 14 |
| Trading services: | | | |
| Foreign exchange trading | 161 | 147 | 10 |
| Brokerage and other trading services | 117 | 118 | (1) |
| Total trading services | 278 | 265 | 5 |
| Securities finance | 99 | 74 | 34 |
| Processing fees and other | 17 | 57 | (70) |
| Total fee revenue | $2,012 | $1,883 | 7 |

| | Nine Months Ended September 30, | | |
|---|---|---|---|
| (Dollars in millions) | 2014 | 2013 | % Change |
| Servicing fees | $3,828 | $3,587 | 7 % |
| Management fees | 908 | 816 | 11 |
| Trading services: | | | |
| Foreign exchange trading | 439 | 464 | (5) |
| Brokerage and other trading services | 352 | 394 | (11) |
| Total trading services | 791 | 858 | (8) |
| Securities finance | 331 | 283 | 17 |
| Processing fees and other | 117 | 167 | (30) |
| Total fee revenue | $5,975 | $5,711 | 5 |

Servicing Fees

Increases in servicing fees in the third quarter and first nine months of 2014 compared to the third quarter and first nine months of 2013 resulted primarily from stronger global equity markets and the positive revenue impact of net new business (revenue added from new servicing business installed less revenue lost from the removal of assets serviced). The increase in the nine-month comparison also reflected the positive impact of foreign currency translation.

For both the third quarter and first nine months of 2014, servicing fees generated outside the U.S. were approximately 42% of total servicing fees, compared to approximately 42% and 41% for the third quarter and first nine months of 2013, respectively.

We are responding to subpoenas from the Department of Justice and the SEC for information regarding our solicitation of asset servicing business of public retirement plans. We have retained counsel to conduct a review of these matters, including our use of consultants and lobbyists in our solicitation of business of public retirement plans and, in at least one instance, political contributions by one of our consultants during and after a public bidding process. While we are

unable to predict the outcome of these matters, adverse outcomes could have a material adverse effect on our business and reputation.

The following tables present the components, financial instrument mix and geographic mix of assets under custody and administration, as of the dates indicated:

COMPONENTS OF ASSETS UNDER CUSTODY AND ADMINISTRATION

| (In billions) | September 30, 2014 | December 31, 2013 | September 30, 2013 |
|---|---|---|---|
| Mutual funds | $7,035 | $6,811 | $6,524 |
| Collective funds | 6,919 | 6,428 | 6,013 |

| | | | |
|---|---|---|---|
| Pension products | 5,780 | 5,851 | 5,446 |
| Insurance and other products | 8,731 | 8,337 | 8,050 |
| Total | $28,465 | $27,427 | $26,033 |

FINANCIAL INSTRUMENT MIX OF ASSETS UNDER CUSTODY AND ADMINISTRATION

| (In billions) | September 30, 2014 | December 31, 2013 | September 30, 2013 |
|---|---|---|---|
| Equities | $15,616 | $15,050 | $13,849 |
| Fixed-income | 9,298 | 9,072 | 8,894 |
| Short-term and other investments | 3,551 | 3,305 | 3,290 |
| Total | $28,465 | $27,427 | $26,033 |

GEOGRAPHIC MIX OF ASSETS UNDER CUSTODY AND ADMINISTRATION[1]

| (In billions) | September 30, 2014 | December 31, 2013 | September 30, 2013 |
|---|---|---|---|
| North America | $21,255 | $20,764 | $19,737 |
| Europe/Middle East/Africa | 5,869 | 5,511 | 5,219 |
| Asia/Pacific | 1,341 | 1,152 | 1,077 |
| Total | $28,465 | $27,427 | $26,033 |

(1) Geographic mix is based on the location at which the assets are serviced.

The increases in total assets under custody and administration as of September 30, 2014 compared to both December 31, 2013 and September 30, 2013, resulted primarily from stronger global equity markets and net shareholder subscriptions experienced by our custody clients, partly offset by net losses of assets serviced. Asset levels as of September 30, 2014 did not reflect the estimated $250 billion of new business in assets to be serviced awarded to us in the third quarter of 2014 and prior periods but not installed prior to September 30, 2014. This new business will be reflected in assets under custody and administration in

future periods after installation and will generate servicing fee revenue in subsequent periods.
The value of assets under custody and administration is a broad measure of the relative size of various markets served. Changes in the values of assets under custody and administration from period to period do not necessarily result in proportional changes in our servicing fee revenue.

Management Fees

Increases in management fees in the third quarter and first nine months of 2014 compared to the same periods in 2013 resulted primarily from stronger global equity markets, net inflows, higher performance fees and, in the quarterly comparison, the positive revenue impact of the excess of revenue added from newly installed assets to be managed over the revenue lost from liquidations of managed assets. For the third quarter and first nine months of 2014, management fees generated outside the U.S. were approximately 38% and 37%, respectively, of total management fees, compared to approximately 37% and 36%, respectively, for the same periods in 2013.
The following tables present assets under management by asset class and investment approach, ETFs by asset class, and the geographic mix of assets under management, as of the dates indicated:

ASSETS UNDER MANAGEMENT BY ASSET CLASS AND INVESTMENT APPROACH[1]

| (In billions) | September 30, 2014 | December 31, 2013 | September 30, 2013 |
|---|---|---|---|
| Equity: | | | |
| Active | $40 | $42 | $41 |
| Passive | 1,371 | 1,334 | 1,228 |
| Total Equity | 1,411 | 1,376 | 1,269 |
| Fixed-Income: | | | |
| Active | 16 | 16 | 17 |
| Passive | 322 | 311 | 314 |
| Total Fixed-Income | 338 | 327 | 331 |
| Cash[2] | 410 | 385 | 386 |
| Multi-Asset-Class Solutions: | | | |
| Active | 34 | 23 | 23 |
| Passive | 104 | 110 | 105 |
| Total Multi-Asset-Class Solutions | 138 | 133 | 128 |
| Alternative Investments[3]: | | | |
| Active | 17 | 14 | 14 |
| Passive | 107 | 110 | 113 |
| Total Alternative Investments | 124 | 124 | 127 |
| Total | $2,421 | $2,345 | $2,241 |

[1] As of December 31, 2013, the presentation was changed to align with the reporting of core businesses. Amounts reported as of September 30, 2013 have been adjusted for comparative purposes.
[2] Includes both floating- and constant-net-asset-value portfolios held in commingled structures or separate accounts.
[3] Includes real estate investment trusts, currency and commodities, including SPDR® Gold Fund, for which State Street is not the investment manager, but acts as distribution agent.

EXCHANGE-TRADED FUNDS BY ASSET CLASS[1][2]

| (In billions) | September 30, 2014 | December 31, 2013 | September 30, 2013 |
|---|---|---|---|
| Alternative investments | $40 | $39 | $46 |
| Cash | 1 | 1 | 2 |
| Equity | 338 | 325 | 280 |
| Fixed-income | 37 | 34 | 33 |

| | | | |
|---|---|---|---|
| Total Exchange-Traded Funds | $416 | $399 | $361 |

[1] Exchange-traded funds are a component of assets under management presented in the preceding table.
[2] Includes SPDR® Gold Fund, for which State Street is not the investment manager, but acts as distribution agent.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

GEOGRAPHIC MIX OF ASSETS UNDER MANAGEMENT[1]

| (In billions) | September 30, 2014 | December 31, 2013 | September 30, 2013 |
|---|---|---|---|
| North America | $1,502 | $1,456 | $1,388 |
| Europe/Middle East/Africa | 565 | 560 | 537 |
| Asia/Pacific | 354 | 329 | 316 |
| Total | $2,421 | $2,345 | $2,241 |

(1) Geographic mix is based on client location or fund management location. Amounts reported as of September 30, 2013 were adjusted for comparative purposes to reflect realignment of reporting.

The increase in total assets under management as of September 30, 2014 compared to December 31, 2013 resulted primarily from net market appreciation during the first nine months of 2014 in the values of the assets managed and net new business of approximately $21 billion, partly offset by the impact of the stronger U.S. dollar. The net new business of approximately $21 billion was primarily composed of approximately $28 billion of net inflows into money market funds, partly offset by net outflows of approximately $5 billion from long-term institutional portfolios and approximately $2 billion from ETFs.

The following table presents activity in assets under management, by product category, for the twelve months ended September 30, 2014:

ASSETS UNDER MANAGEMENT

| (In billions) | Equity | Fixed-Income | Cash | Multi-Asset-Class Solutions | Alternative Investments | Total |
|---|---|---|---|---|---|---|
| Balance as of September 30, 2013 | $1,269 | $331 | $386 | $ 128 | $127 | $2,241 |
| Long-term institutional inflows[1] | 66 | 15 | — | 11 | 6 | 98 |
| Long-term institutional outflows[1] | (79) | (17) | — | (9) | (6) | (111) |
| Long-term institutional flows, net | (13) | (2) | — | 2 | — | (13) |
| ETF flows, net | 22 | 1 | — | — | (4) | 19 |
| Cash fund flows, net | — | — | (1) | — | — | (1) |
| Total flows, net | 9 | (1) | (1) | 2 | (4) | 5 |
| Market appreciation[2] | 102 | 1 | — | 2 | 2 | 107 |
| Foreign exchange impact[2] | (4) | (4) | — | 1 | (1) | (8) |
| Total market/foreign exchange impact | 98 | (3) | — | 3 | 1 | 99 |
| Balance as of December 31, 2013 | 1,376 | 327 | 385 | 133 | 124 | 2,345 |
| Long-term institutional inflows[1] | 199 | 60 | — | 36 | 9 | 304 |
| Long-term institutional outflows[1] | (216) | (58) | — | (27) | (8) | (309) |
| Long-term institutional flows, net | (17) | 2 | — | 9 | 1 | (5) |
| ETF flows, net | (6) | 4 | — | — | — | (2) |
| Cash fund flows, net | — | — | 28 | — | — | 28 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Total flows, net | (23) | 6 | 28 | 9 | 1 | 21 |
| Market appreciation[2] | 74 | 13 | — | (1) | 2 | 88 |
| Foreign exchange impact[2] | (16) | (8) | (3) | (3) | (3) | (33) |
| Total market/foreign exchange impact | 58 | 5 | (3) | (4) | (1) | 55 |
| Balance as of September 30, 2014 | $1,411 | $338 | $410 | $ 138 | $124 | $2,421 |

[1] Amounts represent long-term portfolios, excluding ETFs.
[2] Amounts represent aggregate impact on each product category for the period.

The net new business of approximately $21 billion in the first nine months of 2014 presented in the preceding table did not include approximately $1 billion of new asset management business, substantially all of which was awarded to SSgA in the third quarter of 2014 but not installed prior to September 30, 2014. This new business will be reflected in assets under management in future periods after installation, and will

generate management fee revenue in subsequent periods.

Total assets under management as of September 30, 2014 included managed assets lost but not yet liquidated. Lost business occurs from time to time and it is difficult to predict the timing of client behavior in transitioning these assets. This timing can vary significantly.

Trading Services

The following tables summarize the components of trading services revenue for the periods indicated:

| | Quarters Ended September 30, | | | |
|---|---|---|---|---|
| (Dollars in millions) | 2014 | 2013 | % Change | |
| Foreign exchange trading: | | | | |
| Direct sales and trading | $103 | $74 | 39 | % |
| Indirect foreign exchange trading | 58 | 73 | (21 | ) |
| Total foreign exchange trading | 161 | 147 | 10 | |
| Brokerage and other trading services: | | | | |
| Electronic foreign exchange trading | 52 | 57 | (9 | ) |
| Other trading, transition management and brokerage | 65 | 61 | 7 | |
| Total brokerage and other trading services | 117 | 118 | (1 | ) |
| Total trading services revenue | $278 | $265 | 5 | |

| | Nine Months Ended September 30, | | | |
|---|---|---|---|---|
| (Dollars in millions) | 2014 | 2013 | % Change | |
| Foreign exchange trading: | | | | |
| Direct sales and trading | $253 | $241 | 5 | % |
| Indirect foreign exchange trading | 186 | 223 | (17 | ) |
| Total foreign exchange trading | 439 | 464 | (5 | ) |
| Brokerage and other trading services: | | | | |
| Electronic foreign exchange trading | 160 | 199 | (20 | ) |
| Other trading, transition management and brokerage | 192 | 195 | (2 | ) |
| Total brokerage and other trading services | 352 | 394 | (11 | ) |
| Total trading services revenue | $791 | $858 | (8 | ) |

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

We also offer a range of brokerage and other trading products tailored specifically to meet the needs of the global pension community, including transition management and commission recapture. In addition, we act as distribution agent for the SPDR® Gold ETF. These products and services are generally differentiated by our role as an agent of the institutional investor. Revenue earned from these

services is recorded in other trading, transition management and brokerage revenue within brokerage and other trading services revenue.

FX trading revenue is influenced by three principal factors: the volume and type of client FX transactions and related spreads; currency volatility; and the management of market risk associated with currencies and interest rates. Revenue earned from direct sales and trading FX and indirect FX is recorded in FX trading revenue. Revenue earned from electronic FX trading is recorded in brokerage and other trading services revenue.

The changes in total trading services revenue in the third quarter and first nine months of 2014 compared to the same periods in 2013, composed of changes related to FX trading and brokerage and other trading services, are explained below.

Total FX trading revenue increased 10% in the third quarter of 2014 compared to the third quarter of 2013, primarily the result of higher client volumes. The 5% decrease in the first nine months of 2014 compared to the first nine months of 2013 was primarily the result of lower currency volatility and spreads, partly offset by higher client

volumes in direct sales and trading.
We enter into FX transactions with clients and investment managers that contact our trading desk directly. These trades are all executed at negotiated rates. We refer to this activity, and our principal market-making activities, as "direct sales and trading FX." Alternatively, clients or their investment managers may elect to route FX transactions to our FX desk through our asset-servicing operation; we refer to this activity as "indirect FX." We execute indirect FX trades as a principal at rates disclosed to our clients. We calculate revenue for indirect FX using an attribution methodology based on estimated effective mark-ups/downs and observed client volumes. All other FX trading revenue, other than this indirect FX revenue estimate, is considered by us to be direct sales and trading FX revenue.
Our clients that utilize indirect FX can, in addition to executing their FX transactions through dealers not affiliated with us, transition from indirect FX to either direct sales and trading FX execution, including our "Street FX" service, or to one of our electronic trading platforms. Street FX, in which State Street continues to act as a principal market maker, enables our clients to define their FX execution strategy and automate the FX trade execution process.
For the third quarter and first nine months of 2014, our estimated indirect FX revenue decreased 21% and 17%, respectively, compared to the same periods in 2013. The declines mainly resulted from

lower currency volatility and spreads. For the third quarter and first nine months of 2014 compared to the same periods in 2013, our direct sales and trading FX revenue increased 39% and 5%, respectively. The increases primarily resulted from higher client volumes, partly offset by lower currency volatility and spreads.

In the third quarter of 2014, we recorded a pre-tax legal accrual of approximately $70 million, or $53 million after-tax, in connection with management's intention to seek to resolve some, but not all, of the outstanding and potential claims arising out of our indirect FX client activities. This accrual is more fully discussed under "Legal and Regulatory Matters" in note 8 to the consolidated financial statements included in this Form 10-Q.

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

Participants in the foreign exchange industry are reported to be experiencing governmental scrutiny and litigation concerning alleged manipulation in foreign exchange markets, particularly with respect to published benchmarks. We are enhancing our monitoring with respect to foreign exchange transactions and communications by foreign exchange traders. We have also commenced, but have not completed, an internal review of communications in the inter-bank market and have been advising certain U.S. and non-U.S. government agencies of the results of such review. Our business may become subject to material governmental review or proceedings or the assertion of material claims.

Total brokerage and other trading services revenue in the third quarter of 2014 decreased 1% compared to the third quarter of 2013, and in the first nine months of 2014 declined 11% compared to the first nine months of 2013. Our clients may choose to execute FX transactions through one of our electronic trading platforms. These transactions generate revenue through a "click" fee. Revenue from such electronic FX trading declined 9% and 20% in the third quarter and first nine months of 2014, respectively, compared to the same periods in 2013, mainly due to declines in client volumes.

In the third quarter of 2014, other trading, transition management and brokerage revenue increased 7% compared to the third quarter of 2013 primarily due to an increase in currency management revenue, partly offset by declines in distribution fees associated with the SPDR® Gold ETF, which resulted

from outflows as average gold prices declined during the period. In the first nine months of 2014, other trading, transition management and brokerage revenue declined 2% compared to the same period in 2013. The decrease was primarily due to declines in distribution fees associated with the SPDR® Gold ETF, which resulted from outflows as average gold prices declined during the period, partly offset by an increase in currency management revenue. With respect to the SPDR® Gold ETF, fees earned by us as distribution agent are recorded in other trading, transition management and brokerage revenue within brokerage and other trading services revenue, and not in management fee revenue.

Our revenue from transition management and related expenses in the first nine months of 2014, as well as in full years 2013, 2012 and 2011, were adversely affected by compliance issues in our U.K. business, the reputational and regulatory impact of which may continue to adversely affect our transition management revenue in future periods.

Securities Finance

Our agency securities finance business consists of two components: an agency lending program for SSgA-managed investment funds with a broad range of investment objectives, which we refer to as the SSgA lending funds, and an agency lending program for third-party investment managers and asset owners, which we refer to as the agency lending funds.

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.

We also participate in securities lending transactions as a principal, which we refer to as our enhanced custody business. As principal, we borrow securities from the lending client and then lend such securities to the subsequent

borrower, either a State Street client or a broker/dealer. Our involvement as principal is utilized when the lending client is unable to, or elects not to, transact directly with the market and requires us to execute the transaction and furnish the securities. In our role as principal, we provide support to the transaction through our credit rating. While we source a significant proportion of the securities furnished by us in our role as principal from third parties, we have the ability to source securities through our assets under custody and administration, from clients who have designated State Street as an eligible borrower.

Securities finance revenue in the third quarter and first nine months of 2014 increased 34% and 17%, respectively, compared to the same periods in 2013.

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The quarter-over-quarter increase was mainly the result of growth in our enhanced custody business and the impact of higher lending volumes associated with our agency lending program. The increase in the nine-month comparison was mainly the result of growth in our enhanced custody business.
Market influences may continue to affect client demand for securities finance, and as a result our revenue from, and the profitability of, our securities lending activities in future periods. In addition, proposed or anticipated regulatory changes may affect the volume of our securities lending activity and related revenue and profitability in future periods.
Processing Fees and Other
Processing fees and other revenue declined 70% and 30% in the third quarter and first nine months of 2014, respectively, compared to the same periods in 2013. The decrease was mainly due to higher amortization of tax-advantaged investments, partly offset by higher revenue from our investment in bank-owned life insurance.

Net Interest Revenue
Net interest revenue is defined as interest revenue earned on interest-earning assets less interest expense incurred on interest-bearing liabilities. Interest-earning assets, which principally consist of investment securities, interest-bearing deposits with banks, repurchase agreements, loans and leases and other liquid assets, are financed primarily by client deposits, short-term borrowings and long-term debt. Net interest margin represents the relationship between annualized fully taxable-equivalent net interest revenue and average total interest-earning assets for the period. Revenue that is exempt from income taxes, mainly that earned from certain investment securities (state and political subdivisions), is adjusted to a fully taxable-equivalent basis using a federal statutory income tax rate of 35%, adjusted for applicable state income taxes, net of the related federal tax benefit.

The following tables present the components of average interest-earning assets and average interest-bearing liabilities, related interest revenue and interest expense, and rates earned and paid, for the periods indicated:

| | Quarters Ended September 30, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2014 | | | | 2013 | | | |
| (Dollars in millions; fully taxable-equivalent basis) | Average Balance | Interest Revenue/ Expense | Rate | | Average Balance | Interest Revenue/ Expense | Rate | |
| Interest-bearing deposits with banks | $63,160 | $53 | .33 | % | $25,270 | $29 | .46 | % |
| Securities purchased under resale agreements | 3,249 | 9 | 1.05 | | 5,895 | 8 | .54 | |
| Trading account assets | 985 | — | — | | 802 | — | — | |
| Investment securities | 117,618 | 586 | 1.99 | | 115,552 | 582 | 2.02 | |
| Loans and leases | 16,002 | 64 | 1.59 | | 13,859 | 58 | 1.66 | |
| Other interest-earning assets | 17,003 | 2 | .05 | | 11,927 | 1 | .02 | |
| Average total interest-earning assets | $218,017 | $714 | 1.30 | | $173,305 | $678 | 1.56 | |
| Interest-bearing deposits: | | | | | | | | |
| U.S. | $24,144 | $7 | 0.11 | % | $5,735 | $1 | .06 | % |
| Non-U.S. | 114,756 | 26 | 0.09 | | 99,253 | 16 | .06 | |
| Securities sold under repurchase agreements | 9,111 | — | — | | 8,757 | — | — | |
| Federal funds purchased | 18 | — | — | | 247 | — | — | |
| Other short-term borrowings | 4,376 | — | — | | 3,413 | 15 | 1.63 | |
| Long-term debt | 9,020 | 60 | 2.64 | | 8,824 | 59 | 2.67 | |
| Other interest-bearing liabilities | 7,386 | 8 | 0.42 | | 6,777 | 6 | .35 | |
| Average total interest-bearing liabilities | $168,811 | $101 | 0.24 | | $133,006 | $97 | .29 | |
| Interest-rate spread | | | 1.06 | % | | | 1.27 | % |
| Net interest revenue—fully taxable-equivalent basis | | $613 | | | | $581 | | |

| | | |
|---|---|---|
| Net interest margin—fully taxable-equivalent basis | 1.12 % | 1.33 % |
| Tax-equivalent adjustment | (43 ) | (35 ) |
| Net interest revenue—GAAP basis | $570 | $546 |

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MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

| | Nine Months Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2014 | | | 2013 | | |
| (Dollars in millions; fully taxable-equivalent basis) | Average Balance | Interest Revenue/ Expense | Rate | Average Balance | Interest Revenue/ Expense | Rate |
| Interest-bearing deposits with banks | $50,153 | $138 | .37 % | $28,014 | $91 | .43 % |
| Securities purchased under resale agreements | 4,717 | 27 | .78 | 5,799 | 33 | .76 |
| Trading account assets | 947 | 1 | .12 | 723 | — | — |
| Investment securities | 117,681 | 1,752 | 1.98 | 117,877 | 1,809 | 2.05 |
| Loans and leases | 15,227 | 183 | 1.61 | 13,537 | 193 | 1.91 |
| Other interest-earning assets | 15,138 | 5 | .04 | 10,666 | 4 | .04 |
| Average total interest-earning assets | $203,863 | $2,106 | 1.38 | $176,616 | $2,130 | 1.61 |
| Interest-bearing deposits: | | | | | | |
| U.S. | $19,016 | $12 | .09 % | $9,006 | $10 | .14 % |
| Non-U.S. | 108,492 | 54 | .07 | 100,365 | 68 | .09 |
| Securities sold under repurchase agreements | 8,763 | — | — | 8,358 | — | — |
| Federal funds purchased | 19 | — | — | 303 | — | — |
| Other short-term borrowings | 4,096 | 4 | .12 | 3,894 | 46 | 1.55 |
| Long-term debt | 9,340 | 186 | 2.66 | 8,146 | 169 | 2.77 |
| Other interest-bearing liabilities | 7,237 | 34 | .62 | 6,517 | 19 | .39 |
| Average total interest-bearing liabilities | $156,963 | $290 | .25 | $136,589 | $312 | .30 |
| Interest-rate spread | | | 1.13 % | | | 1.31 % |
| Net interest revenue—fully taxable-equivalent basis | | $1,816 | | | $1,818 | |
| Net interest margin—fully taxable-equivalent basis | | | 1.19 % | | | 1.38 % |
| Tax-equivalent adjustment | | (130 ) | | | (100 ) | |
| Net interest revenue—GAAP basis | | $1,686 | | | $1,718 | |

Average total interest-earning assets for the first nine months of 2014 were higher compared to the first nine months of 2013, the result of our investment of elevated levels of client deposits in interest-bearing deposits with banks, higher levels of cash collateral (included in other interest-earning assets in the preceding tables) provided in connection with our enhanced custody business, and higher average loans and leases.

Our average other interest-earning assets, largely associated with the enhanced custody business, composed approximately 8% of our total average interest-earning assets for the third quarter of 2014 and approximately 7% for the first nine months of 2014, compared to approximately 7% for the third quarter of 2013 and approximately 6% for the first nine months of 2013, as this business continued to grow. While the enhanced custody business supports our overall profitability by generating securities finance revenue, it puts downward pressure on our net interest margin, as interest on the cash collateral provided is earned at a lower rate compared to our investment securities portfolio.

The higher level of investment in interest-bearing deposits with banks resulted from continued

higher levels of client deposits, discussed further below, while the increase in average loans and leases resulted from growth in mutual fund lending and our continued investment in senior secured bank loans.

During the past year, our clients have continued to place elevated levels of deposits with us, as low global interest rates have made deposits attractive relative to other investment options. The portion of these client deposits characterized as transient in nature has been generally placed with various central banks globally, while deposits characterized as more stable have been invested in our investment securities portfolio and used to support growth in other client-related activities.

A portion of the increase in client deposits in the third quarter of 2014 was driven by higher levels of Euro denominated deposits, as clients placed these deposits with us due to the negative interest rate environment in Europe.

We have characterized these additional deposits as transient in nature and, accordingly, have invested these deposits in central banks.

Net interest revenue increased 4% in the third quarter of 2014, and on a fully taxable-equivalent basis increased 6%, compared to the third quarter of 2013. The quarter-over-quarter increase was primarily driven by the investment of a higher level of

client deposits, an increase in the investment portfolio, and our continued investment in senior secured bank loans in the third quarter of 2014.

In the first nine months of 2014, net interest revenue decreased 2%, and on a fully taxable-equivalent basis was relatively flat, compared to the first nine months of 2013. The comparisons were generally the result of lower yields on interest-earning assets, as lower global interest rates affected our revenue from floating-rate assets, partly offset by the benefit of higher levels of interest-earning assets and lower rates on interest paid.

Subsequent to the commercial paper conduit consolidation in 2009, we have recorded aggregate discount accretion in interest revenue of $1.99 billion ($621 million in 2009, $712 million in 2010, $220 million in 2011, $215 million in 2012, $137 million in 2013 and $88 million in the first nine months of 2014). The timing and ultimate recognition of any applicable discount accretion depends, in part, on factors that are outside of our control, including anticipated prepayment speeds and credit quality. The impact of these factors is uncertain and can be significantly influenced by general economic and financial market conditions. The timing and recognition of any applicable discount accretion can also be influenced by our ongoing management of the risks and other characteristics associated with our investment securities portfolio, including sales of securities which would otherwise generate interest revenue through accretion.

Depending on the factors discussed above, among others, we anticipate that, until the former conduit securities remaining in our investment portfolio mature or are sold, discount accretion will continue to contribute, though generally in declining amounts, to our net interest revenue. Assuming that we hold the remaining former conduit securities to maturity, all else being equal, we expect the remaining former conduit securities carried in our investment portfolio as of September 30, 2014 to generate aggregate discount accretion in future periods of approximately $427 million over their remaining terms, with approximately half of this aggregate discount accretion to be recorded over the next four years.

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

Interest-bearing deposits with banks averaged $63.16 billion for the quarter ended September 30, 2014, compared to $25.27 billion for the quarter ended September 30, 2013. For the first nine months

of 2014, such deposits averaged $50.15 billion, compared to $28.01 billion for the first nine months of 2013. While these deposits reflected our maintenance of cash balances at the Federal Reserve, the European Central Bank, or ECB, and other non-U.S. central banks to satisfy regulatory reserve requirements, the above-described amounts also reflect the additional impact of continued elevated levels of client deposits and our investment of the excess deposits with these banks.

Certain client deposits were characterized as transient in nature and were placed with various central banks globally. If client deposits remain at or close to current elevated levels, we expect to continue to invest them in either money market assets, including central bank deposits, or in investment securities, depending on our assessment of the underlying characteristics of the deposits.

Average investment securities increased to $117.62 billion for the quarter ended September 30, 2014 from $115.55 billion for the quarter ended September 30, 2013, and in the nine-month comparison were relatively flat, $117.68 billion compared to $117.88 billion. The quarter-over-quarter growth was primarily driven by investments in U.S. Treasury securities. Detail with respect to our investment portfolio as of September 30, 2014 and December 31, 2013 is provided in note 3 to the consolidated financial statements included in this Form 10-Q.

Loans and leases averaged $16.00 billion for the third quarter of 2014, compared to $13.86 billion for the third quarter of 2013, and $15.23 billion for the first nine months of 2014, up from $13.54 billion for the same period in 2013. The increases were mainly related to mutual fund lending and our continued investment in senior secured bank loans, which in the aggregate averaged $10.62 billion for the quarter ended September 30, 2014 compared to $8.75 billion, the latter of which was primarily composed of mutual fund lending, for the quarter ended September 30, 2013.

Average loans and leases also include short-duration advances. The proportion of the daily average of short-duration advances to average loans and leases declined to approximately 24% for the third quarter of 2014 from approximately 25% for the third quarter of 2013, and declined to approximately 24% for the first nine months of 2014 from approximately 28% for the first nine months of 2013, mainly because of growth in the other segments of the loan and lease portfolio. Short-duration advances provide liquidity to clients in support of their investment activities.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

The following tables present average U.S. and non-U.S. short-duration advances for the periods indicated:

| | Quarters Ended September 30, | |
|---|---|---|
| (In millions) | 2014 | 2013 |
| Average U.S. short-duration advances | $2,372 | $2,292 |
| Average non-U.S. short-duration advances | 1,468 | 1,219 |
| Average total short-duration advances | $3,840 | $3,511 |

| | Nine Months Ended September 30, | |
|---|---|---|
| (In millions) | 2014 | 2013 |
| Average U.S. short-duration advances | $2,264 | $2,343 |
| Average non-U.S. short-duration advances | 1,463 | 1,409 |
| Average total short-duration advances | $3,727 | $3,752 |

Although average short-duration advances for the third quarter of 2014 increased compared to the third quarter of 2013, such average advances remained low relative to historical levels, mainly the result of clients continuing to hold higher levels of liquidity.

Average other interest-earning assets increased to $17.00 billion for the third quarter of 2014 from $11.93 billion for the third quarter of 2013, and increased to $15.14 billion from $10.67 billion in the nine-month comparison. The increased levels were primarily the result of higher levels of cash collateral provided in connection with our enhanced custody business.

Aggregate average interest-bearing deposits increased to $138.90 billion for the third quarter of 2014 from $104.99 billion for third quarter of 2013, and increased to $127.51 billion from $109.37 billion in the nine-month comparison. The higher levels were primarily the result of increases in both U.S. and non-U.S. transaction accounts and time deposits. Future transaction account levels will be influenced by the underlying asset servicing business, as well as market conditions, including the general levels of U.S. and non-U.S. interest rates.

Average other short-term borrowings increased to $4.38 billion for the third quarter of 2014 from $3.41 billion for the third quarter of 2013. In the nine-month comparison, average other short-term borrowings increased to $4.10 billion from $3.89 billion, with both increases the result of a higher level of client demand of our commercial paper. The declines in the rates paid in the third quarter and first nine months of 2014 compared to the third quarter and first nine months of 2013 resulted from a reclassification of certain derivative contracts that hedge our interest-rate risk on certain assets and liabilities, which reduced interest revenue and interest expense.

Average long-term debt increased to $9.02 billion for the third quarter of 2014 from $8.82 billion for the third quarter of 2013, and increased to $9.34 billion from $8.15 billion in the nine-month comparison. The increase primarily reflected the issuance of $1.5 billion of senior and subordinated debt in May 2013 and the issuance of $1.0 billion of senior debt in November 2013, partly offset by the maturity of $500 million of senior debt in May 2014 and $250 million of senior debt in March 2014.

Average other interest-bearing liabilities increased to $7.39 billion for the third quarter of 2014 from $6.78 billion for the third quarter of 2013 and increased to $7.24 billion from $6.52 billion in the nine-month comparison, primarily the result of higher levels of cash collateral received from clients in connection with our enhanced custody business.

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

Based on market conditions and other factors, we continue to reinvest the majority of the proceeds from pay-downs and maturities of investment securities in highly-rated securities, such as U.S. Treasury and agency securities, federal agency mortgage-backed securities and U.S. and non-U.S. mortgage- and asset-backed securities. The pace at which we continue to reinvest and the types of investment securities purchased will depend on the impact of market

conditions and other factors over time. We expect these factors and the levels of global interest rates to influence what effect our reinvestment program will have on future levels of our net interest revenue and net interest margin.



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Gains (Losses) Related to Investment Securities, Net

The following tables present net realized gains from sales of available-for-sale securities, and the components of net impairment losses included in net gains and losses related to investment securities, for the periods indicated:

| | Quarters Ended September 30, | |
|---|---|---|
| (In millions) | 2014 | 2013 |
| Net realized gains from sales of available-for-sale securities | $— | $6 |
| Net impairment losses: | | |
| Gross losses from other-than-temporary impairment | — | (13) |
| Losses reclassified (from) to other comprehensive income | — | 3 |
| Net impairment losses[1] | — | (10) |
| Gains (losses) related to investment securities, net | $— | $(4) |
| [1] Net impairment losses, recognized in our consolidated statement of income, were composed of the following: | | |
| Impairment associated with expected credit losses | $— | $(8) |
| Impairment associated with management's intent to sell impaired securities prior to recovery in value | — | — |
| Impairment associated with adverse changes in timing of expected future cash flows | — | (2) |
| Net impairment losses | $— | $(10) |

| | Nine Months Ended September 30, | |
|---|---|---|
| (In millions) | 2014 | 2013 |
| Net realized gains from sales of available-for-sale securities | $15 | $11 |
| Net impairment losses: | | |
| Gross losses from other-than-temporary impairment | (1) | (19) |
| Losses reclassified (from) to other comprehensive income | (10) | (1) |
| Net impairment losses[1] | (11) | (20) |
| Gains (losses) related to investment securities, net | $4 | $(9) |
| [1] Net impairment losses, recognized in our consolidated statement of income, were composed of the following: | | |
| Impairment associated with expected credit losses | $(10) | $(8) |
| Impairment associated with management's intent to sell impaired securities prior to recovery in value | — | (6) |
| Impairment associated with adverse changes in timing of expected future cash flows | (1) | (6) |
| Net impairment losses | $(11) | $(20) |

From time to time, in connection with our ongoing management of our investment securities portfolio, we sell available-for-sale securities to

manage risk, to take advantage of favorable market conditions, or for other reasons. In the first nine months of 2014, we sold approximately $8.20 billion of such investment securities, compared to approximately $8.09 billion in the first nine months of 2013, and recorded net realized gains of $15 million and $11 million, respectively, as presented in the preceding table.

We regularly review our investment securities portfolio to identify other-than-temporary impairment of individual securities. Additional information about investment securities, the gross gains and losses that compose the net gains from sales of securities and other-than-temporary impairment is provided in note 3 to the consolidated financial statements included in this Form 10-Q.

Expenses

The following tables present the components of expenses for the periods indicated:

| | Quarters Ended September 30, | | | |
|---|---|---|---|---|
| (Dollars in millions) | 2014 | 2013 | % Change | |
| Compensation and employee benefits | $953 | $903 | 6 | % |
| Information systems and communications | 242 | 235 | 3 | |
| Transaction processing services | 199 | 185 | 8 | |
| Occupancy | 119 | 113 | 5 | |
| Acquisition costs | 12 | 18 | | |
| Restructuring charges, net | 8 | 12 | | |
| Other: | | | | |
| Professional services | 97 | 98 | (1 | ) |
| Amortization of other intangible assets | 54 | 53 | 2 | |
| Securities processing costs | 8 | 14 | | |
| Regulatory fees and assessments | 17 | 23 | | |
| Other | 183 | 68 | 169 | |
| Total other | 359 | 256 | 40 | |
| Total expenses | $1,892 | $1,722 | 10 | |
| Number of employees as of quarter-end | 29,510 | 29,230 | | |

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| | Nine Months Ended September 30, | | |
|---|---|---|---|
| (Dollars in millions) | 2014 | 2013 | % Change |
| Compensation and employee benefits | $3,088 | $2,855 | 8 % |
| Information systems and communications | 730 | 707 | 3 |
| Transaction processing services | 583 | 551 | 6 |
| Occupancy | 348 | 343 | 1 |
| Acquisition costs | 48 | 52 | |
| Restructuring charges, net | 33 | 22 | |
| Other: | | | |
| Professional services | 318 | 280 | 14 |
| Amortization of other intangible assets | 162 | 160 | 1 |
| Securities processing costs | 39 | 24 | |
| Regulatory fees and assessments | 55 | 55 | |
| Other | 366 | 297 | 23 |
| Total other | 940 | 816 | 15 |
| Total expenses | $5,770 | $5,346 | 8 |
| Number of employees as of quarter-end | 29,510 | 29,230 | |

Compensation and employee benefits expenses in the third quarter and first nine months of 2014 increased 6% and 8%, respectively, compared to the third quarter and first nine months of 2013. The quarter-over-quarter increases were primarily the result of costs for additional staffing to support new business, lower employee benefit expense recorded in the third quarter of 2013 resulting from plan changes, the impact of merit increases and promotions, and higher regulatory compliance costs, partly offset by savings generated from the implementation of our Business Operations and Information Technology Transformation program.

The increase in the nine-month comparison resulted primarily from costs for additional staffing to support new business, higher incentive compensation, the impact of merit increases and promotions, the impact of foreign currency translation, and higher regulatory compliance costs, partly offset by savings generated from the implementation of our Business Operations and Information Technology Transformation program. The increase also included $74 million of net severance costs associated with staff reductions.

Compensation and employee benefits expenses in the third quarter and first nine months of 2014 included approximately $12 million and $39 million, respectively, of costs related to the implementation of our Business Operations and Information Technology Transformation program, compared to approximately $22 million and $64 million, respectively, in the third quarter and first nine months of 2013. These costs are not expected to recur subsequent to full

implementation of the program, planned for the end of 2014.

Information systems and communications expenses increased 3% for both the third quarter and first nine months of 2014 compared to the same periods in 2013. The increases were mainly associated with higher infrastructure costs related to the implementation of our Business Operations and Information Technology Transformation program. Additional information with respect to the impact of the Business Operations and Information Technology Transformation program on future compensation and employee benefits and information systems and communications expenses is provided in the following "Restructuring Charges" section.

Expenses for transaction processing services increased 8% and 6% in the third quarter and first nine months of 2014, respectively, compared to the third quarter and first nine months of 2013. The increase primarily reflected higher equity market values and higher transaction volumes in the investment servicing business.

The 40% increase in other expenses in the third quarter of 2014 compared to the third quarter of 2013 was primarily due to the previously described legal accrual (refer to "Consolidated Results of Operations - Trading Services Revenue" in this Management's Discussion and Analysis) recorded in connection with management's intention to seek

to resolve some, but not all, of the outstanding and potential claims arising out of our indirect FX client activities, and a charitable contribution to the State Street Foundation, as well as the impact of gains and recoveries associated with Lehman Brothers-related assets against other expenses recorded in the third quarter of 2013.

The 15% increase in the first nine months of 2014 compared to the first nine months of 2013 primarily resulted from the legal accrual, higher levels of professional services associated with regulatory compliance requirements, and the impact of the Lehman Brothers-related gains and recoveries recorded in the first nine months of 2013.

The legal accrual is more fully discussed under "Legal and Regulatory Matters" in note 8 to the consolidated financial statements included in this Form 10-Q.

Our compliance obligations have increased significantly due to new regulations in the U.S. and internationally that have been adopted or proposed in response to the financial crisis. 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

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liquidity management and our compliance and risk oversight programs. These heightened expectations have increased our regulatory compliance costs, including personnel and systems, as well as significant additional implementation and related costs to enhance our programs. We anticipate that these evolving and increasing regulatory compliance requirements and expectations will continue to affect our expenses. Our employee compensation and benefits, information systems and other expenses could increase, as we further adjust our operations in response to new or proposed requirements and heightened expectations.

Acquisition Costs

In the third quarter and first nine months of 2014, we recorded acquisition costs of $12 million and $48 million, respectively, compared to $18 million and $52 million, respectively, for the same periods in 2013. These amounts related to previously disclosed acquisitions.

Restructuring Charges

Information with respect to our Business Operations and Information Technology Transformation program and our 2012 expense control measures, including charges, employee reductions and aggregate activity in the related accruals, is provided in the following sections.

Business Operations and Information Technology Transformation Program

In November 2010, we announced a global multi-year Business Operations and Information Technology Transformation program. The program includes operational, information technology and targeted cost initiatives, including plans related to reductions in both staff and occupancy costs.

With respect to our business operations, we are standardizing certain core business processes, primarily through our execution of the State Street Lean methodology, and driving automation of these business processes. We are currently creating a new technology platform, including transferring certain core software applications to a private cloud, and have expanded our use of third-party service providers associated with components of our information technology infrastructure and application maintenance and support. We transferred the majority of our core software applications to a private cloud in 2013, and we expect to transfer the remaining core software applications in 2014.

To implement this program, we expect to incur aggregate pre-tax restructuring charges of approximately $400 million to $450 million over the four-year period ending December 31, 2014. To date, we have recorded aggregate restructuring charges of $402 million in our consolidated statement of income, as presented in the following table by type of cost:

| (In millions) | Employee-Related Costs | Real Estate Consolidation | Information Technology Costs | Total |
|---|---|---|---|---|
| 2010 | $ 105 | $ 51 | $ — | $ 156 |
| 2011 | 85 | 7 | 41 | 133 |
| 2012 | 27 | 20 | 20 | 67 |
| 2013 | 13 | 13 | (1) | 25 |
| First nine months of 2014 | 14 | 7 | — | 21 |
| Total | $ 244 | $ 98 | $ 60 | $ 402 |

Employee-related costs included severance, benefits and outplacement services. Real estate consolidation costs resulted from actions taken to reduce our occupancy costs through the consolidation of leases and properties. Information technology costs included transition fees related to the above-described expansion of our use of third-party service providers.

In 2010, in connection with the program, we initiated the involuntary termination of 1,400 employees, or approximately 5% of our global workforce, which we completed by the end of 2011. In addition, in connection with our announcement in 2011 of the expansion of our use of third-party service providers associated with our information technology
infrastructure and application maintenance and support, as well as the continued implementation of

the business operations transformation component of the program, we identified 1,574 additional involuntary terminations. As of September 30, 2014, we eliminated 1,522 of these positions.

In connection with the continuing implementation of the program, we achieved incremental pre-tax expense savings of approximately $220 million in 2013, $112 million in 2012 and $86 million in 2011, in each case compared to our 2010 expenses from operations, all else being equal. We expect to achieve additional pre-tax expense savings in all of 2014 of approximately $130 million.

These pre-tax expense savings relate only to the Business Operations and Information Technology Transformation program and are based on projected improvement from our total 2010 expenses from

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operations, all else being equal. Our actual total expenses have increased since 2010, and may in the future increase or decrease, due to other factors. The majority of the annual savings have affected compensation and employee benefits expenses. These savings have been modestly offset by increases in information systems and communications expenses.

Excluding the expected aggregate restructuring charges of $400 million to $450 million described earlier, we expect the program to reduce our pre-tax expenses from operations, on an annualized basis, by approximately $575 million to $625 million by the end of 2014 compared to 2010, all else being equal, with the full effect to be realized in 2015. We expect

the business operations transformation component of the program to result in approximately $450 million of these savings and the information technology transformation component of the program to result in approximately $150 million of these savings.

2012 Expense Control Measures

In the fourth quarter of 2012, in connection with expense control measures designed to better align our expenses to our business strategy and related outlook for 2013, we identified additional targeted staff reductions. As a result of these actions, we have recorded aggregate pre-tax restructuring charges of $148 million in our consolidated statement of income, as presented in the following table by type of cost:

| (In millions) | Employee-Related Costs | Asset and Other Write-Offs | Total |
|---|---|---|---|
| 2012 | $ 129 | $ 4 | $ 133 |
| 2013 | (4) | 7 | 3 |
| First nine months of 2014 | 1 | 11 | 12 |
| Total | $ 126 | $ 22 | $ 148 |

Employee-related costs included severance, benefits and outplacement services. Costs for asset and other write-offs were primarily related to contract
terminations. We originally identified involuntary terminations of 960 employees (630 positions after

replacements). As of March 31, 2014, we substantially completed these reductions.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Aggregate Restructuring-Related Accrual Activity
The following table presents aggregate activity associated with accruals that resulted from the charges associated with the Business Operations and Information Technology Transformation program and expense control measures:

| (In millions) | Employee-Related Costs | Real Estate Consolidation | Information Technology Costs | Fixed-Income Trading Portfolio | Asset and Other Write-Offs | Total |
|---|---|---|---|---|---|---|
| Initial accrual | $105 | $51 | $— | $— | $— | $156 |
| Payments | (15) | (4) | — | — | — | (19) |
| Balance as of December 31, 2010 | 90 | 47 | — | — | — | 137 |
| Additional accruals for Business Operations and Information Technology Transformation program | 85 | 7 | 41 | — | — | 133 |
| Accruals for 2011 expense control measures | 62 | — | — | 38 | 20 | 120 |
| Payments and adjustments | (75) | (15) | (8) | — | (5) | (103) |
| Balance as of December 31, 2011 | 162 | 39 | 33 | 38 | 15 | 287 |
| Additional accruals for Business Operations and Information Technology Transformation program | 27 | 20 | 20 | — | — | 67 |
| Additional accruals for 2011 expense control measures | 3 | — | — | (9) | 5 | (1) |
| Accruals for 2012 expense control measures | 129 | — | — | — | 4 | 133 |
| Payments and adjustments | (126) | (10) | (48) | (29) | (11) | (224) |
| Balance as of December 31, 2012 | 195 | 49 | 5 | — | 13 | 262 |
| Additional accruals for Business Operations and Information Technology Transformation program | 13 | 13 | (1) | — | — | 25 |
| Additional accruals for 2012 expense control measures | (4) | — | — | — | 7 | 3 |
| Payments and adjustments | (154) | (13) | (4) | — | (13) | (184) |
| Balance as of December 31, 2013 | 50 | 49 | — | — | 7 | 106 |
| Additional accruals for Business Operations and Information Technology Transformation program | 14 | 7 | — | — | — | 21 |
| Additional accruals for 2012 expense control measures | 1 | — | — | — | 11 | 12 |
| Payments and adjustments | (37) | (36) | — | — | (7) | (80) |
| Balance as of September 30, 2014 | $28 | $20 | $— | $— | $11 | $59 |

Income Tax Expense

Income tax expense was $128 million in the third quarter of 2014 compared to $163 million in the third quarter of 2013. In the first nine months of 2014 and 2013, income tax expense was $344 million and $491 million, respectively. Our effective tax rate for the first nine months of 2014 was 18.2% compared to 23.7% for the same period in 2013, with the decline primarily associated with an increase in tax-advantaged investments, primarily renewable energy.

LINE OF BUSINESS INFORMATION

We have two lines of business: Investment Servicing and Investment Management. Given our services and management organization, 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. Information about our two lines of business, as well as the revenues, expenses and capital allocation methodologies associated with them, is provided in note 25 to the consolidated financial statements included in our 2013 Form 10-K.

The following is a summary of our line-of-business results for the periods indicated. The “Other” column for the third quarter and first nine months of 2014 included net costs of $14 million and $157 million, respectively, composed of the following -

Third quarter of 2014 -

- Severance cost credits of $2 million associated with prior accruals for staff reductions;
- Net acquisition and restructuring costs of $20 million; and
- Credits to provisions for litigation exposure and other costs of $4 million.

First nine months of 2014 -

- Net severance costs associated with staff reductions of $74 million;
- Net acquisition and restructuring costs of $81 million; and
- Provisions for litigation exposure and other costs of $2 million.

The “Other” column for the third quarter and first nine months of 2013 included costs of $35 million and $94 million, respectively, composed of the following -

Third quarter of 2013 -

- Net acquisition and restructuring costs of $30 million; and
- Net provisions for litigation exposure and other costs of $5 million.

First nine months of 2013 -

- Net acquisition and restructuring costs of $74 million; and
- Net provisions for litigation exposure and other costs of $20 million.

The amounts in the “Other” columns were not allocated to State Street's business lines. Results for the 2013 periods reflect reclassifications, for comparative purposes, related to management changes in methodologies associated with allocations of revenue and expenses reflected in line-of-business results for 2014.

| | Quarters Ended September 30, Investment Servicing | | | Investment Management | | | Other | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| (Dollars in millions, except where otherwise noted) | 2014 | 2013 | % Change Q3 2014 vs. Q3 2013 | 2014 | 2013 | % Change Q3 2014 vs. Q3 2013 | 2014 | 2013 | 2014 | 2013 |
| Fee revenue: | | | | | | | | | | |
| Servicing fees | $1,302 | $1,211 | 8 % | $— | $— | | $— | $— | $1,302 | $1,211 |
| | — | — | | 316 | 276 | 14 % | — | — | 316 | 276 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Management fees | | | | | | | | | | |
| Trading services | 266 | 251 | 6 | 12 | 14 | (14) | — | — | 278 | 265 |
| Securities finance | 99 | 74 | 34 | — | — | | — | — | 99 | 74 |
| Processing fees and other | 25 | 52 | (52) | (8) | 5 | | — | — | 17 | 57 |
| Total fee revenue | 1,692 | 1,588 | 7 | 320 | 295 | 8 | — | — | 2,012 | 1,883 |
| Net interest revenue | 551 | 527 | 5 | 19 | 19 | — | — | — | 570 | 546 |
| Gains (losses) related to investment securities, net | — | (4) | | — | — | | — | — | — | (4) |
| Total revenue | 2,243 | 2,111 | 6 | 339 | 314 | 8 | — | — | 2,582 | 2,425 |
| Provision for loan losses | 2 | — | | — | — | | — | — | 2 | — |
| Total expenses | 1,639 | 1,500 | 9 | 239 | 187 | 28 | 14 | 35 | 1,892 | 1,722 |
| Income before income tax expense | $602 | $611 | (1) | $100 | $127 | (21) | $(14) | $(35) | $688 | $703 |
| Pre-tax margin | 27% | 29% | | 29% | 40% | | | | 27% | 29% |
| Average assets (in billions) | $243.2 | $197.7 | | $4.1 | $3.6 | | | | $247.3 | $201.3 |

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

| | Nine Months Ended September 30, | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Investment Servicing | | | Investment Management | | | Other | | Total | |
| (Dollars in millions, except where otherwise noted) | 2014 | 2013 | % Change 9 mos. 2014 vs. 9 mos. 2013 | 2014 | 2013 | % Change 9 mos. 2014 vs. 9 mos. 2013 | 2014 | 2013 | 2014 | 2013 |
| Fee revenue: | | | | | | | | | | |
| Servicing fees | $3,828 | $3,587 | 7 % | $— | $— | | $— | $— | $3,828 | $3,587 |
| Management fees | — | — | | 908 | 816 | 11 % | — | — | 908 | 816 |
| Trading services | 756 | 803 | (6 ) | 35 | 55 | (36 ) | — | — | 791 | 858 |
| Securities finance | 331 | 283 | 17 | — | — | | — | — | 331 | 283 |
| Processing fees and other | 122 | 157 | (22 ) | (5 ) | 10 | | — | — | 117 | 167 |
| Total fee revenue | 5,037 | 4,830 | 4 | 938 | 881 | 6 | — | — | 5,975 | 5,711 |
| Net interest revenue | 1,634 | 1,655 | (1 ) | 52 | 63 | (17 ) | — | — | 1,686 | 1,718 |
| Gains (losses) related to investment securities, net | 4 | (9 ) | | — | — | | — | — | 4 | (9 ) |
| Total revenue | 6,675 | 6,476 | 3 | 990 | 944 | 5 | — | — | 7,665 | 7,420 |
| Provision for loan losses | 6 | — | | — | — | | — | — | 6 | — |
| Total expenses | 4,905 | 4,639 | 6 | 708 | 613 | 15 | 157 | 94 | 5,770 | 5,346 |
| Income before income tax expense | $1,764 | $1,837 | (4 ) | $282 | $331 | (15 ) | $(157 ) | $(94 ) | $1,889 | $2,074 |
| Pre-tax margin | 26 % | 28 % | | 28 % | 35 % | | | | 25 % | 28 % |
| Average assets (in billions) | $229.0 | $201.9 | | $3.6 | $3.8 | | | | $232.6 | $205.7 |

Investment Servicing

Total revenue in the third quarter and first nine months of 2014 for our Investment Servicing line of business, presented in the preceding tables, increased 6% and 3%, respectively, compared to the same periods in 2013. Total fee revenue in the third quarter and first nine months of 2014 increased 7% and 4%, respectively, compared to the same periods in 2013. The increase in total fee revenue in the quarterly comparison resulted from increases in servicing fees, trading services revenue, and securities finance revenue, partly offset by a decline in processing fees and other revenue. The increase in the nine-month comparison mainly resulted from increases in servicing fees and securities finance revenue, partly offset by declines in trading services revenue and processing fees and other revenue.

Servicing fees in the third quarter and first nine months of 2014 increased 8% and 7%, respectively, compared to the same periods in 2013. The increases for both comparisons primarily resulted from stronger global equity markets and the positive revenue impact of net new business (revenue added from new servicing business installed less revenue

lost from the removal of assets serviced).

Trading services revenue in the third quarter of 2014 increased 6% compared to the same period in 2013, primarily as a result of higher client volumes in direct sales and trading foreign exchange. Trading services revenue declined 6% in the nine-month comparison, as the impact of higher volumes was offset primarily by lower currency volatility and lower client volumes in electronic trading.

Securities finance revenue in the third quarter and first nine months of 2014 increased 34% and 17%, respectively, compared to the same periods in 2013. The quarter-over-quarter increase was mainly the result of growth in our enhanced custody business and the impact of higher lending volumes associated with agency lending. The increase in the nine-month comparison was mainly the result of growth in our enhanced custody business.

Processing fees and other revenue in the third quarter and first nine months of 2014 decreased 52% and 22%, respectively, compared to the same periods in 2013. The decline in both comparisons mainly resulted from higher amortization of tax-advantaged investments, partly offset by higher revenue from our investment in bank-owned life insurance.

Servicing fees, securities finance revenue and net gains (losses) related to investment securities for our Investment Servicing business line are identical to the respective consolidated results. Refer to “Servicing Fees,” "Securities Finance" and “Gains (Losses) Related to Investment Securities, Net” under “Total Revenue” in this Management’s Discussion and Analysis for a more in-depth discussion. A discussion of trading services revenue and processing fees and other revenue is provided under “Trading Services” and “Processing Fees and Other” in “Total Revenue.”

Net interest revenue in the third quarter of 2014 increased 5% compared to the same period in 2013, primarily driven by the investment of a higher level of client deposits, an increase in the investment portfolio, and our continued investment in senior secured bank loans. In the first nine months of 2014, net interest revenue decreased 1% when compared

to the same period in 2013. The decrease was generally the result of lower yields on interest-earning assets, as lower global interest rates affected our revenue from floating-rate assets, partly offset by the benefit of a higher level of interest-earning assets and lower rates on interest paid. A discussion of net interest revenue is provided under “Net Interest Revenue” in “Total Revenue.”

Total expenses in the third quarter and first nine months of 2014 increased 9% and 6%, respectively, compared to the same periods in 2013. Both comparisons reflected increases in compensation and employee benefits expenses, driven primarily by costs for additional staffing to support new business, lower employee benefit expense recorded in the third quarter of 2013 resulting from plan changes, the impact of merit increases and promotions, and higher regulatory compliance costs, partly offset by savings generated from the implementation of our Business Operations and Information Technology Transformation program.

Expenses for transaction processing services increased in both the quarterly and year-to-date comparisons, mainly due to higher equity market values and higher transaction volumes. Other expenses increased in the same comparisons, primarily due to the legal accrual recorded in connection with management's intention to seek to resolve some, but not all, of the outstanding and potential claims arising out of our indirect FX client activities, and a charitable contribution to the State Street Foundation.

A more detailed discussion of expenses is provided under “Expenses” in “Consolidated Results of Operations.”

Investment Management

Total revenue in the third quarter and first nine months of 2014 for our Investment Management line of business, presented in the preceding tables, increased 8% and 5%, respectively, compared to the same periods in 2013. Total fee revenue increased 8% and 6%, respectively compared to the same periods in 2013, primarily the result of increases in management fees, partly offset by decreases in trading services revenue.

Management fees in the third quarter and first nine months of 2014 increased 14% and 11%, respectively, compared to the same periods in 2013. The increases in both comparisons primarily resulted

from stronger global equity markets, net inflows, higher performance fees and, in the quarterly comparison, the positive revenue impact of the excess of revenue added from newly installed assets to be managed over the revenue lost from liquidations of managed assets.

Trading services revenue in the third quarter and first nine months of 2014 declined 14% and 36%, respectively, compared to the same periods in 2013, mainly due to lower distribution fees associated with the SPDR® Gold ETF, which resulted from outflows as average gold prices declined during the periods.

Management fees for the Investment Management business line are identical to the respective consolidated results. Refer to “Management Fees” in “Total Revenue” in this Management's Discussion and Analysis for a more in-depth discussion. A discussion of trading services revenue is provided under “Trading Services” in “Total Revenue.”

Total expenses in the third quarter and first nine months of 2014 increased 28% and 15%, respectively, compared to the same periods in 2013. The increases in both comparisons generally reflected the impact of gains and recoveries associated with Lehman Brothers-related assets recorded in 2013, as well as higher incentive compensation.

Pre-tax margins for Investment Management for the third quarter and first nine months of 2014 declined compared to the 2013 periods. The higher margins for the prior-year periods were mainly the result of the gains and recoveries associated with Lehman Brothers-related assets recorded in total expenses for those periods.

FINANCIAL CONDITION

The following table presents the components of our average total interest-earning and noninterest-earning assets, average total interest-bearing and noninterest-bearing liabilities, and average preferred and common shareholders' equity for the nine months ended September 30, 2014 and 2013. Additional information about our average statement of condition, primarily our interest-earning assets and interest-bearing liabilities, is included under “Consolidated Results of Operations - Total Revenue - Net Interest Revenue” in this Management's Discussion and Analysis.

| Nine Months Ended September 30, | 2014 | 2013 |
|---|---|---|
| (In millions) | Average Balance | Average Balance |
| Assets: | | |
| Interest-bearing deposits with banks | $50,153 | $28,014 |
| Securities purchased under resale agreements | 4,717 | 5,799 |
| Trading account assets | 947 | 723 |
| Investment securities | 117,681 | 117,877 |
| Loans and leases | 15,227 | 13,537 |
| Other interest-earning assets | 15,138 | 10,666 |
| Average total interest-earning assets | 203,863 | 176,616 |
| Cash and due from banks | 4,719 | 3,739 |
| Other noninterest-earning assets | 24,049 | 25,366 |
| Average total assets | $232,631 | $205,721 |
| Liabilities and shareholders' equity: | | |
| Interest-bearing deposits: | | |
| U.S. | $19,016 | $9,006 |
| Non-U.S. | 108,492 | 100,365 |
| Total interest-bearing deposits | 127,508 | 109,371 |
| Securities sold under repurchase agreements | 8,763 | 8,358 |
| Federal funds purchased | 19 | 303 |
| Other short-term borrowings | 4,096 | 3,894 |
| Long-term debt | 9,340 | 8,146 |
| Other interest-bearing liabilities | 7,237 | 6,517 |
| Average total interest-bearing liabilities | 156,963 | 136,589 |
| Noninterest-bearing deposits | 42,387 | 34,838 |
| Other noninterest-bearing liabilities | 12,031 | 13,723 |
| Preferred shareholders' equity | 1,065 | 489 |
| Common shareholders' equity | 20,185 | 20,082 |
| Average total liabilities and shareholders' equity | $232,631 | $205,721 |

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Investment Securities

The following tables present the carrying values of investment securities by type as of the dates indicated:

| (In millions) | September 30, 2014 | December 31, 2013 |
|---|---|---|
| Available for sale: | | |
| U.S. Treasury and federal agencies: | | |
| Direct obligations | $10,764 | $709 |
| Mortgage-backed securities | 21,201 | 23,563 |
| Asset-backed securities: | | |
| Student loans(1) | 12,806 | 14,542 |
| Credit cards | 3,111 | 8,210 |
| Sub-prime | 997 | 1,203 |
| Other | 4,343 | 5,064 |
| Total asset-backed securities | 21,257 | 29,019 |
| Non-U.S. debt securities: | | |
| Mortgage-backed securities | 10,239 | 11,029 |
| Asset-backed securities | 3,447 | 5,390 |
| Government securities | 3,613 | 3,761 |
| Other | 5,849 | 4,727 |
| Total non-U.S. debt securities | 23,148 | 24,907 |
| State and political subdivisions | 10,645 | 10,263 |
| Collateralized mortgage obligations | 4,671 | 5,269 |
| Other U.S. debt securities | 4,284 | 4,980 |
| U.S. equity securities | 38 | 34 |
| Non-U.S. equity securities | 2 | 1 |
| U.S. money-market mutual funds | 532 | 422 |
| Non-U.S. money-market mutual funds | 10 | 7 |
| Total | $96,552 | $99,174 |

| (In millions) | September 30, 2014 | December 31, 2013 |
|---|---|---|
| Held to Maturity: | | |
| U.S. Treasury and federal agencies: | | |
| Direct obligations | $5,117 | $5,041 |
| Mortgage-backed securities | 68 | 91 |
| Asset-backed securities: | | |
| Student loans(1) | 1,873 | 1,627 |
| Credit cards | 897 | 762 |
| Other | 633 | 782 |
| Total asset-backed securities | 3,403 | 3,171 |
| Non-U.S. debt securities: | | |
| Mortgage-backed securities | 4,153 | 4,211 |
| Asset-backed securities | 3,293 | 2,202 |
| Government securities | 110 | 2 |
| Other | 75 | 192 |
| Total non-U.S. debt securities | 7,631 | 6,607 |
| State and political subdivisions | 12 | 24 |
| Collateralized mortgage obligations | 2,536 | 2,806 |
| Total | $18,767 | $17,740 |

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

The increase in U.S. Treasury direct obligations as of September 30, 2014 compared to December 31, 2013, as well as decreases in certain of the mortgage- and asset-backed securities in the same comparison, presented in the table above, were associated with our repositioning of the portfolio in light of the liquidity requirements of the liquidity coverage ratio, or LCR.

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

We manage our investment securities portfolio to align with the interest-rate and duration characteristics of our client liabilities 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.

Our portfolio is concentrated in securities with high credit quality, with approximately 91% of the carrying value of the portfolio rated “AAA” or “AA” as



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of September 30, 2014 and 89% as of December 31, 2013.
The following table presents the composition of the carrying value of the portfolio, by external credit rating, as of the dates indicated:

| | September 30, 2014 | | December 31, 2013 | |
|---|---|---|---|---|
| AAA[1] | 74 | % | 70 | % |
| AA | 17 | | 19 | |
| A | 6 | | 6 | |
| BBB | 2 | | 3 | |
| Below BBB | 1 | | 2 | |
| | 100 | % | 100 | % |

[1] Includes U.S. Treasury and federal agency securities that are split-rated, "AAA" by Moody's Investors Service and "AA+" by Standard & Poor's.
As of September 30, 2014, the investment portfolio of 9,324 securities was diversified with respect to asset class. As of September 30, 2014 and December 31, 2013, approximately 64% and 74%, respectively, of the aggregate carrying value of the portfolio as of that date was composed of mortgage-backed and asset-backed securities. The asset-backed portfolio, of which approximately 96% of the carrying value as of both dates was floating-rate, consisted primarily of student loan-backed and credit card-backed securities. Mortgage-backed securities were composed of securities issued by the Federal National Mortgage Association and Federal Home Loan Mortgage Corporation, as well as U.S. and non-U.S. large-issuer collateralized mortgage obligations.
In December 2013, U.S. regulators issued final regulations to implement the so-called "Volcker rule," one of many provisions of the Dodd-Frank Act. The Volcker rule will, among other things, require banking organizations covered by the rule to either restructure or divest certain investments in "covered funds" in the event such investments constitute "ownership interests" (as such terms are defined in the final Volcker rule regulations). Whether certain types of investment securities or structures, such as collateralized loan obligations, or CLOs, constitute "covered funds" (and do not benefit from the exemptions provided in the Volcker rule) and whether a banking organization's investments therein constitute "ownership interests" remain subject to (i) market, and ultimately regulatory, interpretation, and (ii) the specific terms and other characteristics relevant to such investment securities and structures.
As of September 30, 2014, we held an aggregate of approximately $4.82 billion of investments in CLOs. As of the same date, these

investments had an aggregate pre-tax net unrealized gain of approximately $110 million, composed of gross unrealized gains of $119 million and gross unrealized losses of $9 million. In the event that we or our banking regulators conclude that such investments in CLOs are "covered funds" (and do not benefit from the exemptions provided in the Volcker rule) and such investments constitute "ownership interests", we will be required to divest such investments if we are unable to "cure" those investments before the conformance period ends on July 21, 2017. If other banking entities reach similar conclusions with respect to similar investments held by them, the prices of such investments could decline significantly, the market liquidity for such investments could be reduced, and we may be required to divest such investments at a significant discount compared to the investments' book value. This could result in a material adverse effect on our consolidated results of operations in the period in which such a divestment occurs or on our consolidated financial condition.
Based on our assessment to date of our investments and the length of time remaining in the conformance period, we believe that it is not likely that we will be required to sell those investments before they recover in value.
Non-U.S. Debt Securities
Approximately 27% of the aggregate carrying value of our investment securities portfolio was composed of non-U.S. debt securities as of both September 30, 2014 and December 31, 2013.

The following table presents the carrying values of our non-U.S. debt securities available for sale and held to maturity, included in the preceding table of investment securities carrying values, by significant country of issuer or location of collateral, as of the dates indicated:



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| (In millions) | September 30, 2014 | December 31, 2013 |
|---|---|---|
| Available for Sale: | | |
| United Kingdom | $7,965 | $9,357 |
| Australia | 3,633 | 3,551 |
| Netherlands | 3,109 | 3,471 |
| Canada | 2,594 | 2,549 |
| France | 1,430 | 1,581 |
| Germany | 962 | 1,410 |
| Japan | 934 | 971 |
| South Korea | 693 | 744 |
| Italy | 470 | — |
| Norway | 408 | 369 |
| Finland | 402 | 397 |
| Sweden | 136 | 142 |
| Belgium | 126 | — |
| Austria | 76 | 83 |
| Other | 210 | 282 |
| Total | $23,148 | $24,907 |
| Held to Maturity: | | |
| Germany | $1,936 | $1,263 |
| Australia | 1,991 | 2,216 |
| United Kingdom | 1,904 | 1,474 |
| Netherlands | 1,188 | 934 |
| Spain | 173 | 206 |
| Italy | 85 | 270 |
| Ireland | 73 | 86 |
| Other | 281 | 158 |
| Total | $7,631 | $6,607 |

Approximately 91% and 89% of the aggregate carrying value of these non-U.S. debt securities was rated "AAA" or "AA" as of September 30, 2014 and December 31, 2013, respectively. The majority of these securities comprise senior positions within the security structures; these positions have a level of protection provided through subordination and other forms of credit protection. As of September 30, 2014 and December 31, 2013, approximately 73% and 72%, respectively, of the aggregate carrying value of these non-U.S. debt securities was floating-rate, and accordingly, the securities are considered to have minimal interest-rate risk.

As of September 30, 2014, these non-U.S. debt securities had an average market-to-book ratio of 101.5%, and an aggregate pre-tax net unrealized gain of approximately $446 million, composed of gross unrealized gains of $472 million and gross unrealized losses of $26 million. These unrealized amounts included a pre-tax net unrealized gain of $252 million, composed of gross unrealized gains of $262 million and gross unrealized losses of $10 million, associated with non-U.S. debt securities available for sale.

As of September 30, 2014, the underlying collateral for these mortgage- and asset-backed securities primarily included U.K. prime mortgages, Australian and Dutch mortgages and German automobile loans. The securities listed under "Canada" were composed of Canadian government securities and corporate debt. The securities listed under "France" were composed of automobile loans and corporate debt. The securities listed under "Japan" were substantially composed of Japanese government securities. The securities listed under "South Korea" were composed of South Korean government securities. The "other" category of available-for-sale securities as of September 30, 2014 and December 31, 2013 included approximately $70 million and $133 million, respectively, related to Portugal, Ireland

and Spain, all of which were mortgage-backed securities. The "other" category of held-to-maturity securities as of September 30, 2014 and December 31, 2013 included approximately $39 million and $44 million, respectively, of securities related to Portugal, all of which were mortgage-backed securities.
Our aggregate exposure to Spain, Italy, Ireland and Portugal as of September 30, 2014 did not include any direct sovereign debt exposure to any of these countries. Our indirect exposure to these countries as of September 30, 2014 totaled approximately $910 million, of asset-backed securities, composed of $173 million in Spain, $555 million in Italy, $109 million in Ireland and $73 million in Portugal. These mortgage- and asset-backed securities had an aggregate pre-tax net unrealized gain of approximately $125 million as of September 30, 2014, composed of gross unrealized gains of $126 million and gross unrealized losses of $1 million. We recorded no other-than-temporary impairment on these mortgage- and asset-backed securities in our consolidated statement of income in the first nine months of 2014. We recorded other-than-temporary impairment of $6 million on one of these securities in our consolidated statement of income in the first nine months of 2013, all in the second quarter of 2013, associated with management's intent to sell an impaired security prior to its recovery in value.
Throughout the sovereign debt crisis, the major independent credit rating agencies have downgraded, and may in the future do so again, 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. As a result, we may be exposed to increased counterparty risk, leading to negative ratings volatility.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS (Continued)

Municipal Securities
We carried an aggregate of approximately $10.66 billion and $10.29 billion of municipal securities, classified as state and political subdivisions in the preceding table of investment securities carrying values, in our investment securities portfolio as of September 30, 2014 and December 31, 2013, respectively. Substantially all of these securities were classified as available for sale, with the remainder classified as held to maturity. As of the same dates, we also provided approximately $7.37 billion and $8.16 billion, respectively, of credit and liquidity facilities to municipal issuers as a form of credit enhancement.
The following tables present our combined credit exposure to state and municipal obligors that represented 5% or more of our aggregate municipal credit exposure of approximately $18.03 billion as of September 30, 2014 and $18.45 billion as of December 31, 2013 across our businesses, grouped by state to display geographic dispersion:

| September 30, 2014 | Total Municipal Securities | Credit and Liquidity Facilities | Total | % of Total Municipal Exposure | |
|---|---|---|---|---|---|
| (Dollars in millions) | | | | | |
| State of Issuer: | | | | | |
| Texas | $1,229 | $1,592 | $2,821 | 16 | % |
| New York | 923 | 996 | 1,919 | 11 | |
| California | 421 | 1,474 | 1,895 | 11 | |
| Massachusetts | 990 | 751 | 1,741 | 10 | |
| Maryland | 448 | 530 | 978 | 5 | |
| Total | $4,011 | $5,343 | $9,354 | | |

| December 31, 2013 | Total Municipal Securities | Credit and Liquidity Facilities | Total | % of Total Municipal Exposure | |
|---|---|---|---|---|---|
| (Dollars in millions) | | | | | |
| State of Issuer: | | | | | |
| Texas | $1,233 | $1,628 | $2,861 | 16 | % |
| New York | 919 | 1,000 | 1,919 | 10 | |
| Massachusetts | 967 | 759 | 1,726 | 9 | |
| California | 373 | 1,266 | 1,639 | 9 | |
| Maryland | 327 | 643 | 970 | 5 | |
| Total | $3,819 | $5,296 | $9,115 | | |

Our aggregate municipal securities exposure presented in the foregoing table was concentrated primarily with highly-rated counterparties, with approximately 88% of the obligors rated "AAA" or "AA" as of September 30, 2014, compared to approximately 84% rated "AAA" or "AA" as of December 31, 2013. As of September 30, 2014, approximately 67% and 32% of our aggregate exposure was associated with general obligation and revenue bonds, respectively, compared to 64% and 34%, respectively, as of December 31, 2013. In addition, we had no exposures associated with industrial development or land development bonds. The portfolios are also diversified geographically, with the states that represent our largest exposures widely dispersed across the U.S.
Additional information with respect to our assessment of other-than-temporary impairment of our municipal securities is provided in note 3 to the consolidated financial statements included 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. When the impairment is deemed to be other-than-temporary, we record the loss in our consolidated statement of income. In addition, for debt securities available for sale and held to maturity, we record impairment in our consolidated statement of income when

management intends to sell (or may be required to sell) the securities before they recover in value, or when management expects the present value of cash flows expected to be collected from the securities to be less than the amortized cost of the impaired security (a credit loss).

The following table presents the amortized cost and fair value, and associated net unrealized gains and losses, of investment securities available for sale and held to maturity as of the dates indicated:

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS (Continued)

| (In millions) | September 30, 2014[1] | | | December 31, 2013[1] | | |
|---|---|---|---|---|---|---|
| | Amortized Cost | Net Unrealized Gains(Losses) | Fair Value | Amortized Cost | Net Unrealized Gains(Losses) | Fair Value |
| Available for sale[2] | $95,834 | $ 718 | $96,552 | $99,159 | $ 15 | $99,174 |
| Held to maturity[2] | 18,767 | 98 | 18,865 | 17,740 | (180) | 17,560 |
| Total investment securities | $114,601 | $ 816 | $115,417 | $116,899 | $ (165) | $116,734 |
| Net after-tax unrealized gain (loss) | | $ 490 | | | $ (96) | |

[1] Amounts excluded the remaining net unrealized losses primarily related to reclassifications of securities available for sale to securities held to maturity in 2008, recorded in accumulated other comprehensive income, or AOCI, within shareholders' equity in our consolidated statement of condition. Additional information is provided in note 10 to the consolidated financial statements included in this Form 10-Q.
[2] Securities available for sale are carried at fair value, with after-tax net unrealized gains and losses recorded in AOCI. Securities held to maturity are carried at cost, and unrealized gains and losses are not recorded in our consolidated financial statements.

The aggregate improvement to a net unrealized gain as of September 30, 2014 from a net unrealized loss as of December 31, 2013 presented above was primarily attributable to narrowing spreads in the first nine months of 2014.

We conduct periodic reviews of individual securities to assess whether other-than-temporary impairment exists. Our assessment of other-than-temporary impairment 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, other-than-temporary impairment could increase, in particular the credit-related component that would be recorded in our consolidated statement of income.

In the aggregate, we recorded no other-than-temporary impairment in third quarter and $11 million in the first nine months of 2014, compared to $10 million and $20 million in the third quarter and first nine months of 2013, respectively. Additional information with respect to this other-than-temporary impairment and net impairment losses, as well as information about our assessment of impairment, is provided in note 3 to the consolidated financial statements included in this Form 10-Q.

Given the exposure of our investment securities portfolio, particularly mortgage- and asset-backed securities, to residential mortgage and other consumer credit risks, the performance of the U.S. housing market is a factor in the portfolio's credit performance. As such, our assessment of other-than-temporary impairment relies, in part, on our estimates of trends in national housing prices in addition to trends in unemployment rates, interest rates and the timing of defaults. Generally, indices that measure trends in national housing prices are published in

arrears. As of June 30, 2014, national housing prices, according to the latest Case-Shiller National Home Price Index, had declined by approximately 10% peak-to-current. Overall, our evaluation of other-than-temporary impairment as of September 30, 2014 continued to include an expectation of a U.S. housing recovery characterized by relatively modest growth in national housing prices over the next few years. In connection with our assessment of other-than-temporary impairment with respect to relevant securities in our investment portfolio in future periods, we will consider trends in national housing prices that we observe at those times, including the Case-Shiller National Home Price Index, in addition to trends in unemployment rates, interest rates and the timing of defaults.

The other-than-temporary impairment of our investment securities portfolio continues to be sensitive to our estimates of future cumulative losses. However, given our positive outlook for U.S. national housing prices, our sensitivity analysis indicated, as of September 30, 2014, that our investment securities portfolio was less exposed to the overall housing price outlook relative to other factors, including unemployment rates and interest rates.

The residential mortgage servicing environment continues to be challenging. The time line to liquidate distressed loans continues to extend, but to a lesser degree as a result of strengthening in the national housing market. The rate at which distressed residential mortgages are liquidated may affect, among other things, our investment securities portfolio. Such effects could include the timing of cash flows or the credit quality associated with the mortgages collateralizing certain of our residential mortgage-backed securities, which, accordingly, could result in the recognition of additional other-than-temporary impairment in future periods.



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Our evaluation of potential other-than-temporary impairment of mortgage-backed securities with collateral located in Spain, Italy, Ireland and Portugal takes into account government intervention in the corresponding mortgage markets and assumes a conservative baseline macroeconomic environment for these regions, factoring in slow economic growth and government austerity measures. Our baseline view assumes a recessionary period characterized by high unemployment and by additional declines in housing prices of between 9% and 15% in each of these four countries. Our evaluation of other-than-temporary impairment in our base case does not assume a disorderly sovereign debt restructuring or a break-up of the Eurozone.

In addition, we perform stress testing and sensitivity analysis in order to assess the impact of more severe assumptions on potential other-than-temporary impairment. For example, we estimate, using relevant information as of September 30, 2014 and assuming that all other factors remain constant, that in more stressful scenarios in which unemployment, gross domestic product and housing prices in these four countries deteriorate over the relevant periods more than we expected as of September 30, 2014, other-than-temporary impairment could increase by a range of zero to $31 million. This sensitivity estimate is based on a number of factors, including, but not limited to, the level of housing prices and the timing of defaults. To the extent that such factors differ significantly from management's current expectations, resulting loss estimates may differ materially from those stated.

Excluding other-than-temporary impairment recorded in the first nine months of 2014, management considers the aggregate decline in fair value of the remaining investment securities and the resulting gross unrealized losses as of September 30, 2014 to be temporary and not the result of any material changes in the credit characteristics of the securities. Additional information about these gross unrealized losses is provided in note 3 to the consolidated financial statements included in this Form 10-Q.

Loans and Leases

The following table presents our U.S. and non-U.S. loans and leases, by segment, as of the dates indicated:

| (In millions) | September 30, 2014 | December 31, 2013 |
|---|---|---|
| Institutional: | | |
| U.S. | $13,884 | $10,623 |
| Non-U.S. | 4,218 | 2,654 |
| Commercial real estate: | | |
| U.S. | 296 | 209 |
| Total loans and leases | 18,398 | 13,486 |
| Allowance for loan losses | (34) | (28) |
| Loans and leases, net of allowance for loan losses | $18,364 | $13,458 |

Additional information about all of our loan-and-lease segments, as well as underlying classes, is provided in note 4 to the consolidated financial statements included in this Form 10-Q, and in note 5 to the consolidated financial statements included in our 2013 Form 10-K.

The increase in loans in the institutional segment presented in the preceding table was mainly related to higher levels of short-duration advances and our continued investment in the non-investment-grade lending market through participations in loan syndications, specifically senior secured bank loans, that we began in 2013.

The increase in the commercial real estate, or CRE, segment resulted from additional borrowings under a revolver credit facility related to development of the underlying collateral, composed of residential and commercial land, in preparation for its sale. These CRE loans are composed of the loans acquired in 2008 pursuant to indemnified repurchase agreements with an affiliate of Lehman as a result of the Lehman Brothers bankruptcy.

Aggregate short-duration advances to our clients included in the institutional segment were $5.39 billion and $2.45 billion as of September 30, 2014 and December 31, 2013, respectively. Senior secured bank loans are more fully described below.

As of September 30, 2014 and December 31, 2013, our investment in senior secured bank loans totaled approximately $1.72 billion and $724 million, respectively. In addition, we had binding unfunded commitments as of September 30,

2014 totaling $160 million to participate in such syndications. We expect to increase our level of participation in these loan syndications in future periods.

These loans, which we have rated “speculative” under our internal risk-rating framework (refer to note 4 to the consolidated financial statements included in this Form 10-Q), are externally rated “BBB,” “BB” or “B,” with approximately 95% of the loans rated “BB” or “B” as of September 30, 2014, compared to 94% as of as of December 31, 2013. We limit our

investment to larger, more liquid credits underwritten by major global financial institutions, we apply our internal credit analysis process to each potential investment, and we diversify our exposure by counterparty and industry segment. However, these loans have significant exposure to credit losses relative to higher-rated loans. As of September 30, 2014, our allowance for loan losses included approximately $22 million related to these senior secured bank loans.

As of September 30, 2014 and December 31, 2013, unearned income deducted from our investment in leveraged lease financing was $115 million and $121 million, respectively, for U.S. leases and $268 million and $298 million, respectively, for non-U.S. leases.

As of both September 30, 2014 and December 31, 2013, we held an aggregate of approximately $130 million of CRE loans which were modified in troubled debt restructurings. No impairment loss was recognized upon restructuring of the loans, as the discounted cash flows of the modified loans exceeded the carrying amount of the original loans as of the modification date. No loans were modified in troubled debt restructurings in the first nine months of 2014 or in all of 2013.

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

| | Nine Months Ended September 30, | |
|---|---|---|
| (In millions) | 2014 | 2013 |
| Allowance for loan losses: | | |
| Beginning balance | $28 | $22 |
| Provision for loan losses: | | |
| Institutional | 6 | — |
| Ending balance | $34 | $22 |

The provision of $6 million recorded in the nine months ended September 30, 2014 was composed of a provision of $16 million associated with senior secured bank loans, offset by a negative provision of $10 million associated with the pay-down of an unrelated commercial and financial loan with speculative-rated credit quality.

As of September 30, 2014, approximately $22 million of our allowance for loan losses was related to senior secured bank loans included in the institutional segment; the remaining $12 million was related to other commercial and financial loans in the institutional segment.

## Cross-Border Outstandings

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

Additional information with respect to the nature of our cross-border outstandings is provided under "Financial Condition - Cross-Border Outstandings" in Management's Discussion and Analysis included in our 2013 Form 10-K.

The following table presents our cross-border outstandings in countries in which we do business, and which amounted to at least 1% of our consolidated total assets as of the dates indicated. The aggregate of the total cross-border outstandings presented in the table represented approximately 16% and 19% of our consolidated total assets as of September 30, 2014 and December 31, 2013, respectively.

| (In millions) | Investment Securities and Other Assets | Derivatives and Securities on Loan | Total Cross-Border Outstandings |
|---|---|---|---|
| September 30, 2014 | | | |
| United Kingdom | $14,516 | $2,495 | $17,011 |

| | | | |
|---|---|---|---|
| Australia | 6,819 | 1,004 | 7,823 |
| Netherlands | 5,124 | 514 | 5,638 |
| Japan | 4,598 | 565 | 5,163 |
| Germany | 3,823 | 494 | 4,317 |
| Canada | 3,091 | 824 | 3,915 |
| December 31, 2013 | | | |
| United Kingdom | $15,422 | $1,697 | $17,119 |
| Australia | 7,309 | 672 | 7,981 |
| Netherlands | 4,542 | 277 | 4,819 |
| Canada | 3,675 | 620 | 4,295 |
| Germany | 4,062 | 147 | 4,209 |
| France | 2,887 | 735 | 3,622 |
| Japan | 2,445 | 605 | 3,050 |

Aggregate cross-border outstandings in countries which amounted to between 0.75% and 1% of our consolidated total assets totaled approximately $2.25 billion to Ireland and $2.23 billion to

Luxembourg as of September 30, 2014, and approximately $1.85 billion to China as of December 31, 2013.
The following table presents our cross-border outstandings in Italy, Ireland, Spain and Portugal as of the dates indicated:

| (In millions) | Investment Securities and Other Assets | Derivatives and Securities on Loan | Total Cross-Border Outstandings |
|---|---|---|---|
| September 30, 2014 | | | |
| Ireland | $566 | $1,687 | $2,253 |
| Italy | 988 | 10 | 998 |
| Spain | 173 | 94 | 267 |
| Portugal | 73 | — | 73 |
| December 31, 2013 | | | |
| Italy | $763 | $2 | $765 |
| Ireland | 369 | 304 | 673 |
| Spain | 271 | 11 | 282 |
| Portugal | 78 | — | 78 |

The aggregate cross-border exposures presented in the table above consisted primarily of interest-bearing deposits, investment securities, loans, including short-duration advances, and foreign exchange contracts. We had not recorded any provisions for loan losses with respect to any of our exposure in these countries as of September 30, 2014.

## Risk Management

### General

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;
- 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; and
- business risk, including 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 under Item 1A, "Risk Factors," included in our 2013 Form 10-K.

The scope of our business requires that we balance these risks with a comprehensive and well-integrated risk management function. The identification, assessment, monitoring, mitigation and reporting of risks are essential to our financial performance and successful management of our businesses. These risks, if not effectively managed, can result in losses to State Street as well as erosion of our capital and damage to our reputation. Our systematic approach allows for an assessment of risks within a framework for evaluating opportunities for the prudent use of capital that appropriately balances risk and return.

Our objective is to optimize our return while operating at a prudent level of risk. In support of this objective, we have instituted a risk appetite framework that aligns our business strategy and financial objectives with the level of risk that we are willing to incur.

Our risk management is based on the following major goals:

A culture of risk awareness that extends across all of our business activities;
The identification, classification and quantification of State Street's material risks;

The establishment of our risk appetite and associated limits and policies, and our compliance with these limits;
The establishment of a risk management structure at the "top of the house" that
enables the control and coordination of risk-taking across the business lines;
The implementation of stress testing practices and a dynamic risk-assessment capability; and
The overall flexibility to adapt to the ever-changing business and market conditions.

Our risk appetite framework outlines the quantitative limits and qualitative goals that define our risk appetite, as well as the responsibilities for measuring and monitoring risk against limits, and for reporting, escalating, approving and addressing exceptions. Our risk appetite framework is established by management with the guidance of Enterprise Risk Management, or ERM, a corporate risk oversight group, in conjunction with our Board of Directors. The Board formally reviews and approves our risk appetite statement annually.

The risk appetite framework describes the level and types of risk that we are willing to accommodate in executing our business strategy, and also serves as a guide in setting risk limits across our business units. In addition to our risk appetite framework, we use stress testing as another important tool in our risk management practice. Additional information with respect to our stress testing process and practices is provided under "Capital" in Management's Discussion

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and Analysis included under Item 7 in our 2013 Form 10-K.
The following table provides a reference to the disclosures about our management of significant risks provided herein.


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Governance and Structure

We have an approach to risk management that involves all levels of management, from the Board and its committees, including its Risk and Capital Committee, referred to as the RCC, its Examining & Audit Committee, referred to as the E&A Committee, and its Technology Committee, to each business unit and each employee. We allocate responsibility for risk oversight so that risk/return decisions are made at an appropriate level, and are subject to robust and effective review and challenge. Risk management is the responsibility of each employee, and is implemented through three lines of defense: the business units, which own and manage the risks inherent in their business, are considered the first line of defense; ERM and other support functions, such as Legal, Compliance, Finance and Vendor

Management, provide the second line of defense; and Corporate Audit, which assesses the effectiveness of the first two lines of defense.

The responsibilities for effective review and challenge reside with senior managers, management oversight committees, Corporate Audit and, ultimately, the Board and its committees. While we believe that our risk management program is effective in managing the risks in our businesses, internal and external factors may create risks that cannot always be identified or anticipated.

Corporate-level risk committees provide focused oversight, and establish corporate standards and policies for specific risks, including credit, sovereign exposure, market, liquidity, operational information technology as well as new business products, regulatory compliance and ethics, vendor risk and model risks. These committees have been delegated the responsibility to develop recommendations and remediation strategies to address issues that affect or have the potential to affect State Street.

We maintain a risk governance committee structure which serves as the formal governance mechanism through which we seek to undertake the consistent identification, management and mitigation of various risks facing State Street in connection with its business activities. This governance structure is enhanced and integrated through multi-disciplinary involvement, particularly through ERM. The following chart presents this structure.

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Management Risk Governance Committee Structure

Executive Management Committees:

| Management Risk and Capital Committee | Business Conduct Review Committee | Technology and Operational Risk Committee |
|---|---|---|

Risk Committees:

| | | | | | |
|---|---|---|---|---|---|
| Asset-Liability Committee | Credit Risk and Policy Committee | Fiduciary Review Committee | Operational Risk Committee | | Technology Risk Governance Committee |
| Trading and Markets Risk Committee | Basel/ICAAP Oversight Committee | New Business and Product Committee | | Business Continuity Executive Committee | Executive Information Steering Committee |
| Country Risk Committee | Securities Finance Risk Management Committee | Compliance and Ethics Committee | | Vendor Management Steering Committee | Access Control Board |
| Recovery and Resolution Planning Executive Steering Group | Model Risk Committee | | | | |
| CCAR Steering Committee | | | | | |

Enterprise Risk Management

The goal of ERM is to ensure that risks are proactively identified, well-understood and prudently managed in support of our business strategy. ERM provides risk oversight, support and coordination to allow for the consistent identification, measurement and management of risks across business units separate from the business units' activities, and is responsible for the formulation and maintenance of corporate-wide risk management policies and guidelines. In addition, ERM establishes and reviews limits and, in collaboration with business unit management, monitors key risks. Ultimately, ERM works to validate that risk-taking occurs within the risk appetite statement approved by the Board and conforms to associated risk policies, limits and guidelines.

The Chief Risk Officer, or CRO, is responsible for State Street's risk management globally, leads ERM and has a dual reporting line to State Street's Chief Executive Officer and the Board's RCC. ERM

manages its responsibilities globally through a three-dimensional organization structure:

- "Vertical" business unit-aligned risk groups that support business managers with risk management, measurement and monitoring activities;

- “Horizontal” risk groups that monitor the risks that cross all of our business units (for example, credit and operational risk); and
- Risk oversight for international activities, which adds important regional and legal entity perspectives to global vertical and horizontal risk management.

Sitting on top of this three-dimensional organization structure is a centralized group responsible for the aggregation of risk exposures across the vertical, horizontal and regional dimensions, for consolidated reporting, for setting the corporate-level risk appetite framework and

associated limits and policies, and for dynamic risk assessment across State Street.

Board Committees

The Board of Directors has three committees which assist it in discharging its responsibilities with respect to risk management: the RCC, the E&A Committee and the Technology Committee.

The RCC is responsible for oversight related to our assessment and management of risk, including credit, liquidity, operational, fiduciary, market, including interest-rate, and business risks and related policies. In addition, the RCC provides oversight on strategic capital governance principles and controls, and monitors capital adequacy in relation to risk. The RCC is also responsible for discharging the duties and obligations of the Board under applicable Basel and other regulatory requirements. Our Chief Financial Officer, or CFO, and our CRO, as well as other members of senior management, attend meetings of the RCC.

The E&A Committee oversees the operation of our system of internal controls covering the integrity of our consolidated financial statements and reports, compliance with laws, regulations and corporate policies, and the qualifications, performance and independence of our independent registered public accounting firm. The E&A Committee acts on behalf of the Board in monitoring and overseeing the performance of Corporate Audit and in reviewing certain communications with banking regulators. The E&A Committee has direct responsibility for the appointment, compensation, retention, evaluation and oversight of the work of our independent registered public accounting firm, including sole authority for the establishment of pre-approval policies and procedures for all audit engagements and any non-audit engagements.

The Technology Committee leads and assists in the Board's oversight of the role of technology in executing State Street's strategy and supporting State Street's global business and operational requirements. The Technology Committee reviews the use of technology in our activities and operations, as well as significant technology and technology-related strategies, investments and policies. In addition, the Technology Committee reviews and approves technology and technology-related risk matters.

Executive Management Committees

The Management Risk and Capital Committee, referred to as MRAC, is the senior management decision-making body for risk and capital issues, and oversees our financial risks, our consolidated statement of condition, and our capital adequacy,

liquidity and recovery and resolution planning. Its responsibilities include:

- The approval of our risk appetite framework and top level risk limits and policies;
- The monitoring and assessment of our capital adequacy based on regulatory requirements and internal policies; and
- The ongoing monitoring and review of risks undertaken within the businesses, and our senior management oversight and approval of risk strategies and tactics.

MRAC, which is co-chaired by our CRO and CFO, regularly presents a report to the RCC outlining developments in the risk environment and performance trends in our key business areas.

The Business Conduct Review Committee, referred to as the BCRC, provides additional risk governance and leadership, by overseeing State Street's business practices in terms of their compliance with law, regulation and our standards of business conduct, our commitments to clients and others with whom we do business, and potential reputational risks. Management considers adherence to high ethical standards to be critical to the success of our business and to our reputation. The BCRC is co-chaired by our CRO and our Chief Legal Officer.

The Technology and Operational Risk Committee, referred to as TORC, oversees and assesses the effectiveness of corporate-wide technology and operational risk management programs, to manage and control technology and operational risk consistently across the organization. TORC is co-chaired by our CRO and our Head of Global Operations and Technology. TORC may meet jointly with MRAC periodically to review or approve common areas of interest such as risk frameworks and policies.

Risk Committees

The following risk committees, under the oversight of the respective executive management committees, have focused responsibilities for oversight of specific areas of risk management:

MRAC

- The Asset-Liability Committee, referred to as ALCO, oversees the management of our consolidated statement of condition and the management of our global liquidity, our interest-rate risk, and our non-traded market risk positions, as well as the business activities of our Global Treasury group and the risks associated with the generation of net interest revenue and overall balance sheet management. ALCO's roles and responsibilities are designed to work

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complementary to, and be coordinated with, MRAC, which approves our corporate risk appetite and associated balance sheet strategy. ALCO is chaired by our Treasurer and reports directly into MRAC;

- The Credit Risk and Policy Committee has primary responsibility for the oversight and review of credit and counterparty risk across business units, as well as oversight, review and approval of the credit risk guidelines; the Committee consists of senior executives within ERM, including the CRO, and reviews policies and guidelines related to all aspects of our business which give rise to credit risk; State Street business units are also represented on the Credit Risk and Policy Committee; credit risk policies and guidelines are reviewed periodically, but at least annually;
- The Trading and Markets Risk Committee, referred to as the TMRC, reviews the effectiveness of, and approves, the market risk framework at least annually; it is the senior oversight and decision-making committee for risk management within our global markets and trading-and-clearing businesses; the TMRC is responsible for the formulation of guidelines, strategies and workflows with respect to the measurement, monitoring and control of our trading market risk, and also approves market risk tolerance limits and dealing authorities; the TMRC meets regularly to monitor the management of our trading market risk activities;
- The Basel/ICAAP Oversight Committee reviews and assesses compliance with regulatory capital rules, and oversees initiatives related to the development and enhancement of relevant reporting capabilities;
- The Country Risk Committee oversees the identification, assessment, monitoring, reporting and mitigation, where necessary, of country risks;
- The Securities Finance Risk Management Committee oversees the risks in our securities finance business, including collateral and margin policies;
- The Recovery and Resolution Planning Executive Steering Group oversees the development of recovery and resolution plans as required by banking regulators;
- The Model Risk Committee, referred to as the MRC, provides recommendations concerning technical modeling issues and oversees the

validation of financial models utilized by our business units; and

- The CCAR Steering Committee provides primary supervision of the stress tests performed in conformity with the Federal Reserve's CCAR process and the Dodd-Frank Act, and is responsible for the overall management, review, and approval of all material assumptions, methodologies, and results of each stress scenario.

BCRC

- The Fiduciary Review Committee reviews and assesses the risk management programs of those units in which State Street serves in a fiduciary capacity;
- The New Business and Product Committee provides oversight of the evaluation of the risk inherent in proposed new products or services and new business, as well as divestitures, restructurings and outsourcing arrangements; evaluations include economic justification, material risk, compliance, regulatory and legal considerations, and capital and liquidity analyses; and
- The Compliance and Ethics Committee provides review and oversight of State Street's compliance programs, including its culture of compliance and high standards of ethical behavior.

TORC

- The Technology Risk Governance Committee provides regular reporting to TORC and escalates technology risk issues to TORC, as appropriate;
- The Business Continuity Executive Committee reviews overall business continuity program performance, ensures executive accountability for compliance with the business continuity program and standards, and reviews and approves major changes or exceptions to program policy and standards;
- The Executive Information Steering Committee is responsible for managing the Enterprise Information Security posture and program, provides enterprise-wide oversight of the Information Security Program to ensure that controls are measured and managed, and serves as an escalation point for issues identified during the execution of information technology activities and risk mitigation;

- The Vendor Management Steering Committee provides oversight over the vendor management program, approves

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policies, and serves as an escalation path for program compliance exceptions;

- The Access Control Board establishes and provides appropriate governance and controls over State Street's access control security framework; and
- The Operational Risk Committee, which functions under the oversight of both the BCRC and TORC, provides cross-business oversight of operational risk and reviews and approves operational risk guidelines that implement the corporate operational risk policy; these guidelines and other operational risk methodologies are used to identify, measure, manage and control operational risk in a consistent manner across State Street.

Credit Risk Management

Core Policies and Principles

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

We distinguish between three major types of credit risk:

Default risk - the risk that a counterparty fails to meet its contractual payment obligations;

Country risk - the risk that we may suffer a loss, in any given country, due to any of the following reasons: deterioration of economic conditions, political and social upheaval, nationalization and appropriation of assets, government repudiation of indebtedness, exchange controls, and disruptive currency depreciation or devaluation; and

Settlement risk - the risk that the settlement or clearance of transactions will fail, which arises whenever the exchange of cash, securities and/or other assets is not simultaneous.

The acceptance of credit risk by State Street is governed by corporate policies and guidelines, which

include standardized procedures applied across the entire organization. These policies and guidelines include specific requirements related to each counterparty's risk profile; the markets served; counterparty, industry and country concentrations; and regulatory compliance. These policies and procedures also implement a number of core principles, which include the following:

- We measure and consolidate all credit risks to each counterparty, or group of counterparties, in accordance with a "one-obligor" principle that aggregates risks across all of State Street's business units;
- ERM reviews and approves all extensions of credit, or material changes to extensions of credit (such as changes in term, collateral structure or covenants), in accordance with assigned credit-approval authorities;
- Credit-approval authorities are assigned to individuals according to their qualifications, experience and training, and these authorities are periodically reviewed. Our largest exposures require approval by the Credit Committee, a sub-committee of the Credit Risk and Policy Committee. With respect to small and low-risk extensions of credit to certain types of counterparties, approval authority is granted to individuals outside of ERM;
- We seek to avoid or limit undue concentrations of risk. Counterparty (or groups of counterparties), industry, country and product-specific concentrations of risk are subject to frequent review and approval in accordance with our risk appetite;
- We determine the creditworthiness of all counterparties through a detailed risk assessment, including the use of comprehensive internal risk-rating methodologies;
- We review all extensions of credit and the creditworthiness of all counterparties at least annually. The nature and extent of these reviews are determined by the size, nature and term of the extensions of credit and the creditworthiness of the counterparty; and
- We subject all core policies and principles to annual review as an integral part of our periodic assessment of our risk appetite.

Our corporate policies and guidelines require that the business units which engage in activities that give rise to credit and counterparty risk comply with procedures that promote the extension of credit for legitimate business purposes; are consistent with the



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maintenance of proper credit standards; limit credit-related losses; and are consistent with our goal of maintaining a strong financial condition.

Structure and Organization

The Credit Risk Management group, an integral part of ERM, is responsible for the assessment, approval and monitoring of all types of credit risk across State Street. The group is managed centrally, and has dedicated teams in a number of locations worldwide, across our businesses. The Credit Risk Management group is responsible for all requisite policies and procedures, and for State Street's advanced internal credit-rating systems and methodologies. In addition, the group, in conjunction with the appropriate business units, establishes appropriate measurements and limits to control the amount of credit risk accepted across its various business activities, both at the portfolio level and for each individual counterparty or group of counterparties, to individual industries, and also to counterparties by product and country of risk. These measurements and limits are reviewed periodically, but at least annually.

In conjunction with other groups in ERM, Credit Risk Management is jointly responsible for the design, implementation and oversight of our credit risk measurement and management systems, including data and assessment systems, quantification systems and the reporting framework.

Various key committees within State Street are responsible for the oversight of credit risk and associated credit risk policies, systems and models. All credit-related activities are governed by our risk appetite framework and our credit risk guidelines, which define our general philosophy with respect to credit risk and the manner in which we control, manage and monitor such risks.

The previously described Credit Risk and Policy Committee (refer to "Risk Committees" in this Management's Discussion and Analysis) has primary responsibility for the oversight, review and approval of the credit risk guidelines and policies. Credit risk guidelines and policies are reviewed periodically, but at least annually.

The Credit Committee, a sub-committee of the Credit Risk and Policy Committee, has responsibility for assigning credit authority and approving the largest and higher-risk extensions of credit to individual counterparties or groups of counterparties.

Both the Credit Risk and Policy Committee and the Credit Committee provide periodic updates to MRAC and the Board's RCC.

Credit Ratings

We seek to limit credit risk arising from transactions with our counterparties by performing initial and ongoing due diligence on their creditworthiness when conducting any business with them or approving any credit limits.

This due diligence process includes the assignment of an internal credit rating, which is determined by the use of internally developed and validated methodologies, scorecards and a 15-grade rating scale. This risk-rating process incorporates the use of risk-rating tools in conjunction with management judgment; qualitative and quantitative inputs are captured in a replicable manner and, following a formal review and approval process, an internal credit rating based on our rating scale is assigned. All credit ratings are reviewed and approved by the Credit Risk Management group or designees within ERM. To facilitate comparability across the portfolio, counterparties within a given sector are rated using a risk-rating tool developed for that sector.

All risk-rating methodologies are approved by the Credit Risk and Policy Committee, after completion of internal model validation processes, and are subject to an annual review, including re-validation.

We generally rate our counterparties individually, although certain portfolios defined by us as low-risk are rated on a pooled basis. We evaluate and rate the credit risk of our counterparties on an ongoing basis.

Risk Parameter Estimates

Our internal risk-rating system promotes a clear and consistent approach to the determination of appropriate credit risk classifications for all of our credit counterparties and exposures, tracking the changes in risk associated with these counterparties and exposures over time. This capability enhances our ability to more accurately calculate both risk

exposures and capital, enabling better strategic decision making across the organization.

We use credit risk parameter estimates for the following purposes:

- The assessment of the creditworthiness of new counterparties and, in conjunction with our risk appetite statement, the development of appropriate credit limits for all products and services, including loans, foreign exchange, securities finance, placements and repurchase agreements;
- The use of an automated process for limit approvals for certain low-risk counterparties, as defined in our credit risk guidelines,

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based on the counterparty's probability-of-default, or PD, rating class;

- The development of approval authority matrices based on PD; riskier counterparties with higher ratings require higher levels of approval for a comparable PD and limit size compared to less risky counterparties with lower ratings;
- The analysis of risk concentration trends using historical PD and exposure-at-default, or EAD, data;
- The standardization of rating integrity testing by the Global Counterparty Review group using rating parameters;
- The determination of the level of management review of short-duration advances depending on PD; riskier counterparties with higher rating class values generally trigger higher levels of management escalation for comparable short-duration advances compared to less risky counterparties with lower rating-class values;
- The monitoring of credit facility utilization levels using EAD values and the identification of instances where counterparties have exceeded limits;
- The aggregation and comparison of counterparty exposures with risk appetite levels to determine if businesses are maintaining appropriate risk levels; and
- The determination of our regulatory capital requirements for the advanced internal ratings-based approach provided in the Basel framework.

Credit Risk Mitigation

We seek to limit our credit exposure and reduce our potential credit losses through various types of risk mitigation. In our day-to-day management of credit risks, we utilize and recognize the following types of risk mitigation.

- Collateral. In many parts of our business, we regularly require or agree for collateral to be received from or provided to clients and counterparties in connection with contracts that incur credit risk. In our trading businesses, this collateral is typically in the form of cash and securities (government securities and other bonds or equity securities). Credit risks in our non-trading and securities finance businesses are also often secured by bonds and equity securities and by other types of assets. In all instances, collateral serves to reduce the

risk of loss inherent in an exposure by improving the prospect of recovery in the event of a counterparty default. While collateral is often an alternative source of repayment, it generally does not replace the requirement within our policies and guidelines for high-quality underwriting standards.

Our credit risk guidelines require that the collateral we accept for risk mitigation purposes is of high quality, can be reliably valued and can be liquidated if or when required. Generally, when collateral is of lower quality, more difficult to value or more challenging to liquidate, higher discounts to market values are applied for the purposes of measuring credit risk. For certain less liquid collateral, longer liquidation periods are assumed when determining the credit exposure.

All types of collateral are assessed regularly by ERM, as is the basis on which the collateral is valued. Our assessment of collateral, including the ability to liquidate collateral in the event of a counterparty default, is an integral component of our assessment of risk and approval of credit limits. We also seek to identify, limit and monitor instances of "wrong-way" risk, where a counterparty's risk of default is positively correlated with the risk of our collateral eroding in value.

We maintain policies and procedures requiring that all documentation used to collateralize a transaction is legal, valid, binding and enforceable in the relevant jurisdictions. We also conduct legal reviews to assess whether our documentation meets these standards on an ongoing basis.

- Netting. Netting is a mechanism that allows institutions and counterparties to net offsetting exposures and payment obligations against one another through the use of qualifying master netting agreements. A master netting agreement allows the netting of rights and obligations arising under derivative or other transactions that have been entered into under such an agreement upon the counterparty's default, resulting in a single net claim owed by, or to, the counterparty. This is commonly referred to as "close-out netting," and is pursued wherever possible. We may also enter into master agreements that allow for the netting of amounts payable on a given day and in the same currency, reducing our settlement risk. This is commonly referred to as "payment netting," and is widely used in our foreign

exchange activities.
As with collateral, we have policies and procedures in place to apply close-out and payment

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netting only to the extent that we have verified legal validity and enforceability of the master agreement. In the case of payment netting, operational constraints with our counterparties may preclude us from reducing settlement risk, notwithstanding the legal right to require the same under the master netting agreement.

Generally, given the nature of our operations and our risk profile, we do not employ risk mitigation in the form of guarantees and credit derivatives as extensively as traditional commercial and investment banks. Accordingly, while we may benefit from third-party guarantees in some instances, we do not quantify or recognize any related risk reduction in our measurement or risk-weighting of our credit exposure. We have established systematic processes to allow only eligible collateral and permitted netting, as defined in the Basel framework, to be recognized in our measurement of credit risk.

Credit Limits

Central to our philosophy for our management of credit risk is the approval and imposition of credit limits, against which we monitor the actual and potential future credit exposure arising from our business activities with counterparties or groups of counterparties. Credit limits reflect the extent of our risk appetite, which may be determined by the creditworthiness of the counterparty, the nature of the risk inherent in the business undertaken with the counterparty, or a combination of relevant credit factors. Our risk appetite for certain sectors and certain countries and geographic regions may also influence the level of risk we are willing to assume to certain counterparties.

The analysis and approval of credit limits is undertaken in a consistent manner across all of our businesses, although the nature and extent of the analysis may vary, based on the type, term and magnitude of the risk being assumed. Credit limits and underlying trading-related exposures are assessed and measured on both a gross and net basis, with net exposure determined by deducting the value of collateral. In nearly all instances, credit limit approvals, for all business units and products within State Street, are undertaken by the Credit Risk Management group, by individuals to whom credit authority has been delegated, or by the Credit Committee.

Credit limits are re-evaluated annually, or more frequently as needed, and are revised periodically on prevailing and anticipated market conditions, changes in counterparty or country-specific credit ratings and outlook, changes in State Street's risk appetite for certain counterparties, sectors or countries, and enhancements to the measurement of credit utilization.

Reporting

Ongoing active monitoring and management of our credit risk is an integral part of our credit risk management framework. We maintain management information systems to identify, measure, monitor and report credit risk across businesses and legal entities, enabling ERM and our businesses to have timely access to accurate information on all credit limits and exposures. Monitoring is performed along the dimensions of counterparty, industry, country and product-specific risks to facilitate the identification of concentrations of risk and emerging trends.

Key aspects of this credit risk reporting structure include governance and oversight groups, policies that define standards for the reporting of credit risk, data aggregation and sourcing systems, and separate testing of relevant risk reporting functions by Corporate Audit.

The Credit Portfolio Management group routinely assesses the composition of our overall credit risk portfolio for alignment with our stated risk appetite. This assessment includes routine analysis and reporting of the portfolio, monitoring of market-based indicators, the assessment of industry trends and developments, and regular reviews of concentrated risks. The Credit Portfolio Management group is also responsible, in conjunction with the business units, for defining the appetite for credit risk in the major sectors in which we have a concentration of business activities. These sector-level risk appetite statements, which include counterparty selection criteria and granular underwriting guidelines, are reviewed periodically and approved by the Credit Risk and Policy Committee.

Monitoring

Regular surveillance of credit and counterparty risks is undertaken by our business units, the Credit Risk Management group and designees with ERM, allowing for frequent and extensive oversight. This surveillance process includes, but is not limited to, the following components:

- Annual Reviews. A formal review is conducted at least annually on all counterparties, and includes a thorough review of operating performance, primary risk factors and our internal credit risk rating. This annual review also includes a review of current and proposed credit limits, an assessment of our ongoing risk appetite and verification that supporting legal documentation remains effective.
- Interim Monitoring. Periodic monitoring of our largest and riskiest counterparties is undertaken more frequently, utilizing financial information, market indicators and

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other relevant credit and performance measures. The nature and extent of this interim monitoring is individually tailored to certain counterparties and/or industry sectors to ensure that we identify material changes to the risk profile of a counterparty (or group of counterparties) and assign an updated internal risk rating in a timely manner.

We maintain an active "watch list" for all counterparties where there is a concern that the actual or potential risk of default has increased. The watch-list status denotes a concern with some aspect of a counterparty's risk profile that warrants closer monitoring of the counterparty's financial performance and related risk factors. Our ongoing monitoring processes are designed to facilitate the early identification of counterparties whose creditworthiness is deteriorating; any counterparty may be placed on the watch list by ERM at its sole discretion.

Counterparties that receive an internal risk rating within a certain range on our rating scale are eligible for watch list designation. These risk ratings generally correspond with the non-investment grade or near non-investment grade ratings established by the major independent credit-rating agencies, and also include the regulatory classifications of “Special Mention,” “Substandard,” “Doubtful” and “Loss.” Counterparties whose internal ratings are outside this range may also be placed on the watch list.

The Global Credit Review group, referred to as GCR, maintains primary responsibility for State Street’s watch list processes, and generates a monthly report of all watch list counterparties. The watch list is reviewed monthly in recurring meetings conducted by GCR with participation from the business units, senior ERM staff, and representatives from our corporate finance and legal groups as appropriate. These meetings include a review of all individual watch list counterparties, together with credit limits and prevailing exposures, and are solely focused on actions to contain, reduce or eliminate the risk of loss to State Street. Any identified actions are documented and monitored.

Controls

GCR provides a separate level of surveillance and oversight over the integrity of State Street’s internal risk-rating system, by providing a separate review of all ratings processes. As a critical function, GCR is subject to oversight by the Credit Risk and Policy Committee, and provides periodic updates to the Board’s RCC. GCR reviews all counterparty credit ratings for all sectors on an ongoing basis.

Specific activities of GCR include the following:

- Separate and objective assessments of State Street's credit and counterparty exposures to determine the nature and extent of risk undertaken by the business units;
- Periodic business unit reviews, focusing on the assessment of credit analysis, policy compliance, prudent transaction structure and underwriting standards, administration and documentation, risk-rating integrity, and relevant trends;
- Identification and monitoring of developing counterparty, market and/or industry sector trends to limit risk of loss and protect capital;
- Maintenance of risk-rating system integrity through testing of ratings;
- Regular and formal reporting of reviews, including findings and requisite actions to remedy identified deficiencies;
- Allocation of resources for specialized risk assessments (on an as-needed basis);
- Assessment of the appropriate level of the allowance for loan and lease losses; and
- Liaison with auditors and regulatory personnel on matters relating to risk rating, reporting, and measurement.

Model Risk Management

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

Our model risk management program has three principal components:

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A model risk governance program that defines roles and responsibilities, including the authority to restrict model usage, provides policies and guidance, and evaluates the models' key assumptions, limitations and overall degree of risk;

- A model development process which focuses on sound design and computational accuracy, and includes ongoing model integrity activities designed to test for robustness, stability, and sensitivity to assumptions; and
- A separate model validation function designed to verify that models are

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theoretically sound, performing as expected, and are in line with their design objectives.

Governance

Model risk is overseen at the corporate level by our Board and senior management. Models used in risk management can only be deployed for use after receiving a satisfactory validation review and being granted approval by the appropriate corporate oversight committee.

The MRC, which is composed of senior staff with technical expertise, reports to MRAC, and formally recommends proposed findings with respect to modeling weaknesses or deficiencies. Proposed findings are brought to the MRC by the Model Validation Group, referred to as MVG, for discussion. MVG is part of Model Risk Management within ERM. The most material findings may preclude a model's deployment and use; other findings may require resolution by specified deadlines.

ERM's Model Risk group is responsible for defining the corporate-wide model risk governance framework, and maintains policies that achieve the framework's objectives. The team is responsible for overall model risk governance capabilities, with particular emphasis in the areas of model risk reporting, model performance monitoring, tracking of new model development status, and committee-level review and challenge.

Model Development and Usage

Models are developed throughout State Street under standards governing data sourcing, methodology selection and model integrity testing. Model development includes a clear statement of purpose to align development with intended use. It also includes a comparison of alternative approaches to implement a sound modeling approach.

Model developers conduct an assessment of data quality and relevance. The development teams conduct a variety of tests of the accuracy, robustness and stability of each model.

Model owners monitor model performance, update model reference data and/or functionality as appropriate, and submit models to MVG for validation on a regular basis, as described below.

Model Validation

MVG separately validates models through a review that assesses the soundness and suitability of data inputs, methodologies, assumptions, coding and model outputs. Model validation also encompasses an assessment of a model's potential limitations given its particular assumptions or deficiencies. MVG maintains a model risk-rating system, which assigns a risk rating to each model based on the severity of review findings. These ratings aid in the

understanding and reporting of model risk across the model portfolio, and enable the triaging of needs for remediation.

Although model validation is the primary method of subjecting models to separate review and challenge, in practice, a multi-step governance process provides the opportunity for challenge by multiple parties. First, MVG conducts model validation and prepares findings. These proposed findings are then discussed with and formally recommended by the MRC. Finally, model usage decisions, made by the appropriate corporate oversight committee, are influenced by the model findings.

Reserve for Credit Losses

We maintain an allowance for loan losses to support our on-balance sheet credit exposures. We also maintain a reserve for unfunded commitments and letters of credit to support our off-balance credit exposure. The two components together represent the reserve for credit losses. Review and evaluation of the adequacy of the reserve for credit losses is ongoing throughout the year, but occurs at least quarterly, and is based, among other factors, on our evaluation of the level of risk in the portfolio, the volume of adversely classified loans, previous loss experience, current trends, and economic conditions and their effect on our counterparties. Additional information about the allowance for loan losses is provided in note 4 to the consolidated financial statements included in this Form 10-Q.

Liquidity Risk Management

Liquidity risk is defined as the potential that our financial condition or overall viability could be adversely affected by an actual or perceived inability to meet cash and collateral obligations. The goal of liquidity risk management is to maintain, even in the event of stress, our ability to meet our cash and collateral obligations.

Liquidity is managed to meet our financial obligations in a timely and cost-effective manner, as well as maintain sufficient flexibility to fund strategic corporate initiatives as they arise. Our effective management of liquidity involves the assessment of the potential mismatch between the future cash demands of our clients and our available sources of cash under both normal and adverse economic and business conditions.

We manage our liquidity on a global, consolidated basis. We also manage liquidity on a stand-alone basis at the parent company, as well as at certain branches and subsidiaries of State Street Bank. State Street Bank generally has access to markets and funding sources limited to banks, such as the federal funds market and the Federal

Reserve's discount window. Our parent company is managed to a more conservative liquidity profile, reflecting narrower market access. Our parent company typically holds enough cash, primarily in the form of overnight interest-bearing deposits with its banking subsidiaries, to meet its current debt maturities and cash needs, as well as those projected over the next one-year period. As of September 30, 2014, the value of the parent company's net liquid assets totaled $4.15 billion, compared with $4.42 billion as of December 31, 2013.

Based on our level of consolidated liquid assets and our ability to access the capital markets for additional funding when necessary, including our ability to issue debt and equity securities under our current universal shelf registration, management considers State Street's overall liquidity as of September 30, 2014 to be sufficient to meet its current commitments and business needs, including accommodating the transaction and cash management needs of its clients.

Governance

Global Treasury is responsible for our management of liquidity. This includes the day-to-day management of our global liquidity position, the development and monitoring of early warning indicators, key liquidity risk metrics, the creation and execution of stress tests, the evaluation and implementation of regulatory requirements, the maintenance and execution of our liquidity guidelines and contingency funding plan, and routine management reporting to ALCO and the Board's RCC.

Global Treasury Risk Management, part of ERM, provides separate oversight over the identification, communication and management of Global Treasury’s risks in support of our business strategy. Global Treasury Risk Management reports to the CRO. Global Treasury Risk Management’s responsibilities relative to liquidity risk management include the development and review of policies and guidelines; the monitoring of limits related to adherence to the liquidity risk guidelines and associated reporting.

Liquidity Framework

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 liquidity according to several principles that are equally important to our overall liquidity risk management framework:

- Structural liquidity management addresses liquidity by monitoring and directing the composition of our consolidated statement of condition. Structural liquidity is measured by metrics such as the percentage of total wholesale funds to consolidated total assets, and the percentage of non-government investment securities to client deposits. In addition, on a regular basis and as described below, our structural liquidity is evaluated under various stress scenarios.
- Tactical liquidity management addresses our day-to-day funding requirements and is largely driven by changes in our primary source of funding, which is client deposits.

Fluctuations in client deposits may be supplemented with short-term borrowings, which generally include commercial paper and certificates of deposit.

- Stress testing and contingent funding planning are longer-term strategic liquidity risk management practices. Regular and ad hoc liquidity stress testing are performed under various severe but plausible scenarios at the consolidated level and at significant subsidiaries, including State Street Bank. These tests contemplate severe market and State Street-specific events under various time horizons and severities. Tests contemplate the impact of material changes in key funding sources, credit ratings, additional collateral requirements, contingent uses of funding, systemic shocks to the financial markets, and operational failures based on market and State Street-specific assumptions. The stress tests evaluate the required level of funding versus available sources in an adverse environment. As stress testing contemplates potential forward-looking scenarios, results also serve as a trigger to activate specific liquidity stress levels and contingent funding actions.

Contingency Funding Plans, or CFPs, are designed to assist senior management with decision-making associated with any contingency funding response to a possible or actual crisis scenario. The CFPs define roles, responsibilities and management actions to be taken in the event of deterioration of our liquidity profile caused by either a State Street-specific event or a broader disruption in the capital

markets. Specific actions are linked to the level of stress indicated by these measures or by management judgment of market conditions.

Liquidity Risk Metrics

In managing our liquidity, we employ early warning indicators and metrics. Early warning indicators are intended to detect situations which may result in a liquidity stress, including changes in our common stock price and the spread on our long-term debt. Additional metrics that are critical to the management of our consolidated statement of condition and monitored as part of our routine liquidity management include measures of our fungible cash position, purchased wholesale funds, unencumbered liquid assets, deposits, and the total of investment securities and loans as a percentage of total client deposits.

Asset Liquidity

Central to the management of our liquidity is asset liquidity, which generally consists of unencumbered highly liquid securities, cash and cash equivalents carried in our consolidated statement of condition. We restrict the eligibility of securities of asset liquidity to U.S. Government and federal agency securities (including mortgage-backed securities), selected non-U.S. Government and supranational securities as well as certain other high quality securities which generally are more liquid than other types of assets even in times of stress. Our asset liquidity metric is similar to the high-quality liquid assets under the U.S. liquidity coverage ratio. The following table presents the components of our asset liquidity balance as of the dates, or for the periods, indicated:

| (In millions) | September 30, 2014 | December 31, 2013 |
|---|---|---|
| Asset Liquidity: | | |
| Highly liquid short-term investments[1] | $86,946 | $64,257 |
| Investment securities | 27,455 | 22,322 |
| Total | $114,401 | $86,579 |

| | Nine Months Ended September 30, | |
|---|---|---|
| (In millions) | 2014 | 2013 |
| Average Asset Liquidity: | | |
| Highly liquid short-term investments[1] | $50,045 | $28,033 |
| Investment securities | 22,630 | 26,475 |
| Total | $72,675 | $54,508 |

[1] Composed of interest-bearing deposits with banks.

With respect to highly liquid short-term investments presented in the preceding table, due to the continued elevated level of client deposits as of September 30, 2014, we maintained cash balances in excess of regulatory requirements governing deposits

with the Federal Reserve of approximately $74.57 billion at the Federal Reserve, the ECB and other non-U.S. central banks, compared to $51.03 billion as of December 31, 2013. The increase in investment securities presented in the table was mainly associated with our repositioning of the investment portfolio in light of the liquidity requirements of the LCR.

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

Access to primary, intra-day and contingent liquidity provided by these utilities is an important source of contingent liquidity with utilization subject to underlying conditions. As of September 30, 2014 and December 31, 2013, State Street Bank had no outstanding primary credit borrowings from the FRB discount window or any other central bank facility, and as of the same dates, no FHLB advances were outstanding.

In addition to the securities included in our asset liquidity, we have significant amounts of other high-quality investment securities. The aggregate fair value of those securities was $62.89 billion as of September 30, 2014, compared to $66.16 billion as of December 31, 2013. These securities are available sources of liquidity, although not as rapidly deployed as those included in our asset liquidity.

Uses of Liquidity

Significant uses of our liquidity could result from the following: withdrawals of client deposits; draw-downs of unfunded commitments to extend credit or to purchase securities, generally provided through lines of credit; and short-duration advance facilities. Such circumstances would generally arise under stress conditions including deterioration in credit ratings. We had unfunded commitments to extend credit with gross contractual amounts totaling $24.15 billion and $21.30 billion as of September 30, 2014 and December 31, 2013, respectively. These amounts do not reflect the value of any collateral. As of September 30, 2014, approximately 78% of our unfunded commitments to extend credit expire within one year. Since many of our commitments are expected to expire or renew without being drawn upon, the gross contractual amounts do not necessarily represent our future cash requirements.

Funding

Deposits:

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

For the past several years, we have experienced higher client deposit inflows toward the end of the quarter or the end of the year. As a result, average client deposit balances are deemed to be more reflective of ongoing funding than period-end balances. The following table presents client deposit balances as of the dates and for the periods indicated:

| | | | Average Balance | |
|---|---|---|---|---|
| | September 30, | | Nine Months Ended September 30, | |
| (In millions) | 2014 | 2013 | 2014 | 2013 |
| Client deposits[1] | $200,098 | $154,199 | $164,706 | $140,861 |

[1] Balance as of September 30, 2014 excluded term wholesale certificates of deposit, or CDs, of $7.87 billion; average balances for the nine months ended September 30, 2014 and September 30, 2013 excluded average CDs of $5.19 billion and $3.35 billion, respectively.

Short-Term Funding:

Our corporate commercial paper program, under which we can issue up to $3.0 billion of commercial paper with original maturities of up to 270 days from the date of issuance, had $2.40 billion of commercial paper outstanding as of September 30, 2014, compared to $1.82 billion as of December 31, 2013.

Our on-balance sheet liquid assets are also an integral component of our liquidity management strategy. These assets provide liquidity through maturities of the assets, but more importantly, they provide us with the ability to raise funds by pledging the securities as collateral for borrowings or through outright sales. In addition, our access to the global capital markets gives us the ability to source incremental funding at reasonable rates of interest from wholesale investors. As discussed earlier under “Asset Liquidity,” State Street Bank's membership in the FHLB allows for advances of liquidity in 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. The balances associated with this activity are generally stable, as they represent a collateralized cash investment option for our investment servicing clients. These balances were $9.39 billion and $7.95 billion as of September 30, 2014 and December 31, 2013, respectively.

State Street Bank currently maintains a line of credit with a financial institution of CAD $800 million, or approximately $716 million as of September 30, 2014, 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 September 30, 2014, there was no balance outstanding on this line of credit.

Long-Term Funding:

As of September 30, 2014, State Street Bank had Board authority to issue unsecured senior debt securities from time to time, provided that the aggregate principal amount of such unsecured senior debt outstanding at any one time does not exceed $5 billion. As of September 30, 2014, $4.1 billion was available for issuance pursuant to this authority. As of September 30, 2014, State Street Bank also had Board authority to issue up to $1.5 billion of subordinated debt, incremental to subordinated debt outstanding as of the same date. As of September 30, 2014, $500 million was available for issuance pursuant to this authority.

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

Agency Credit Ratings

Our ability to maintain consistent access to liquidity is fostered by the maintenance of high investment-grade ratings as measured by the major independent credit rating agencies. Factors essential to maintaining high credit ratings include diverse and stable core earnings; relative market position, strong risk management; strong capital ratios; diverse liquidity sources, including the global capital markets and client deposits; strong liquidity monitoring

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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, serve markets, and engage 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 or termination payments that would be required assuming a downgrade by all rating agencies. The following table presents the additional collateral or termination payments related to our net derivative liabilities under these arrangements that could have been called as of the dates indicated by counterparties in the event of a one-notch or two-notch downgrade in our credit ratings. Other funding sources, such as secured financing transactions and other margin requirements, for which there are no explicit triggers, could also be adversely affected.

| (In millions) | September 30, 2014 | December 31, 2013 |
|---|---|---|
| Additional collateral or termination payments for a one- or two-notch downgrade | $12 | $7 |

Liquidity Coverage Ratio

On September 3, 2014, U.S. banking regulators issued a final rule to implement the Basel Committee's LCR in the U.S. The LCR is intended to promote the short-term resilience of internationally active banking organizations, like State Street, to improve the banking industry's ability to absorb shocks arising from idiosyncratic or market stress, and improve the measurement and management of liquidity risk. The LCR final rule is largely similar to the proposed rule issued by U.S. banking regulators in October 2013, and maintains many of the more stringent requirements compared to the Basel Committee's LCR.

The LCR measures an institution's high-quality liquid assets, or HQLA, against its net cash outflows.

The LCR will be phased in, as originally proposed, beginning on January 1, 2015, at 80%, with full implementation beginning on January 1, 2017.

State Street will be required to report its LCR to the Federal Reserve, first on a monthly basis beginning in January 2015, with daily reporting required beginning in July 2015.

The LCR final rule is largely similar to the proposed rule issued by U.S. banking regulators in October 2013; however, the final rule contains several changes and clarifications, including revisions to the definition of operational deposits and more favorable FX netting treatment, both of which we expect to benefit our LCR ratio, and the exclusion of deposits of non-regulated funds, which we expect to negatively affect our LCR ratio.

Net Stable Funding Ratio

In October 2014, the Basel Committee issued final guidance with respect to the Net Stable Funding Ratio, or NSFR. The NSFR will require banking organizations to maintain a stable funding profile relative to the composition of their assets and off-balance sheet activities. The NSFR limits over-reliance on short-term wholesale funding, encourages better assessment of funding risk across all on- and off-balance sheet exposures, and promotes funding stability. The final guidance establishes a one-year liquidity standard representing the proportion of long-term assets funded by long-term stable funding, with the NSFR scheduled to become a minimum standard beginning on January 1, 2018. We are reviewing the specifics of the final guidance and will evaluate the U.S. implementation of this standard to analyze the impact and develop strategies for compliance. U.S. banking regulators have not yet issued a proposal to implement the NSFR.

Operational Risk Management

Overview

We define operational risk as the risk of loss resulting from inadequate or failed internal processes and systems, human error, or from external events. This definition encompasses legal risk and fiduciary risk. We define legal risk as the risk of loss resulting from failure to comply with laws, contractual obligations or prudent business practices, often in the form of litigation or fines. We define fiduciary risk as the failure to properly exercise discretion when acting on behalf of our clients, or not properly monitoring or controlling the exercise of discretion by a third party.

Operational risk is inherent in the performance of investment servicing and investment management activities on behalf of our clients. Whether it be fiduciary risk, risk associated with execution and

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processing or other types of operational risk, a consistent, transparent and effective operational risk framework is key to identifying, monitoring and managing operational risk.

We have established an operational risk framework that is based on three major goals:

- Strong, active governance;
- Ownership and accountability; and
- Consistency and transparency.

Governance

Our Board is responsible for the approval and oversight of our overall operational risk framework. It does so through its RCC, which reviews our operational risk framework and approves our operational risk policy annually.

Our operational risk policy establishes our approach to our management of operational risk across State Street. The policy identifies the responsibilities of individuals and committees charged with oversight of the management of operational risk, and articulates a broad mandate that supports implementation of the operational risk framework. ERM and other control groups provide the oversight, validation and verification of the management and measurement of operational risk. Our CRO, who leads ERM, manages the day-to-day oversight.

Executive management actively manages and oversees our operational risk framework through membership on various risk management committees, including MRAC, the BCRC, TORC, the Operational Risk Committee and the Fiduciary Review Committee, all of which ultimately report to the RCC.

The Operational Risk Committee, chaired by the global head of Operational Risk, provides cross-business oversight of operational risk and reviews and approves operational risk guidelines intended to maintain a consistent implementation of our corporate operational risk policy and framework.

Ownership and Accountability

We have implemented our operational risk framework to support the broad mandate established by our operational risk policy. This framework represents an integrated set of processes and tools that assists us in the management and measurement of operational risk, including our calculation of required capital and risk-weighted assets.

The framework takes a holistic view and integrates the methods and tools used to manage and measure operational risk. The framework utilizes aspects of the Committee of Sponsoring Organizations of the Treadway Commission, or

COSO, framework and other industry leading practices, and is designed foremost to address State Street's risk management needs while complying with regulatory requirements. The operational risk framework is intended to provide a number of important benefits, including:

- A common understanding of operational risk management and its supporting processes;
- The clarification of responsibilities for the management of operational risk across State Street;
- The alignment of business priorities with risk management objectives;
- The active management of risk and early identification of emerging risks;
- The consistent application of policies and the collection of data for risk management and measurement; and
- The estimation of our operational risk capital requirement.

The operational risk framework employs a distributed risk management infrastructure executed by ERM groups aligned with the business units, which are responsible for the implementation of the operational risk framework at the business unit level.

As with other risks, senior business unit management is responsible for the day-to-day operational risk management of their respective businesses. It is business unit management's responsibility to provide oversight of the implementation and ongoing execution of the operational risk framework within their respective organizations, as well as coordination and communication with ERM.

Consistency and Transparency

A number of corporate control functions are directly responsible for implementing and assessing various aspects of State Street's operational risk framework, with the overarching goal of consistency and transparency to meet the evolving needs of the business:

The global head of Operational Risk, a member of the CRO's executive management team, leads ERM's corporate Operational Risk Management group, referred to as ORM. ORM is responsible for the strategy, evolution and consistent implementation of our operational risk guidelines, framework and supporting tools across State Street. ORM reviews and analyzes operational key risk information, events, metrics and indicators at the business unit and corporate level for purposes of risk

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management, reporting and escalation to the CRO, senior management and governance committees;

- ERM's Corporate Risk Analytics group develops and maintains operational risk capital estimation models, and ERM's Operations group calculates State Street's required capital for operational risk;
- ERM's MVG separately validates the quantitative models used to measure operational risk, and ORM performs validation checks on the output of the model; and
- Corporate Audit performs separate reviews of the application of operational risk management practices and methodologies utilized across State Street.

Our operational risk framework consists of five components, each described below, which provide a working structure that integrates distinct risk programs into a continuous process focused on managing and measuring operational risk in a coordinated and consistent manner.

Risk Identification, Assessment and
Measurement

The objective of risk identification, assessment and measurement is to understand business unit strategy, risk profile and potential exposures. It is achieved through a series of risk assessments across State Street using techniques for the identification, assessment and measurement of risk across a spectrum of potential frequency and severity combinations. Three primary risk assessment programs, which occur annually, augmented by other business-specific programs, are the core of this component:

- The Risk and Control Self-Assessment program, referred to as the RCSA, seeks to understand the risks associated with day-to-day activities, and the effectiveness of controls intended to manage potential exposures arising from these activities. These risks are typically frequent in nature but generally not severe in terms of exposure;
- The Material Risk Identification program is specifically designed to consider risks that could have a material impact irrespective of their likelihood or frequency. This can include risks that may have an impact on longer-term business objectives, such as significant change management activities or long-term strategic initiatives;
- The Scenario Analysis program focuses on the set of risks with the highest severity and most relevance from a capital perspective. These are generally referred to as "tail risks," and serve as important benchmarks for our loss distribution approach model (see below); they also provide inputs into stress testing; and
- Business-specific programs to identify, assess and measure risk, including new business and product review and approval, new client screening, and, as deemed appropriate, targeted risk assessments.

The primary measurement tool used is an internally developed loss distribution approach model, referred to as the LDA model. We use the LDA model to quantify required operational risk capital, from which we calculate risk-weighted assets related to operational risk. Such risk-weighted assets totaled $35.96 billion as of September 30, 2014; refer to the "Capital" section of this Management's Discussion and Analysis.

The LDA model incorporates the four required operational risk elements described below:

- Internal loss event data is collected from across State Street in conformity with our operating loss policy that establishes the requirements for collecting and reporting individual loss events. We categorize the data into seven Basel-defined event types and further subdivide the data by business unit, as deemed appropriate. Each of these loss events are represented in a Unit of Measure, referred to as a UOM, which is used to estimate a specific amount of capital required for the types of loss events that fall into each specific category. Some UOMs are measured at the corporate level because they are not "business specific," such as damage to physical assets, where the cause of an event is not primarily driven by the behavior of a single business unit. Internal losses of $500 or greater are captured, analyzed and included in the modeling approach. Loss event data is collected using a corporate-wide data collection tool, which stores the data in a Loss Event Data Repository, referred to as the LEDR, to support processes related to analysis, management reporting and the calculation of required capital. Internal loss event data provides State Street-specific frequency and severity information to our capital calculation process for historical loss events experienced by State Street.

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- External loss event data provides information with respect to loss event severity from other financial institutions to inform our capital estimation process of events in similar business units at other banking organizations. This information supplements the data pool available for use in our LDA model. Assessments of the sufficiency of internal data and the relevance of external data are completed before pooling the two data sources for use in our LDA model.
- Scenario analysis workshops are conducted annually across State Street to inform management of the less frequent but most severe, or "tail," risks that the organization faces. The workshops are attended by senior business unit managers, other support and control partners and business-aligned risk-management staff. The workshops are designed to capture information about the significant risks and to estimate potential exposures for individual risks should a loss event occur. Workshops are aligned with specific UOMs and business units where appropriate. The results of these workshops are used to benchmark our LDA model results to determine that our calculation of required capital considers relevant risk-related information.

Business environment and internal control factors, referred to as BEICFs, are gathered as part of our scenario analysis program to inform the scenario analysis workshop participants of internal loss event data and business-relevant metrics, such as RCSA results, along with industry loss event data and case studies where appropriate. BEICFs are those characteristics of a bank's internal and external operating environment that bear an exposure to operational risk. The use of this information indirectly influences our calculation of required capital by providing additional relevant data to workshop participants when reviewing specific UOM risks.

Monitoring

The objective of risk monitoring is to proactively monitor the changing business environment and corresponding operational risk exposure. It is achieved through a series of quantitative and qualitative monitoring tools that are designed to allow us to understand changes in the business environment, internal control factors, risk metrics, risk assessments, exposures and operating effectiveness, as well as details of loss events and progress on risk initiatives implemented to mitigate potential risk exposures.

Effectiveness and Testing

The objective of effectiveness and testing is to verify that internal controls are designed appropriately, are consistent with corporate and regulatory standards, and are operating effectively. It is achieved through a series of assessments by both internal and external parties, including Corporate Audit, independent registered public accounting firms, business self-assessments and other control function reviews, such as a Sarbanes-Oxley testing program.

Consistent with our standard model validation process, the operational risk LDA model is subject to a detailed review, overseen by the MRC. In addition, the model is subject to a rigorous internal governance process. All changes to the model or input parameters, and the deployment of model updates, are reviewed and approved by the Operational Risk Committee, which has oversight responsibility for the model, with technical input from the MRC.

Reporting

Operational risk reporting is intended to provide transparency, thereby enabling management to manage risk, provide oversight and escalate issues in a timely manner. It is designed to allow the business units, executive management, and the Board's control functions and committees to gain insight into activities that may result in risks and potential exposures. Reports are intended to identify business activities that are experiencing processing issues, whether or not they result in actual loss events. Reporting includes results of monitoring activities, internal and external examinations, regulatory reviews, and control assessments. These elements combine in a manner designed to provide a view of potential and emerging risks facing State Street and information that details its progress on managing risks.

Documentation and Guidelines

Documentation and guidelines allow for consistency and repeatability of the various processes that support the operational risk framework across State Street.

Operational risk guidelines document our practices and describe the key elements in a business unit's operational risk management program. The purpose of the guidelines is to set forth and define key operational risk terms, provide further detail on State Street's operational risk programs, and detail the business units' responsibilities to identify,

assess, measure, monitor and report operational risk. The guideline supports our operational risk policy.

Data standards have been established to maintain consistent data repositories and systems that are controlled, accurate and available on a timely basis to support operational risk management.



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## Market Risk Management

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

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

### Trading Activities

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

We engage in trading activities primarily to support our clients' needs and to contribute to our overall corporate earnings and liquidity. In connection with certain of these trading activities, we enter into a variety of derivative financial instruments to support our clients' needs and to manage our interest-rate and currency risk. These activities are generally intended to generate trading services revenue and to manage potential earnings volatility. In addition, we provide services related to derivatives in our role as both a manager and a servicer of financial assets.

Our clients use derivatives to manage the financial risks associated with their investment goals and business activities. With the growth of cross-border investing, our clients often enter into foreign exchange forward contracts to convert currency for international investments and to manage the currency risk in their international investment portfolios. As an active participant in the foreign exchange markets, we provide foreign exchange forward and option contracts in support of these client needs, and also act as a dealer in the currency markets.

As part of our trading activities, we assume positions in the foreign exchange and interest-rate markets by buying and selling cash instruments and entering into derivative instruments, including foreign exchange forward contracts, foreign exchange and interest-rate options and interest-rate swaps, interest-rate forward contracts, and interest-rate futures. As of September 30, 2014, the aggregate notional amount of these derivative contracts was $1.32 trillion, of which $1.31 trillion was composed of foreign exchange forward, swap and spot contracts. In the aggregate, we seek to match positions closely

with the objective of minimizing related currency and interest-rate risk. All foreign exchange contracts are valued daily at current market rates.

### Governance

Our assumption of market risk in our trading activities is an integral part of our corporate risk appetite. Our Board reviews and oversees our management of market risk, including the approval of key market risk policies and the receipt and review of regular market risk reporting, as well as periodic updates on selected market risk topics.

The previously described TMRC (refer to "Risk Committees" in this Management's Discussion and Analysis) oversees all market risk-taking activities across State Street associated with trading. The TMRC, which reports to MRAC, is composed of members of ERM, our global markets business and our Global Treasury group, as well as our senior executives who manage our trading businesses and other members of management who possess specialized knowledge and expertise. The TMRC meets regularly to monitor the management of our trading market risk activities.

Our business units identify, actively manage and are responsible for the market risks inherent in their businesses. A dedicated market risk management group within ERM, and other groups within ERM, work with those business units to assist them in the identification, assessment, monitoring, management and control of market risk, and assist business unit managers with their market risk management and measurement activities. ERM provides an additional line of oversight, support and coordination designed to promote the consistent identification, measurement and management of market risk across business units, separate from those business units' discrete activities.

The ERM market risk management group is responsible for the management of corporate-wide market risk, the monitoring of key market risks and the development and maintenance of market risk management policies, guidelines, and standards aligned with our corporate risk appetite. This group also establishes and approves market risk tolerance limits and dealing authorities based on, but not limited to, measures of notional amounts, sensitivity, VaR and stress. Such limits and authorities are specified in our trading and market risk guidelines which govern our management of trading market risk.



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Covered Positions

Our trading positions are subject to regulatory market risk capital requirements if they meet the regulatory definition of a “covered position.” 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, including foreign exchange or commodity positions, and excluding intangible assets, certain credit derivatives recognized as guarantees and certain equity positions not publicly traded. The identification of covered positions for inclusion in our market risk capital framework is governed by our covered positions policy, which outlines the standards we use to determine whether a trading position is a covered position.

Our covered positions consist primarily of the trading portfolios held by our global markets business. These trading portfolios include products such as spot foreign exchange, foreign exchange forwards, non-deliverable forwards, foreign exchange options, foreign exchange funding swaps, currency futures, financial futures, and interest rate futures. Covered positions also arise from certain portfolios held by our Global Treasury group. Any new activities are analyzed to determine if the positions arising from such new activities meet the definition of a covered position and conform to our covered positions policy. This documented analysis, including any decisions with respect to market risk treatments, must receive approval from the TMRC.

Value-at-Risk, Stress Testing and Stressed VaR

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

We utilize an internal VaR model to calculate our regulatory market risk capital requirements. We use a historical simulation model to calculate daily VaR- and stressed VaR-based measures for our covered positions in conformity with regulatory requirements. Our VaR model seeks to capture identified material risk factors associated with our covered positions, including risks arising from market movements such as changes in foreign exchange rates, interest rates and option-implied volatilities.

We have adopted standards and guidelines to value our covered positions which govern our VaR-

and stressed VaR-based measures. 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 also use the same platform to calculate a one-tail, 99% confidence interval, one-business-day VaR for internal risk management purposes. A 99% one-tail confidence interval implies that daily trading losses are not expected to exceed the estimated VaR more than 1% of the time, or less than three business days out of a year.

Our market risk models, including our VaR model, are subject to change in connection with the governance, validation and back-testing processes described below. These models can change as a result of changes in our business activities, our historical experiences, market forces and events, regulations and regulatory interpretations and other factors. In addition, the models are subject to continuing regulatory review and approval. Changes in our models may result in changes in our measurements of our market risk exposures, including VaR, and related measures, including regulatory capital. These changes could result in material changes in those risk measurements and related measures as calculated and compared from period to period.

Value-at-Risk

VaR measures are based on the most recent two years of historical price movements for instruments and related risk factors to which we have exposure. The instruments in question are limited to foreign exchange spot, forward and options contracts and interest-rate contracts, including futures and interest-rate swaps. Historically, these instruments have exhibited a higher degree of liquidity relative to other available capital markets instruments. As a result, the VaR measures shown reflect our ability to rapidly adjust exposures in highly dynamic markets. For this reason, risk

inventory, in the form of net open positions, across all currencies is typically limited. In addition, long and short positions in major, as well as minor, currencies provide risk offsets that limit our potential downside exposure.

Our VaR methodology uses a historical simulation approach based on market-observed changes in foreign exchange rates, U.S. and non-U.S. interest rates and implied volatilities, and incorporates the resulting diversification benefits provided from the mix of our trading positions. Our VaR model incorporates approximately 5,000 risk factors and includes correlations among currency, interest rates, and other market rates.



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Stress Testing and Stressed VaR

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

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

The sixty-day moving average of our stressed VaR-based measure was approximately $32 million for the twelve months ended September 30, 2014, compared to a sixty-day moving average of $38 million for the twelve months ended June 30, 2014, and approximately $27 million for the twelve months ended September 30, 2013.

The increase in the sixty-day moving average of our stressed VaR measure for the twelve months ended September 30, 2014 compared to the twelve months ended September 30, 2013 was due primarily to increases in our exposures to basis risk in currencies that trade both on-shore and off-shore. As described following the VaR and stressed-VaR tables under "Market Risk Reporting," we changed our stressed-VaR model to reflect such exposure as of

July 1, 2013, and as a result, the averages for the two periods are not directly comparable.

The decline in the sixty-day moving average of our stressed VaR-based measure for the twelve months ended September 30, 2014 compared to the twelve months June 30, 2014 was due primarily to lower interest-rate curve exposures in emerging markets currencies.

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

Validation and Back-Testing

We perform daily 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 actual Profit-and-Loss outcomes, referred to as P&L, observed from daily market movements. We back-test our VaR model using “clean” P&L, which excludes non-trading revenue such as fees, commissions and net interest revenue, 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 experienced no back-testing exceptions in the first nine months of 2014. We experienced one back-testing exception in the first nine months of 2013, which occurred in the third quarter of 2013. The trading P&L that day exceeded the VaR based on the prior day’s closing positions, following larger-than-usual moves in several emerging market currencies and U.S. interest rates.

Our market risk models are governed by our model risk governance guidelines, in conformity with our model risk governance policy, which outline the standards we use to assess the conceptual soundness and effectiveness of our models. Our market risk models are subject to regular review and validation by MVG within ERM and overseen by the MRC. The MRC includes members with expertise in modeling methodologies and has representation from the various business units throughout State Street. Additional information about the MRC and MVG is provided under "Credit Risk - Model Risk Management" in this Disclosure.



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MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS (Continued)

Our model validation process also evaluates the integrity of our VaR models through the use of regular outcome analysis. Such outcome analysis includes back-testing, which compares the VaR model's predictions to actual outcomes using out-of-sample information. MVG examined back-testing results for the market risk regulatory capital model used for 2012. Consistent with regulatory guidance, the back-testing compared “clean” P&L, defined above, with the one-day VaR produced by the model. The back-testing was performed for a time period not used for

model development. The number of occurrences where “clean” trading-book P&L exceeded the one-day VaR was within our expected VaR tolerance level.
The following tables present VaR and stressed VaR associated with our trading activities for covered positions held during the nine months ended September 30, 2014 and 2013, and as of September 30, 2014 and December 31, 2013, as measured by our VaR methodology.

| VaR - COVERED PORTFOLIOS (TEN-DAY VaR) | Nine Months Ended September 30, 2014 | | | Nine Months Ended September 30, 2013 | | | As of September 30, 2014 | As of December 31, 2013 |
|---|---|---|---|---|---|---|---|---|
| (In thousands) | Average | Maximum | Minimum | Average | Maximum | Minimum | VaR | VaR |
| Foreign exchange | $6,475 | $12,327 | $2,273 | $6,569 | $22,835 | $1,626 | $6,232 | $5,463 |
| Money market/Global Treasury | 47 | 62 | 12 | 108 | 559 | 24 | 38 | 58 |
| Total VaR | $6,455 | $12,283 | $2,262 | $6,530 | $22,834 | $1,641 | $6,193 | $5,441 |

| STRESSED VaR - COVERED PORTFOLIOS (TEN-DAY VaR) | Nine Months Ended September 30, 2014 | | | Nine Months Ended September 30, 2013 | | | As of September 30, 2014 | As of December 31, 2013 |
|---|---|---|---|---|---|---|---|---|
| (In thousands) | Average | Maximum | Minimum | Average | Maximum | Minimum | Stressed VaR | Stressed VaR |
| Foreign exchange | $33,168 | $64,510 | $15,625 | $21,361 | $43,984 | $4,933 | $36,363 | $30,338 |
| Money market/Global Treasury | 162 | 572 | 41 | 280 | 1,075 | 56 | 111 | 280 |
| Total Stressed VaR | $33,112 | $64,409 | $15,495 | $21,252 | $43,765 | $4,889 | $36,339 | $30,403 |

The VaR-based measures presented in the preceding tables are primarily a reflection of the overall level of market volatility and our appetite for trading market risk. Overall levels of volatility have been low both on an absolute basis and relative to the historical information observed at the beginning of the period used for the calculations. Both the ten-day VaR-based measures and the stressed VaR-based measures are based on historical changes observed during rolling ten-day periods for the portfolios as of the close of business each day over the past one-year period.
The decrease in the maximum VaR measure for foreign exchange for the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013 was the result of declining market volatility, particularly foreign exchange volatility.
The increases in the average stressed-VaR measures for the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013 resulted from the model changes, described below, that we implemented beginning on July 1,

2013.
Beginning on July 1, 2013, we implemented two changes to our stressed-VAR model. The net effect of the two changes resulted in increases in our stressed VaR-based measures, calculated based on a 99% confidence interval. The changes involved the introduction of off-shore yield curves for non-deliverable forward contracts in our portfolios of covered positions and the use of absolute changes in place of relative or percentage changes for interest-rate risk

factors (both base curves and spread curves).

The changes to our stressed-VaR model described above were the principal contributing factor in the increases in the average stressed-VaR measures; as a result, the averages for the two periods are not directly comparable.

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



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The following tables present the VaR and stressed VaR associated with our trading activities attributable to foreign exchange rates, interest rates and volatility as of September 30, 2014 and December 31, 2013. The totals of the VaR and stressed-VaR measures for the three attributes for each VaR and stressed-VaR component exceeded the related total VaR and total stressed VaR presented in the foregoing tables as of each period-end, primarily due to the benefits of diversification across risk types.

| VaR - COVERED PORTFOLIOS (TEN-DAY VaR) | As of September 30, 2014 | | | As of December 31, 2013 | | |
|---|---|---|---|---|---|---|
| (In thousands) | Foreign Exchange | Interest Rate | Volatility | Foreign Exchange | Interest Rate | Volatility |
| By component: | | | | | | |
| Foreign exchange/Global Markets | $4,927 | $3,317 | $536 | $3,492 | $4,561 | $306 |
| Money market/Global Treasury | 41 | 4 | — | 46 | 52 | — |
| Total VaR | $4,884 | $3,318 | $536 | $3,457 | $4,577 | $306 |

| STRESSED VaR - COVERED PORTFOLIOS (TEN-DAY VaR)[1] | As of September 30, 2014 | | | As of December 31, 2013 | | |
|---|---|---|---|---|---|---|
| (In thousands) | Foreign Exchange | Interest Rate | Volatility | Foreign Exchange | Interest Rate | Volatility |
| By component: | | | | | | |
| Foreign exchange/Global Markets | $14,975 | $31,964 | $934 | $8,788 | $37,030 | $345 |
| Money market/Global Treasury | 121 | 25 | — | 119 | 299 | — |
| Total Stressed VaR | $14,808 | $31,935 | $934 | $8,845 | $36,949 | $345 |

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

Total stressed VaR as of September 30, 2014 increased compared to December 31, 2013, as presented in the foregoing table of period-end total stressed-VaR measures. However, the stressed VaR attributable to interest rates as of September 30, 2014, presented in the table above, declined compared to December 31, 2013, while the stressed VaR attributable to foreign exchange as of
September 30, 2014, presented in the table above, increased in the same comparison.

This relationship reflected slightly lower basis risk arising from on-shore/off-shore positions in emerging market currencies as of September 30, 2014, a time when our foreign exchange exposure was a more significant component of our stressed-VaR measure compared to our foreign exchange exposure as of December 31, 2013.

Asset-and-Liability Management Activities

The primary objective of asset-and-liability management is to provide sustainable net interest revenue, referred to as NIR, under varying economic environments, 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 NIR 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 NIR 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, but we manage our overall interest-rate risk position in the context of current and

anticipated market conditions and within internally-approved risk guidelines.

Our overall interest-rate risk position is maintained within a series of policies approved by the Board and guidelines established and monitored by ALCO. Our Global Treasury group has responsibility for managing our day-to-day interest-rate risk. To effectively manage our consolidated statement of condition and related NIR, Global Treasury has the authority to assume a limited amount of interest-rate risk based on market conditions and its views about the direction of global interest rates over both short-term and long-term time horizons. Global Treasury manages our exposure to changes in interest rates on a consolidated basis organized into three regional treasury units, North America, Europe and Asia/Pacific, to reflect the growing, global nature of our exposures and to capture the impact of changes in regional market environments on our total risk position.

The economic value of our consolidated statement of condition is a metric designed to estimate the fair value of assets and liabilities which

could be garnered if those assets and liabilities were sold today. The economic values represent discounted cash flows from all financial instruments; therefore, changes in the yield curves, which are used to discount the cash flows, affect the values of these instruments.

Our investment activities and our use of derivative financial instruments are the primary tools used in managing interest-rate risk. We invest in financial instruments with currency, repricing, and maturity characteristics we consider appropriate to manage our overall interest-rate risk position. In addition, we use certain derivative instruments, primarily interest-rate swaps, to alter the interest-rate characteristics of specific balance sheet assets or liabilities.

Because no one individual measure can accurately assess all of our exposures to changes in interest rates, we use several quantitative measures in our assessment of current and potential future exposures to changes in interest rates and their impact on NIR and balance sheet values. NIR simulation is the primary tool used in our evaluation of the potential range of possible NIR results that could occur under a variety of interest-rate environments. We also use market valuation and duration analysis to assess changes in the economic value of balance sheet assets and liabilities caused by assumed changes in interest rates.

To measure, monitor, and report on our interest-rate risk position, we use NIR simulation, referred to as NIR-at-risk, and Economic Value of Equity, referred to as EVE, sensitivity. NIR-at-risk measures the impact on NIR over the next twelve months to immediate, or "rate shock," and gradual, or "rate ramp," changes in market interest rates. EVE sensitivity is a total return view of interest-rate risk, which measures the impact on the present value of all NIR-related principal and interest cash flows of an immediate change in interest rates. Although NIR-at-risk and EVE sensitivity measure interest-rate risk over different time horizons, both utilize consistent assumptions when modeling the positions currently held by State Street; however, NIR-at-risk also incorporates future actions planned by management over the time horizons being modeled.

In estimating our NIR-at-risk, we start with a base amount of NIR that is projected over the next twelve months, assuming our forecast yield curve over the period. Our existing balance sheet assets and liabilities are adjusted by the amount and timing of transactions that are forecast to occur over the next twelve months. That yield curve is then "shocked," or moved immediately, +/-100 basis points in a parallel fashion, or at all points along the yield curve. Two new twelve-month NIR projections are

then developed using the same balance sheet and forecast transactions, but with the new yield curves, and compared to the base scenario. We also perform the calculations using interest-rate ramps, which are +/-100-basis-point changes in interest rates that are assumed to occur gradually over the next twelve months, rather than immediately as we do with interest-rate shocks.

EVE is based on the change in the present value of all NIR-related principal and interest cash flows for changes in market rates of interest. The present value of existing cash flows with a then-current yield curve serves as the base case. We then apply an immediate parallel shock to that yield curve of +/-200 basis points and recalculate the cash flows and related present values. A large shock is used to better capture the embedded option risk in our mortgage-backed securities that results from borrowers' prepayment opportunities.

Key assumptions used in the models, described in more detail below, along with changes in market conditions, are inherently uncertain. Actual results necessarily differ from model results as market conditions differ from assumptions. As such, management performs back-testing, stress testing, and model integrity analyses to validate that the modeled results produce predictive NIR-at-risk and EVE sensitivity estimates which can be used in our management of interest-rate risk. Primary factors affecting the actual results are changes in our balance sheet size and mix; the timing, magnitude and frequency of changes in interest rates, including the slope and the relationship between the interest-rate level of U.S. dollar and non-U.S. dollar yield curves; changes in market conditions; and management actions taken in response to the preceding conditions.

Both NIR-at-risk and EVE sensitivity results are managed against ALCO-approved limits and guidelines and are monitored regularly, along with other relevant simulations, scenario analyses and stress tests, by both Global Treasury and ALCO. Our ALCO-approved guidelines are, we believe, in line with industry standards and are periodically

examined by the Federal Reserve.

As a result of differences in measurement between NIR-at-risk and EVE with respect to certain assumptions, such as the reinvestment of our interest-earning assets, reported results of NIR-at-risk could present an increase in NIR from an increase in rates while EVE presents a loss. Changes in assumptions may result in different outcomes under both NIR-at-risk and EVE. NIR-at-risk depicts the change in the nominal (un-discounted) dollar net interest flows which are generated from the forecast statement of condition over the next twelve months.

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As interest rates increase, the interest expense associated with our client deposit liabilities is assumed to increase at a slower pace than the investment returns derived from our current balance sheet or the associated reinvestment of our interest-earning assets, resulting in an overall increase to NIR. EVE, on the other hand, measures the present value change of both principal and interest cash flows based on the current period-end balance sheet. As a result, EVE does not contemplate reinvestment of our assets associated with a change in the interest-rate environment.

Although NIR in both NIR-at-risk and EVE sensitivity is higher in response to increased interest rates, the future principal flows from fixed-rate investments are discounted at higher rates for EVE, which results in lower asset values and a corresponding reduction or loss in EVE. As noted above, NIR-at-risk does not analyze changes in the value of principal cash flows and therefore does not experience the same reduction experienced by EVE sensitivity associated with discounting principal cash flows at higher rates.

Net Interest Revenue at Risk

NIR-at-risk is designed to estimate the potential impact of changes in global market interest rates on NIR in the short term. The impact of changes in market rates on NIR is measured against a baseline NIR which encompasses management's expectations regarding the evolving balance sheet volumes and interest rates in the near-term. The goal is to achieve an acceptable level of NIR under various interest-rate environments. Assumptions regarding levels of client deposits and our ability to price these deposits under various rate environments have a significant impact on the results of the NIR simulations. Similarly, the timing of cash flows from our investment portfolio, especially option-embedded financial instruments like mortgage-backed securities, and our ability to replace these cash flows in line with management's expectations, can affect the results of NIR simulations.

The following table presents the estimated exposure of our NIR for the next twelve months, calculated as of the dates indicated, due to an immediate +/-100-basis-point shift to our internal forecast of global interest rates. We manage our NIR sensitivity to limit declines to 15% or less from baseline NIR. Estimated incremental exposures presented below are dependent on management's assumptions, and do not reflect any additional actions management may undertake in order to mitigate some of the adverse effects of changes in interest rates on our financial performance.

| (Dollars in millions) | Estimated Exposure to Net Interest Revenue September 30, 2014 | | | | December 31, 2013 | | | |
|---|---|---|---|---|---|---|---|---|
| Rate change: | Exposure | | % of Base NIR | | Exposure | | % of Base NIR | |
| +100 bps shock | $343 | | 14.3 | % | $334 | | 14.0 | % |
| –100 bps shock | (313 | ) | (13.1 | ) | (261 | ) | (10.9 | ) |
| +100 bps ramp | 137 | | 5.7 | | 126 | | 5.3 | |
| –100 bps ramp | (181 | ) | (7.5 | ) | (124 | ) | (5.2 | ) |

As of September 30, 2014, NIR sensitivity to an upward-100-basis-point shock in global interest rates was slightly higher compared to such sensitivity as of December 31, 2013, due to a higher level of forecast client deposits. The benefit to NIR of an upward-100-basis-point ramp is less significant than a shock, since interest rates are assumed to increase gradually.

NIR sensitivity to a downward-100-basis-point shock in global interest rates as of September 30, 2014 increased compared to such sensitivity as of December 31, 2013, due to higher levels of forecast client deposits. Increased levels of forecast client deposits, while beneficial to baseline NIR, do not provide relief in the downward shock scenario, as the deposits have no room to fully re-price from current levels as their pricing basis falls. A downward-100-basis-point shock in global interest rates places pressure on NIR, as deposit rates reach their implicit floors due to the exceptionally low global interest-rate environment, and provide little funding relief on the liability side, while assets re-price into the lower-rate environment. The adverse impact on projected NIR due to a downward-100-basis-point ramp is less significant than a shock since interest rates are assumed to decrease gradually, thereby reducing the level of projected spread compression experienced between assets and liabilities over a

twelve-month horizon.

Our baseline NIR incorporates an expectation that short-term interest rates will begin to rise in anticipation of central bank tightening of current monetary policies. While this rise in rates benefits our baseline NIR, it is detrimental to our NIR sensitivity to a downward-100-basis-point shock, as rising short-term interest rates allow asset yields to re-price lower in a downward shock scenario than previously, while deposits are still priced close to natural floors.

Other important factors which affect the levels of NIR are the size and mix of assets carried in our consolidated statement of condition; interest-rate spreads; the slope and interest-rate level of U.S. and non-U.S. dollar yield curves and the relationship between them; the pace of change in global market interest rates; and management actions taken in response to the preceding conditions.



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MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Economic Value of Equity

EVE sensitivity measures changes in the market value of equity to quantify potential losses to shareholders due to an immediate +/-200-basis-point rate shock compared to current interest-rate levels if the balance sheet were liquidated immediately. Management compares the change in EVE sensitivity against State Street's aggregate tier 1 and tier 2 risk-based capital, calculated in conformity with currently applicable regulatory requirements, to evaluate whether the magnitude of the exposure to interest rates is acceptable. Generally, a change resulting from a +/-200-basis-point rate shock that is less than 20% of aggregate tier 1 and tier 2 capital is an exposure that management deems acceptable. To the extent that we manage changes in EVE sensitivity

within the 20% threshold, we would seek to take action to remain below the threshold if the magnitude of our exposure to interest rates approached that limit.

Similar to NIR-at-risk measures, the timing of cash flows affects EVE sensitivity, as changes in asset and liability values under different rate scenarios are dependent on when interest and principal payments are received. In contrast to NIR simulations, however, EVE sensitivity does not incorporate assumptions regarding reinvestment of these cash flows. In addition, our ability to price client deposits has a much smaller impact on EVE sensitivity, as EVE sensitivity does not consider the ongoing benefit of investing client deposits.

The following table presents estimated EVE exposures, calculated as of the dates indicated, assuming an immediate and prolonged shift in global interest rates, the impact of which would be spread over a number of years.

| (Dollars in millions) | Estimated Sensitivity of Economic Value of Equity | | | |
|---|---|---|---|---|
| | September 30, 2014 | | December 31, 2013 | |
| Rate change: | Exposure | % of Tier 1/Tier 2 Capital | Exposure | % of Tier 1/Tier 2 Capital |
| +200 bps shock | $(2,452) | (14.0)% | $(2,359) | (14.9)% |
| –200 bps shock | 1,212 | 6.9 | 1,149 | 7.2 |

The dollar measure of EVE sensitivity to an upward-200-basis-point shock as of September 30, 2014 worsened compared to December 31, 2013, and the dollar measure of EVE sensitivity to a downward-200-basis-point shock as of September 30, 2014 improved compared to December 31, 2013, with both comparisons due primarily to longer duration associated with the investment portfolio as of September 30, 2014 compared to December 31, 2013.

EVE sensitivity to both a downward-200-basis-point shock and an upward-200-basis-point shock as of September 30, 2014, both as percentages of the total of tier 1 and tier 2 regulatory capital, improved compared to December 31, 2013. These improvements were primarily due to an increase in the total of tier 1 and tier 2 capital as of September 30, 2014 compared to December 31, 2013 (refer to the "Capital - Regulatory Capital" section of this Management's Discussion and Analysis).

Business Risk Management

We define business risk as the risk of adverse changes in our earnings related to business factors, including changes in the competitive environment, changes in the operational economics of our business activities and the potential effect of strategic and reputation risks, not already captured as trading

market, interest-rate, credit, operational or liquidity risks. We incorporate business risk into our assessment of our strategic plans and economic capital needs. Active management of business risk is an integral component of all aspects of our business, and responsibility for the management of business risk lies with every employee at State Street.

Separating the effects of a potential material adverse event into operational and business risk is sometimes difficult. For instance, the direct financial impact of an unfavorable event in the form of fines or penalties would be classified as an operational risk loss, while the impact on our reputation and consequently the potential loss of clients and corresponding decline in revenue would be classified as a business risk loss. An additional example of business risk is the integration of a major acquisition. Failure to successfully integrate the operations of an acquired business, and the resultant inability to retain clients and the associated revenue, would be classified as a loss due to business risk. Business risk is managed with a long-term focus. Techniques for its assessment and management include the development of business plans and appropriate management oversight. The potential impact of the various elements of business risk is difficult to quantify with any degree of precision. We use a combination of historical earnings volatility, scenario analysis, stress-testing and management

judgment to help assess the potential effect on State Street attributable to business risk. Management and control of business risks are generally the responsibility of the business units as part of their overall strategic planning and internal risk management processes.

## Capital

The management of both our regulatory and economic capital involves key metrics evaluated by management to assess whether our actual level of capital is commensurate with our risk profile, is in compliance with all applicable regulatory requirements, and is sufficient to provide us with the financial flexibility to undertake future strategic business initiatives. We assess capital based on relevant regulatory capital adequacy requirements, as well as our own internal capital targets.

### Framework

Our objective with respect to management of our capital is to maintain a strong capital base in order to provide financial flexibility for our business needs, including funding corporate growth and supporting clients' cash management needs, and to provide protection against loss to depositors and creditors. We strive to maintain an appropriate level of capital, commensurate with our risk profile, on which an attractive return to shareholders is expected to be realized over both the short and long term, while protecting our obligations to depositors and creditors and complying with regulatory capital adequacy requirements.

Our capital management process focuses on our risk exposures, the regulatory requirements applicable to us with respect to capital adequacy, the evaluations and resulting credit ratings of the major independent credit rating agencies, our return on capital at both the consolidated and line-of-business level, and our capital position relative to our peers.

Our evaluation of capital includes the comparison of capital sources with capital uses, as well as the consideration of the quality and quantity of the various components of capital, as two of several inputs in our overall assessment of our capital adequacy. The goals of the capital evaluation process are to determine the optimal level of capital and composition of capital instruments to satisfy all constituents of capital, with the lowest overall cost to shareholders. Other factors considered in our capital evaluation process are strategic and contingency planning, stress testing and planned capital actions.

### Internal Capital Adequacy Assessment

Our primary federal banking regulator is the Federal Reserve. Both State Street and State Street Bank are subject to the minimum regulatory capital

requirements established by the Federal Reserve and defined in the Federal Deposit Insurance Corporation Improvement Act of 1991, or FDICIA. State Street Bank must exceed the regulatory capital thresholds for "well capitalized" in order for our parent company to maintain its status as a financial holding company. Accordingly, one of our primary goals with respect to capital adequacy is to exceed all applicable minimum regulatory capital requirements and to be "well-capitalized" under the Prompt Corrective Action guidelines established by the FDIC. Our capital adequacy program includes our Internal Capital Adequacy Assessment Process, or ICAAP, and associated capital policies.

We consider capital adequacy to be a key element of our financial well-being, which affects our ability to attract and maintain client relationships; operate effectively in the global capital markets; and satisfy regulatory, security holder and shareholder needs. Capital is one of several elements that affect State Street's debt ratings and the ratings of our principal subsidiaries.

In conformity with our capital policies, we strive to maintain adequate capital, not just at a point in time, but over time and during periods of stress, to account for changes in our strategic direction, evolving economic conditions, and financial and market volatility. We have developed and implemented a corporate-wide ICAAP to assess our overall capital in relation to our risk profile and to provide a comprehensive strategy for maintaining appropriate capital levels. The ICAAP considers material risks under multiple scenarios, with an emphasis on stress scenarios. The ICAAP builds on and leverages existing processes and systems used to measure our capital adequacy. Our ICAAP

policy is reviewed and approved by the Board's RCC.

Capital Contingency Planning

Contingency planning is an integral component of our capital management program. The objective of our contingency planning process is to monitor current and forecast levels of select measures that serve as early indicators of a potentially adverse capital or liquidity adequacy situation. These measures are one of the inputs used to set our capital adequacy level. We review these measures annually for appropriateness and relevance in relation to our financial budget and capital plan.

Stress Testing

We administer a robust State Street-wide stress-testing program that executes multiple stress tests each year. Our stress testing program is structured around what we determine to be the key risks incurred by State Street. These key risks serve as an organizing principle for much of our risk



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management framework, as well as reporting, including the "risk dashboard" provided to the Board. Over the past few years, stress scenarios have included a deep recession in the U.S., a break-up of the Eurozone, a severe recession in China and an oil shock precipitated by turmoil in the Middle East/North Africa region.

In connection with the focus on our key risks, each stress test incorporates idiosyncratic loss events tailored to State Street's unique risk profile. Due to the nature of our business model and our consolidated statement of condition, our risks differ from those of a traditional commercial bank.

The Federal Reserve requires bank holding companies with total consolidated assets of $50 billion or more, which includes State Street, to submit a capital plan on an annual basis. The Federal Reserve uses its annual CCAR process, which incorporates hypothetical financial and economic stress scenarios, to review those capital plans and assess whether banking organizations have capital planning processes that account for idiosyncratic risks and provide for sufficient capital to continue operations throughout times of economic and financial stress. As part of its CCAR process, the Federal Reserve assesses each organization's capital adequacy, capital planning process, and plans to distribute capital, such as dividend payments or stock purchase programs. Management and Board risk committees review and approve CCAR results and assumptions before submission to the Federal Reserve.

Governance

In order to support integrated decision making, we have identified three management elements to aid in the compatibility and coordination of our capital adequacy strategies and processes:

- Risk Management - identification, measurement, monitoring and forecasting of different types of risk and their combined impact on capital adequacy;
- Capital Management - determination of optimal capital levels; and
- Business Management - strategic planning, budgeting, forecasting, and performance management.

We have a hierarchical structure supporting appropriate committee review of relevant risk and capital information. The ongoing responsibility for capital management rests with our Treasurer. The Capital Planning group within Global Treasury is responsible for capital policies, development of the capital plan, the management of global capital, capital optimization, and business unit capital management.

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

Regulatory Capital

As of December 31, 2013, we were subject to the generally applicable minimum regulatory capital requirements enforced by U.S. banking regulators, referred to as Basel I. In July 2013, U.S. banking regulators issued a final rule to implement the Basel III framework in the U.S., referred to as the Basel III final rule, provisions of which become effective under a transition timetable which began on January 1, 2014, with full implementation required beginning on January 1, 2019. As provided in the Basel III final rule, banking organizations in their Basel II parallel run were required to complete a superseding parallel run under Basel III.

We were notified by the Federal Reserve on February 21, 2014 that we completed our Basel III parallel run and would be required to begin using the advanced approaches framework provided in the Basel III final rule in the determination of our risk-based capital requirements. Pursuant to this notification, we began to use the advanced approaches framework to calculate and disclose our regulatory capital ratios starting with the second quarter of 2014.

As required by the Dodd-Frank Act, State Street and State Street Bank, as advanced approaches banking organizations, are subject to a permanent "capital floor" in the calculation and assessment of their regulatory capital adequacy by U.S. banking regulators. Beginning on January 1, 2014, this capital floor is based on the provisions of Basel I, as adjusted by the final market risk capital rule issued by U.S. banking regulators in 2012.

Beginning on January 1, 2014, we became subject to the provisions of the Basel III final rule that govern our calculation of regulatory capital, including transitional, or phase-in, provisions. However, we calculated our

risk-weighted assets in conformity with Basel I, as adjusted by the final market risk capital rule, for the first quarter of 2014.

Beginning with the second quarter of 2014 and ending with the fourth quarter of 2014, the lower of our regulatory capital ratios calculated under the advanced approaches provisions of the Basel III final rule and those ratios calculated under the transitional provisions of Basel III (capital calculated in conformity



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with Basel III and risk-weighted assets calculated in conformity with Basel I as described above) will apply in the assessment of our capital adequacy for regulatory purposes.

In conformity with the Basel III final rule, the minimum required regulatory capital ratios for 2014 are as follows:

- common equity tier 1, or
tier 1 common, risk-based capital - 4%;
- tier 1 risk-based capital - 5.5%;
- total risk-based capital - 8%; and
- tier 1 leverage capital - 4%.

As of January 1, 2019, the date that full implementation of Basel III is required, the minimum required regulatory capital ratios, excluding the required capital conservation buffer of 2.5% (described below), will be as follows:

- tier 1 common risk-based capital - 4.5%;
- tier 1 risk-based capital - 6%;
- total risk-based capital - 8%; and
- tier 1 leverage capital - 4%.

Once the provisions of the standardized approach in the Basel III final rule are fully implemented effective January 1, 2015, the lower of the Basel III regulatory capital ratios calculated by us under the advanced approaches provisions of Basel III and the Basel III standardized approach will apply in the assessment of our capital adequacy for regulatory purposes. As a result, from January 1, 2015 going forward, our risk-based capital ratios for regulatory assessment purposes will be the lower of each ratio calculated under the advanced approaches and the standardized approach.

The methods for the calculation of our and State Street Bank's risk-based capital ratios will change as

the provisions of the Basel III final rule related to the numerator (capital) and denominator (risk-weighted assets) are phased in, and as we begin calculating our risk-weighted assets using the advanced approaches. These ongoing methodological changes will result in differences in our reported capital ratios from one reporting period to the next that are independent of applicable changes to our capital base, our asset composition, our off-balance sheet exposures or our risk profile.

Under the Basel III final rule, a banking organization, subject to regulatory constraints, such as the review of capital plans, will be able to make capital distributions and discretionary bonus payments without specified limitations, as long as it maintains a required capital conservation buffer of 2.5% over each of the minimum tier 1 common, tier 1 and total risk-based capital ratios (plus any potentially applicable countercyclical capital buffer). Banking regulators will establish the minimum countercyclical capital buffer, which is initially set by banking regulators at zero, up to a maximum of 2.5% above the minimum ratios inclusive of the capital conservation buffer, under certain economic conditions.

The requirement for the capital conservation buffer will be phased in beginning on January 1, 2016, with full implementation by January 1, 2019. As of January 1, 2019, the minimum Basel III regulatory capital ratios, including the capital conservation buffer of 2.5% but assuming a countercyclical capital buffer of zero, will be as follows, in order for us to make capital distributions and discretionary bonus payments without limitation:

- tier 1 common risk-based capital - 7.0%;
- tier 1 risk-based capital - 8.5%; and
- total risk-based capital - 10.5%.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

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

| | State Street | | | State Street Bank | | |
|---|---|---|---|---|---|---|
| (Dollars in millions) | Basel III Advanced Approach September 30, 2014[1] | Basel III Transitional September 30, 2014[2] | December 31, 2013[3] | Basel III Advanced Approach September 30, 2014[1] | Basel III Transitional September 30, 2014[2] | December 31, 2013[3] |
| Common shareholders' equity: | | | | | | |
| Common stock and related surplus | $10,284 | $10,284 | $10,280 | $10,840 | $10,840 | $10,786 |
| Retained earnings | 14,531 | 14,531 | 13,395 | 9,500 | 9,500 | 9,064 |
| Accumulated other comprehensive income (loss) | (264) | (264) | 215 | (220) | (220) | 209 |
| Treasury stock, at cost | (4,785) | (4,785) | (3,693) | — | — | — |
| Total | 19,766 | 19,766 | 20,197 | 20,120 | 20,120 | 20,059 |
| Regulatory capital adjustments: | | | | | | |
| Goodwill and other intangible assets, net of associated deferred tax liabilities[4] | (5,942) | (5,942) | (7,743) | (5,672) | (5,672) | (7,341) |
| Other adjustments | (43) | (43) | — | (132) | (132) | — |
| Tier 1 common capital | 13,781 | 13,781 | 12,454 | 14,316 | 14,316 | 12,718 |
| Preferred stock | 1,233 | 1,233 | 491 | — | — | — |
| Trust preferred capital securities subject to phase-out from tier 1 capital | 475 | 475 | 950 | — | — | — |
| Other adjustments | (171) | (171) | — | — | — | — |
| Tier 1 capital | 15,318 | 15,318 | 13,895 | 14,316 | 14,316 | 12,718 |
| Qualifying subordinated long-term debt | 1,738 | 1,738 | 1,918 | 1,754 | 1,754 | 1,936 |
| Trust preferred capital securities | 475 | 475 | NA | — | — | NA |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| phased out of tier 1 capital | | | | | | | | |
| Other adjustments | | | 3 | 3 | (26) | — | — | 45 |
| Total capital | | | $17,534 | $17,534 | $15,787 | $16,070 | $16,070 | $14,699 |
| | | | | | | | | |
| Risk-weighted assets: | | | | | | | | |
| Credit risk | | | $67,915 | $90,377 | $78,864 | $60,610 | $87,150 | $76,197 |
| Operational risk | | | 35,960 | NA | NA | 35,530 | NA | NA |
| Market risk | | | 4,203 | 1,423 | 1,262 | 3,707 | 1,423 | 1,262 |
| Total risk-weighted assets | | | $108,078 | $91,800 | $80,126 | $99,847 | $88,573 | $77,459 |
| Adjusted quarterly average assets | | | $240,529 | $240,529 | $202,801 | $236,340 | $236,340 | $199,301 |
| | | | | | | | | |
| Capital Ratios: | Minimum Requirements[5] 2014 | Minimum Requirements[6] 2013 | | | | | | |
| Tier 1 common risk-based capital | 4.0% | NA | 12.8% | 15.0% | 15.5% | 14.3% | 16.2% | 16.4% |
| Tier 1 risk-based capital | 5.5 | 4.0% | 14.2 | 16.7 | 17.3 | 14.3 | 16.2 | 16.4 |
| Total risk-based capital | 8.0 | 8.0 | 16.2 | 19.1 | 19.7 | 16.1 | 18.1 | 19.0 |
| Tier 1 leverage | 4.0 | 4.0 | 6.4 | 6.4 | 6.9 | 6.1 | 6.1 | 6.4 |

NA: Not applicable.

[1] Tier 1 common capital, tier 1 capital and total capital ratios as of September 30, 2014 were calculated in conformity with the advanced approaches provisions of the Basel III final rule. Tier 1 leverage ratio as of September 30, 2014 was calculated in conformity with the Basel III final rule.

[2] Tier 1 common capital, tier 1 capital, total capital and tier 1 leverage ratios as of September 30, 2014 were calculated in conformity with the transitional provisions of the Basel III final rule. Specifically, these ratios reflect tier 1 common, tier 1 and total capital (the numerator) calculated in conformity with the provisions of the Basel III final rule, and total risk-weighted assets or, with respect to the tier 1 leverage ratio, quarterly average assets (in both cases, the denominator), calculated in conformity with the provisions of Basel I.

[3] Tier 1 common capital, tier 1 capital, total capital and tier 1 leverage ratios as of December 31, 2013 were calculated in conformity with the provisions of Basel I.

[4] Amounts for State Street and State Street Bank as of September 30, 2014 consisted of goodwill, net of associated deferred tax liabilities, and 20% of other intangible assets, net of associated deferred tax liabilities, the latter phased in as a deduction from capital, in conformity with the Basel III final rule.

[5] Minimum requirements will be phased in up to full implementation beginning on January 1, 2019; minimum requirements listed are as of September 30, 2014.

[6] Minimum requirements listed, governed by Basel I, are as of December 31, 2013.

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The increases in State Street's tier 1 and total capital as of September 30, 2014 compared to December 31, 2013 were the result of the first-quarter 2014 issuance of preferred stock, the impact of the phase-in provisions of the Basel III final rule related to other intangible assets and the positive effect of year-to-date net income, partly offset by declarations of common and preferred stock dividends and purchases by us of our common stock in the first nine months of 2014.

State Street Bank's tier 1 and total capital increased, the result of the above-described phase-in provisions of the Basel III final rule related to other intangible assets and the positive effect of year-to-date net income, partly offset by the payment of dividends by State Street Bank to our parent company in the first nine months of 2014.

The regulatory capital ratios for State Street and State Street Bank as of September 30, 2014, presented in the table above, differ from such ratios as of December 31, 2013. These differences are independent of applicable changes to our capital base, our asset composition, our off-balance sheet exposures or our risk profile, and resulted from changes in the methodologies, required by applicable regulatory requirements, used to calculate capital and risk-weighted assets. As a result, the ratios presented in the table for each period-end are not directly comparable. Beginning with the second quarter of 2014, we used both the advanced approaches provisions in the Basel III final rule, and the provisions of Basel I, to calculate our risk-weighted assets. For the fourth quarter of 2013, we used the provisions of Basel I to calculate our risk-weighted assets.

The regulatory capital ratios as of September 30, 2014 presented in the table above, calculated under the advanced approaches in conformity with the Basel III final rule, reflect calculations and determinations with respect to our capital and related matters as of September 30, 2014, based on State Street and external data, quantitative formulae, statistical models, historical correlations and assumptions, collectively referred to as "advanced systems," in effect and used by State Street for those purposes as of the time we filed this Form 10-Q. Significant components of these advanced systems involve the exercise of judgment by us and our regulators, and our advanced systems may not accurately represent or calculate the scenarios, circumstances, outputs or other results for which they are designed or intended.

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

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

Estimated Basel III Tier 1 Common Ratio -
Standardized Approach

The following table presents our tier 1 common ratio as of September 30, 2014, calculated in conformity with the advanced approaches provisions of the Basel III final rule, and our estimated tier 1 common ratio as of September 30, 2014, calculated in conformity with the Basel III standardized approach. The Basel III tier 1 common ratio calculated in conformity with the standardized approach in the Basel III final rule is a preliminary estimate, based on our present interpretations of the Basel III final rule.

| September 30, 2014<br>(Dollars in millions) | Basel III Final Rule Advanced Approach[1] | Basel III Final Rule Standardized Approach (Estimated)[2] |
|---|---|---|
| Tier 1 capital | $15,318 | $15,318 |
| Less: | | |
| Trust preferred capital securities | 475 | 475 |
| Preferred stock | 1,233 | 1,233 |

| | | | | |
|---|---|---|---|---|
| Plus other adjustments | 171 | | 171 | |
| Tier 1 common capital | $13,781 | | $13,781 | |
| Total risk-weighted assets | $108,078 | | $126,356 | |
| Tier 1 common ratio | 12.8 | % | 10.9 | % |
| Minimum tier 1 common ratio requirement, assuming full implementation on January 1, 2019 | | | 4.5 | |
| Capital conservation buffer, assuming full implementation on January 1, 2019 | | | 2.5 | |
| Minimum tier 1 common ratio requirement, including capital conservation buffer, assuming full implementation on January 1, 2019[3] | | | 7.0 | |

[1] The tier 1 common ratio was calculated in conformity with the provisions of the Basel III final rule; refer to previous table.
[2] As of September 30, 2014, for purposes of the calculations completed in conformity with the Basel III final rule, total risk-weighted assets under the standardized approach were calculated using State Street's estimates, based on the provisions of Basel III final rule. This tier 1 common ratio was calculated by dividing tier 1 common capital, calculated in conformity with the provisions of the Basel III final rule, by total risk-weighted assets, calculated in conformity with the standardized approach in the Basel III final rule. This estimated Basel III tier 1 common ratio is preliminary, and is based on our present interpretations of the Basel III final rule.

Under the standardized approach, total risk-weighted assets used in the calculation of the estimated tier 1 common ratio increased by $18.28 billion as a result of applying the provisions of the Basel III final rule to total risk-weighted assets of $108.08 billion as of September 30, 2014 calculated in conformity with the advanced approaches provisions of the Basel III final rule.
[3] The minimum tier 1 common ratio requirement does not reflect the countercyclical capital buffer under the Basel III final rule, or the capital buffer for G-SIBs prescribed by the Basel Committee (refer to "Systemically Important Banks"); such countercyclical capital buffer, which is initially set at zero, would be established by banking regulators under certain economic conditions, and U.S. banking regulators have not yet issued a proposal to implement the prescribed capital buffer for systemically important financial institutions.

Supplementary Leverage Ratio Framework

On April 8, 2014, U.S. banking regulators issued a final rule enhancing the supplementary leverage ratio, or SLR, standards for certain bank holding companies, like State Street, and their insured depository institution subsidiaries, like State Street Bank. Under the April 2014 final rule, upon implementation on January 1, 2018, State Street Bank must maintain an SLR of at least 6% to be well capitalized under the U.S. banking regulators' prompt corrective action provisions. The April 2014 final rule also provides that if State Street maintains an SLR of at least 5%, it is not subject to limitations on distributions and discretionary bonus payments under the April 2014 final rule.

On September 3, 2014, U.S. banking regulators issued a final rule modifying the definition of the denominator of the SLR in a manner consistent with recent changes agreed to by the Basel Committee on Banking Supervision. The revisions to the SLR apply to all banking organizations subject to the advanced approaches provisions of the Basel III final rule, like State Street. Specifically, the SLR final rule modifies the methodology for including off-balance sheet assets, including credit derivatives, repo-style transactions, and lines of credit, in the denominator of the SLR, and requires banking organizations to calculate their total leverage exposure using daily averages for on-balance sheet assets and the average of three month-end calculations for off-balance sheet exposures. Certain public disclosures required by the SLR final rule must be provided beginning with the first quarter of 2015, and the minimum SLR requirement using the SLR final rule's denominator calculations is effective beginning on January 1, 2018.

Systemically Important Banks

We meet the criteria of a large bank holding company subject to enhanced supervision and prudential standards, commonly referred to as a "systemically important financial institution," or SIFI, and we are one among a group of 30 institutions worldwide that have been identified by the Financial Stability Board, or FSB, and the Basel Committee as

G-SIBs. Our designation as a G-SIB will require us to maintain an additional capital buffer, ranging between 1% and 2.5%, above the Basel III minimum tier 1 common ratio of 4.5%, based on a number of factors, as evaluated by banking regulators. Factors in this evaluation will include our size, interconnectedness, substitutability, complexity and cross-jurisdictional activities. In November 2013, the FSB maintained their designation of us as a category-1 organization, with a capital surcharge of 1%, although this designation and the associated additional capital buffer are subject to change. U.S. banking regulators have not yet issued a proposal to implement the G-SIB capital surcharge. We expect these additional capital requirements for G-SIBs to be phased in beginning on January 1, 2016, with full implementation by January 1, 2019. Assuming completion of the phase-in period for the capital conservation buffer, and no countercyclical buffer, the minimum capital ratios as of January 1, 2019, including the capital conservation buffer and G-SIB capital surcharge, would be 8% for common equity tier 1 capital, 9.5% for tier 1 risk-based capital, and 11.5% for total risk-based capital, in order for State Street to make capital distributions and discretionary bonus payments without limitation. Not all of our competitors have similarly been designated as systemically important, and therefore some of our competitors may not be subject to the same additional capital requirements.

Capital Actions

Preferred Stock

In the first quarter of 2014, we issued 30 million depositary shares, each representing a 1/4,000th ownership interest in a share of State Street's fixed-to-floating-rate non-cumulative perpetual preferred stock, Series D, without par value,

with a liquidation preference of $100,000 per share (equivalent to $25 per depositary share), which we refer to as our Series D preferred stock, in a public offering. The aggregate proceeds from the offering, net of underwriting discounts, commissions and other issuance costs, were approximately $742 million.
In the third quarter of 2014, we declared a dividend on our Series D preferred stock of $1,475 per share, or approximately $0.37 per depositary share, totaling approximately $11 million. In the first nine months of 2014, we declared aggregate dividends on our Series D preferred stock of $3,130 per share, or approximately $0.78 per depository share, totaling approximately $23 million. We did not declare a dividend on our Series D preferred stock in the first quarter of 2014.
In the third quarter of 2014, we declared a dividend on our non-cumulative perpetual preferred

stock, Series C (represented by depositary shares, each representing a 1/4,000th ownership interest in a share of State Street's non-cumulative perpetual preferred stock, Series C), or Series C preferred stock, of $1,313 per share, or approximately $0.33 per depositary share, totaling approximately $7 million. In the first nine months of 2014, we declared aggregate dividends on our Series C preferred stock of $3,939 per share, or approximately $0.99 per depositary share, totaling approximately $20 million. In the third quarter and first nine months of 2013, dividends on our Series C preferred stock totaled approximately $7 million and $20 million, respectively.

Common Stock

In the third quarter of 2014, under a purchase
program approved by our Board of Directors in March 2014 which authorizes us to purchase up to $1.70 billion of our common stock through March 31, 2015, we purchased approximately 5.8 million shares of our common stock at an average cost of $70.61 per share and an aggregate cost of approximately $410 million. In the first nine months of 2014 we purchased approximately 12.1 million shares of our common stock at an average cost of $67.70 per share and an aggregate cost of approximately $820 million under that program, all in the second and third quarters of 2014. We did not purchase any shares under that program in the first quarter of 2014. As of September 30, 2014, approximately $880 million remained available for purchases of our common stock under the March 2014 program.

In the first quarter of 2014, we completed the $2.10 billion program authorized by the Board in March 2013 by purchasing approximately 6.1 million shares of our common stock, at an average price of $69.14 per share and an aggregate cost of approximately $420 million.

Under both programs, in the nine months ended September 30, 2014, we purchased in the aggregate approximately 18.2 million shares of our common stock at an average per-share cost of $68.18 and an aggregate cost of approximately $1,240 million. Shares acquired under the March 2014 common stock purchase program which remained unissued as of September 30, 2014 were recorded as treasury stock in our consolidated statement of condition as of September 30, 2014.

In the third quarter of 2014, we declared a quarterly common stock dividend of $0.30 per share, totaling approximately $126 million, which was paid in October 2014. In the first nine months of 2014, we declared aggregate quarterly common stock dividends of $0.86 per share, totaling approximately $366 million, compared to aggregate common stock dividends of $0.78 per share, totaling approximately

$350 million, declared in the first nine months of 2013.

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. Information concerning limitations on dividends from our subsidiary banks is provided in "Related Stockholder Matters" included under Item 5, and in note 15 to the consolidated financial statements, included in our 2013 Form 10-K.

Economic Capital

We define economic capital as the capital required to protect holders of our senior debt, and obligations higher in priority, against unexpected economic losses over a one-year period. Economic capital usage is one of several measures used by management and our Board to assess the adequacy of our capital levels in relation to State Street's risk profile. Due to the evolving nature of quantification techniques, we expect to periodically refine the methodologies, assumptions, and information used to estimate our capital requirements under different scenarios and stress environments, which could result in a different amount of capital needed to support our business activities.

We quantify economic capital requirements for the risks inherent in our business activities and group them into categories that we broadly define for these purposes as follows:

- Market risk: the risk of adverse financial impact due to fluctuations in market prices, primarily as they relate to our trading activities;
- Interest-rate risk: the risk of loss in non-trading asset-and-liability management positions, primarily the impact of adverse movements in interest rates on the repricing mismatches that exist between the assets and liabilities carried in

our consolidated statement of condition;

- Credit risk: the risk of loss that may result from the default or downgrade of a borrower or counterparty;
- Operational risk: the risk of loss from inadequate or failed internal processes and systems, human error, or from external events, which is generally consistent with the Basel III definition; and
- Business risk: the risk of negative earnings resulting from adverse changes in business factors, including changes in the competitive environment, changes in the operational



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economics of our business activities, and the effect of strategic and reputational risks.

## 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 $340.24 billion as of September 30, 2014, compared to $320.08 billion as of December 31, 2013. 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 $354.52 billion and $331.73 billion as collateral for indemnified securities on loan as of September 30, 2014 and December 31, 2013, 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 $354.52 billion as of September 30, 2014 and $331.73 billion as of December 31, 2013 referenced above, $81.87 billion as of September 30, 2014 and $85.37 billion as of December 31, 2013 was invested in indemnified repurchase agreements. We or our agents held $87.19 billion and $91.10 billion as collateral for indemnified investments in repurchase agreements as of September 30, 2014 and December 31, 2013, respectively.

Additional information about our securities finance activities and other off-balance sheet arrangements is provided in notes 7 and 12 to the consolidated financial statements included in this Form 10-Q.

## RECENT ACCOUNTING DEVELOPMENTS

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

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QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information provided under “Financial Condition - Market Risk Management” in Management’s Discussion and Analysis, included in this Form 10-Q, is incorporated by reference herein.

CONTROLS AND PROCEDURES

State Street has established and maintains disclosure controls and procedures that are designed to ensure that material information related to State Street and its subsidiaries on a consolidated basis required to be disclosed in its reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to State Street's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. For the quarter ended September 30, 2014, State Street's management carried out an evaluation, with the participation of the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of State Street's disclosure controls and procedures. Based on the evaluation of these disclosure controls and procedures, the Chief Executive Officer and Chief Financial Officer concluded that State Street's disclosure controls and procedures were effective as of September 30, 2014.

State Street has also established and maintains internal control over financial reporting as a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in conformity with GAAP. In the ordinary course of business, State Street routinely enhances its internal controls and procedures for financial reporting by either upgrading its current systems or implementing new systems. Changes have been made and may be made to State Street's internal controls and procedures for financial reporting as a result of these efforts. During the quarter ended September 30, 2014, no change occurred in State Street's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, State Street's internal control over financial reporting.

STATE STREET CORPORATION
CONSOLIDATED STATEMENT OF INCOME
(UNAUDITED)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| (Dollars in millions, except per share amounts) | | | | |
| Fee revenue: | | | | |
| Servicing fees | $1,302 | $1,211 | $3,828 | $3,587 |
| Management fees | 316 | 276 | 908 | 816 |
| Trading services | 278 | 265 | 791 | 858 |
| Securities finance | 99 | 74 | 331 | 283 |
| Processing fees and other | 17 | 57 | 117 | 167 |
| Total fee revenue | 2,012 | 1,883 | 5,975 | 5,711 |
| Net interest revenue: | | | | |
| Interest revenue | 671 | 643 | 1,976 | 2,030 |
| Interest expense | 101 | 97 | 290 | 312 |
| Net interest revenue | 570 | 546 | 1,686 | 1,718 |
| Gains (losses) related to investment securities, net: | | | | |
| Net gains (losses) from sales of available-for-sale securities | — | 6 | 15 | 11 |
| Losses from other-than-temporary impairment | — | (13) | (1) | (19) |
| Losses reclassified (from) to other comprehensive income | — | 3 | (10) | (1) |
| Gains (losses) related to investment securities, net | — | (4) | 4 | (9) |
| Total revenue | 2,582 | 2,425 | 7,665 | 7,420 |
| Provision for loan losses | 2 | — | 6 | — |
| Expenses: | | | | |
| Compensation and employee benefits | 953 | 903 | 3,088 | 2,855 |
| Information systems and communications | 242 | 235 | 730 | 707 |
| Transaction processing services | 199 | 185 | 583 | 551 |
| Occupancy | 119 | 113 | 348 | 343 |
| Acquisition and restructuring costs | 20 | 30 | 81 | 74 |
| Professional services | 97 | 98 | 318 | 280 |
| Amortization of other intangible assets | 54 | 53 | 162 | 160 |
| Other | 208 | 105 | 460 | 376 |
| Total expenses | 1,892 | 1,722 | 5,770 | 5,346 |
| Income before income tax expense | 688 | 703 | 1,889 | 2,074 |
| Income tax expense | 128 | 163 | 344 | 491 |
| Net income | $560 | $540 | $1,545 | $1,583 |
| Net income available to common shareholders | $542 | $531 | $1,500 | $1,557 |
| Earnings per common share: | | | | |
| Basic | $1.28 | $1.20 | $3.52 | $3.46 |
| Diluted | 1.26 | 1.17 | 3.45 | 3.40 |
| Average common shares outstanding (in thousands): | | | | |
| Basic | 421,974 | 442,860 | 426,775 | 449,742 |
| Diluted | 429,736 | 452,154 | 434,510 | 458,392 |
| Cash dividends declared per common share | $.30 | $.26 | $.86 | $.78 |

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

STATE STREET CORPORATION
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(UNAUDITED)

| (In millions) | Three Months Ended September 30, 2014 | 2013 |
|---|---|---|
| Net income | $560 | $540 |
| Other comprehensive income (loss), net of related taxes: | | |
| Foreign currency translation, net of related taxes of ($75) and $66, respectively | (591) | 326 |
| Net unrealized gains (losses) on available-for-sale securities, net of reclassification adjustment and net of related taxes of ($94) and $76, respectively | (140) | 111 |
| Net unrealized gains (losses) on available-for-sale securities designated in fair value hedges, net of related taxes of $10 and zero, respectively | 14 | 1 |
| Other-than-temporary impairment on held-to-maturity securities related to factors other than credit, net of related taxes of $2 and $1, respectively | 4 | 3 |
| Net unrealized gains (losses) on cash flow hedges, net of related taxes of $37 and ($21), respectively | 117 | (33) |
| Net unrealized gains (losses) on retirement plans, net of related taxes of $3 and $6, respectively | — | 1 |
| Other comprehensive income (loss) | (596) | 409 |
| Total comprehensive income (loss) | $(36) | $949 |

| (In millions) | Nine Months Ended September 30, 2014 | 2013 |
|---|---|---|
| Net income | $1,545 | $1,583 |
| Other comprehensive income (loss), net of related taxes: | | |
| Foreign currency translation, net of related taxes of ($38) and ($27), respectively | (518) | 23 |
| Net unrealized gains (losses) on available-for-sale securities, net of reclassification adjustment and net of related taxes of $261 and ($402), respectively | 425 | (642) |
| Net unrealized gains (losses) on available-for-sale securities designated in fair value hedges, net of related taxes of ($5) and $40, respectively | (9) | 61 |
| Other-than-temporary impairment on held-to-maturity securities related to factors other than credit, net of related taxes of $10 and $8, respectively | 16 | 14 |
| Net unrealized gains (losses) on cash flow hedges, net of related taxes of $34 and $38, respectively | 56 | 61 |
| Net unrealized gains (losses) on retirement plans, net of related taxes of ($2) and $12, respectively | 18 | 9 |
| Other comprehensive income (loss) | (12) | (474) |
| Total comprehensive income | $1,533 | $1,109 |

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

STATE STREET CORPORATION
CONSOLIDATED STATEMENT OF CONDITION

| (Dollars in millions, except per share amounts) | September 30, 2014 (Unaudited) | December 31, 2013 |
|---|---|---|
| Assets: | | |
| Cash and due from banks | $4,146 | $3,220 |
| Interest-bearing deposits with banks | 86,946 | 64,257 |
| Securities purchased under resale agreements | 2,603 | 6,230 |
| Trading account assets | 1,033 | 843 |
| Investment securities available for sale | 96,552 | 99,174 |
| Investment securities held to maturity (fair value of $18,865 and $17,560) | 18,767 | 17,740 |
| Loans and leases (less allowance for losses of $34 and $28) | 18,364 | 13,458 |
| Premises and equipment (net of accumulated depreciation of $4,538 and $4,417) | 1,911 | 1,860 |
| Accrued interest and fees receivable | 2,318 | 2,123 |
| Goodwill | 5,899 | 6,036 |
| Other intangible assets | 2,121 | 2,360 |
| Other assets | 34,145 | 25,990 |
| Total assets | $274,805 | $243,291 |
| Liabilities: | | |
| Deposits: | | |
| Noninterest-bearing | $66,134 | $65,614 |
| Interest-bearing—U.S. | 24,435 | 13,392 |
| Interest-bearing—non-U.S. | 117,399 | 103,262 |
| Total deposits | 207,968 | 182,268 |
| Securities sold under repurchase agreements | 9,385 | 7,953 |
| Federal funds purchased | 17 | 19 |
| Other short-term borrowings | 4,307 | 3,780 |
| Accrued expenses and other liabilities | 22,956 | 19,194 |
| Long-term debt | 9,016 | 9,699 |
| Total liabilities | 253,649 | 222,913 |
| Commitments, guarantees and contingencies (notes 7 and 8) | | |
| Shareholders' equity: | | |
| Preferred stock, no par, 3,500,000 shares authorized: | | |
| Series C, 5,000 shares issued and outstanding | 491 | 491 |
| Series D, 7,500 shares issued and outstanding | 742 | — |
| Common stock, $1 par, 750,000,000 shares authorized: | | |
| 503,880,120 and 503,882,841 shares issued | 504 | 504 |
| Surplus | 9,780 | 9,776 |
| Retained earnings | 14,531 | 13,395 |
| Accumulated other comprehensive income (loss) | (107) | (95) |
| Treasury stock, at cost (83,948,535 and 69,754,255 shares) | (4,785) | (3,693) |
| Total shareholders' equity | 21,156 | 20,378 |
| Total liabilities and shareholders' equity | $274,805 | $243,291 |

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



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

| (Dollars in millions, except per share amounts, shares in thousands) | PREFERRED STOCK | COMMON STOCK | | Surplus | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | TREASURY STOCK | | Total |
|---|---|---|---|---|---|---|---|---|---|
| | | Shares | Amount | | | | Shares | Amount | |
| Balance as of December 31, 2012 | $ 489 | 503,900 | $504 | $9,667 | $11,751 | $ 360 | 45,238 | $(1,902) | $20,869 |
| Net income | | | | | 1,583 | | | | 1,583 |
| Other comprehensive loss | | | | | | (474) | | | (474) |
| Accretion of issuance costs | 1 | | | | (1) | | | | — |
| Cash dividends declared: | | | | | | | | | |
| Common stock - $.78 per share | | | | | (350) | | | | (350) |
| Preferred stock | | | | | (20) | | | | (20) |
| Common stock acquired | | | | | | | 23,235 | (1,480) | (1,480) |
| Common stock awards and options exercised, including related taxes of $42 | | (15) | | 86 | | | (5,874) | 216 | 302 |
| Other | | | | | | | (12) | | — |
| Balance as of September 30, 2013 | $ 490 | 503,885 | $504 | $9,753 | $12,963 | $ (114) | 62,587 | $(3,166) | $20,430 |
| Balance as of December 31, 2013 | $ 491 | 503,883 | $504 | $9,776 | $13,395 | $ (95) | 69,754 | $(3,693) | $20,378 |
| Net income | | | | | 1,545 | | | | 1,545 |
| Other comprehensive loss | | | | | | (12) | | | (12) |
| Preferred stock issued | 742 | | | | | | | | 742 |
| Cash dividends declared: | | | | | | | | | |
| Common stock - $.86 per share | | | | | (366) | | | | (366) |
| Preferred stock | | | | | (43) | | | | (43) |
| Common stock acquired | | | | | | | 18,187 | (1,240) | (1,240) |
| Common stock awards and options exercised, including income tax benefit of $54 | | (3) | | 4 | | | (3,984) | 148 | 152 |
| Other | | | | | | | (8) | | — |
| Balance as of September 30, 2014 | $ 1,233 | 503,880 | $504 | $9,780 | $14,531 | $ (107) | 83,949 | $(4,785) | $21,156 |

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

STATE STREET CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOWS
(UNAUDITED)

| (In millions) | Nine Months Ended September 30, 2014 | 2013 |
|---|---|---|
| Operating Activities: | | |
| Net income | $1,545 | $1,583 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Deferred income tax (benefit) expense | (17) | 77 |
| Amortization of other intangible assets | 162 | 160 |
| Other non-cash adjustments for depreciation, amortization and accretion, net | 351 | 324 |
| (Gains) losses related to investment securities, net | (4) | 9 |
| Change in trading account assets, net | (190) | (279) |
| Change in accrued interest and fees receivable, net | (195) | (124) |
| Change in collateral deposits, net | (3,533) | (2,765) |
| Change in unrealized losses on foreign exchange derivatives, net | (2,316) | 1,304 |
| Change in other assets, net | 1,563 | (888) |
| Change in accrued expenses and other liabilities, net | 1,430 | (279) |
| Other, net | 240 | 303 |
| Net cash used in operating activities | (964) | (575) |
| Investing Activities: | | |
| Net (increase) decrease in interest-bearing deposits with banks | (22,689) | 12,127 |
| Net decrease (increase) in securities purchased under resale agreements | 3,627 | (811) |
| Proceeds from sales of available-for-sale securities | 8,205 | 8,090 |
| Proceeds from maturities of available-for-sale securities | 28,562 | 29,540 |
| Purchases of available-for-sale securities | (35,393) | (29,005) |
| Proceeds from maturities of held-to-maturity securities | 2,383 | 1,474 |
| Purchases of held-to-maturity securities | (3,271) | (6,424) |
| Net increase in loans | (4,927) | (3,304) |
| Purchases of equity investments and other long-term assets | (169) | (100) |
| Divestitures | — | 18 |
| Purchases of premises and equipment | (298) | (259) |
| Other, net | 63 | 84 |
| Net cash (used in) provided by investing activities | (23,907) | 11,430 |
| Financing Activities: | | |
| Net increase (decrease) in time deposits | 6,266 | (14,750) |
| Net increase in all other deposits | 19,434 | 4,768 |
| Net increase in short-term borrowings | 1,957 | 967 |
| Proceeds from issuance of long-term debt, net of issuance costs | — | 1,492 |
| Payments for long-term debt and obligations under capital leases | (779) | (127) |
| Proceeds from issuance of preferred stock | 742 | — |
| Proceeds from exercises of common stock options | 10 | 109 |
| Purchases of common stock | (1,240) | (1,480) |
| Repurchases of common stock for employee tax withholding | (197) | (163) |
| Payments for cash dividends | (396) | (365) |
| Net cash provided by (used in) financing activities | 25,797 | (9,549) |
| Net increase | 926 | 1,306 |
| Cash and due from banks at beginning of period | 3,220 | 2,590 |
| Cash and due from banks at end of period | $4,146 | $3,896 |

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

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

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

Note 1. Basis of Presentation

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

We have two lines of business:

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

Investment Management, through State Street Global Advisors, or SSgA, provides a broad array of investment management, investment research and investment advisory services to corporations, public funds and other sophisticated investors. SSgA offers active and passive asset management strategies across equity, fixed-income and cash asset classes. Products are distributed directly and through intermediaries using a variety of investment vehicles, including exchange-traded funds, or ETFs, such as the SPDR® ETF brand.

The consolidated financial statements accompanying these condensed notes are unaudited. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, which are necessary for a fair statement of the consolidated results of operations in these financial statements, have been made. Certain previously reported amounts presented in this Form 10-Q have been reclassified to conform to current-period presentation.

Events occurring subsequent to the date of our consolidated statement of condition were evaluated for potential recognition or disclosure in our

consolidated financial statements through the date we filed this Form 10-Q with the SEC.

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions in the application of certain of our significant accounting policies that may materially affect the reported amounts of assets, liabilities, equity, revenue, and expenses. As a result of unanticipated events or circumstances, actual results could differ from those estimates. Amounts dependent on subjective or complex judgments in the application of accounting policies considered by management to be relatively more significant in this regard are those associated with our accounting for recurring fair-value measurements; other-than-temporary impairment of investment securities; and impairment of goodwill and other intangible assets. Among other effects, unanticipated events or circumstances could result in future impairment of investment securities, goodwill or other intangible assets.

Our consolidated statement of condition as of December 31, 2013 included in the accompanying consolidated financial statements was derived from the audited financial statements as of that date, but does not include all notes required by GAAP for a complete set of consolidated financial statements. The accompanying consolidated financial statements and these condensed notes should be read in conjunction with the financial and risk factors information included in our 2013 Annual Report on Form 10-K, which we previously filed with the SEC.

Recent Accounting Developments:

In August 2014, the FASB issued an amendment to GAAP that requires management to evaluate whether there is substantial doubt about the entity's ability to continue as a going concern and, if so, disclose that fact. The amendment is effective, for State Street, for its annual consolidated financial statements as of December 31, 2016 and interim periods thereafter. Our adoption of the amendment will not have a material effect on our consolidated financial statements.

In June 2014, the FASB issued an amendment to GAAP for "repo-to-maturity" transactions and repurchase agreements executed as repurchase financings. The amendment requires enhanced disclosure for repurchase agreements and securities lending transactions accounted for as secured borrowings and for certain transfers of financial assets. The amendment is effective, for State Street,



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beginning on January 1, 2015. Our adoption of the amendment is not expected to have a material effect on our consolidated financial statements.

In May 2014, the FASB issued an amendment to GAAP that provides for a single comprehensive model to be applied in the accounting for revenue arising from contracts with clients. In applying this model, an entity would recognize revenue that represents the transfer of promised goods or services to clients in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendment supersedes most current revenue recognition guidance, including industry-specific guidance. The amendment is effective, for State Street, beginning on January 1, 2017, and must be applied retrospectively. Early adoption is prohibited. We are currently assessing the potential impact of this amendment on our consolidated financial statements.

In April 2014, the FASB issued an amendment to GAAP that revises the criteria for the treatment and disclosure of discontinued operations. The amendment allows entities to have significant continuing involvement and continuing cash flows with the discontinued operation, but requires additional disclosure for discontinued operations and disclosure for disposals deemed to be material that do not meet the definition of a discontinued operation. The presentation and disclosure requirements are effective, for State Street, beginning on January 1, 2015, and are required to be applied prospectively to discontinued operations occurring after that date.

In January 2014, the FASB issued an amendment to GAAP that allows an investor in an affordable housing project, if the project meets certain defined conditions, to amortize the cost of their investment in proportion to the tax credits and other tax benefits they receive, and reflect it as part of income tax expense rather than as revenue from operations. The amendment is effective, for State Street, for interim and annual periods beginning after December 15, 2014, with early adoption permitted, and must be applied retrospectively. At this time, we have not chosen to early-adopt the amendment as we continue to assess the potential impact of this amendment on our consolidated financial statements.

## Note 2. Fair Value

### Fair-Value Measurements:

We carry trading account assets, investment securities available for sale and various types of derivative financial instruments at fair value in our consolidated statement of condition on a recurring basis. Changes in the fair values of these financial

assets and liabilities are recorded either as components of our consolidated statement of income or as components of accumulated other comprehensive income, or AOCI, within shareholders' equity in our consolidated statement of condition.

We measure fair value for the above-described financial assets and liabilities in conformity with GAAP that governs the measurement of the fair value of financial instruments. Management believes that its valuation techniques and underlying assumptions used to measure fair value conform to the provisions of GAAP. We categorize the financial assets and liabilities that we carry at fair value based on a prescribed three-level valuation hierarchy. The hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to valuation methods using significant unobservable inputs (level 3). If the inputs used to measure a financial asset or liability cross different levels of the hierarchy, categorization is based on the lowest-level input that is most significant to the fair-value measurement. Management's assessment of the significance of a particular input to the overall fair-value measurement of a financial asset or liability requires judgment, and considers factors specific to that asset or liability. The three levels of the valuation hierarchy are described below.

Level 1. Financial assets and liabilities with values based on unadjusted quoted prices for identical assets or liabilities in an active market. Fair value is measured using unadjusted quoted prices in active markets for identical securities. Our level-1 financial assets and liabilities primarily include positions in U.S. government securities and highly liquid U.S. and non-U.S. government fixed-income securities carried in trading account assets. We may carry U.S. government securities in our available-for-sale portfolio in connection with our asset-and-liability management

activities. Our level-1 financial assets also include active exchange-traded equity securities and non-cash collateral received from counterparties in connection with our enhanced custody business.

Level 2. Financial assets and liabilities with values based on quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability. Level-2 inputs include the following:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in non-active markets;

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- Pricing models whose inputs are observable for substantially the full term of the asset or liability; and
- Pricing models whose inputs are derived principally from, or corroborated by, observable market information through correlation or other means for substantially the full term of the asset or liability.

Our level-2 financial assets and liabilities primarily include non-U.S. debt securities carried in trading account assets and various types of fixed-income investment securities available for sale, as well as various types of foreign exchange and interest-rate derivative instruments.
Fair value for our investment securities available for sale categorized in level 2 is measured primarily using information obtained from independent third parties. This third-party information is subject to review by management as part of a validation process, which includes obtaining an understanding of the underlying assumptions and the level of market participant information used to support those assumptions. In addition, management compares significant assumptions used by third parties to available market information. Such information may include known trades or, to the extent that trading activity is limited, comparisons to market research information pertaining to credit expectations, execution prices and the timing of cash flows, and where information is available, back-testing.
Derivative instruments categorized in level 2 predominantly represent foreign exchange contracts used in our trading activities, for which fair value is measured using discounted cash-flow techniques, with inputs consisting of observable spot and forward points, as well as observable interest-rate curves. With respect to derivative instruments, we evaluate the impact on valuation of the credit risk of our counterparties and our own credit risk. We consider factors such as the likelihood of default by us and our counterparties, our current and potential future net exposures and remaining maturities in determining the fair value. Valuation adjustments associated with derivative instruments were not material to those instruments in the three and nine months ended September 30, 2014 or 2013, respectively.
Level 3. Financial assets and liabilities with values based on prices or valuation techniques that require inputs that are both unobservable in the market and significant to the overall measurement of fair value. These inputs reflect management's judgment about the assumptions that a market participant would use in pricing the financial asset or liability, and are based on the best available

information, some of which is internally developed. The following provides a more detailed discussion of our financial assets and liabilities that we may categorize in level 3 and the related valuation methodology.

- The fair value of our investment securities categorized in level 3 is measured using information obtained from third-party sources, typically non-binding broker or dealer quotes, or through the use of internally-developed pricing models. Management has evaluated its methodologies used to measure fair value, but has considered the level of observable market information to be insufficient to categorize the securities in level 2.
- The fair value of foreign exchange contracts, primarily options, is measured using an option-pricing model. Because of a limited number of observable transactions, certain model inputs are not observable, such as implied volatility surface, but are derived from observable market information.
- The fair value of certain interest-rate caps with long-dated maturities is measured using a matrix-pricing approach. Observable market prices are not available for these derivatives, so extrapolation is necessary to value these instruments, since they have a strike and/or maturity outside of the matrix.

Our level-3 financial assets and liabilities are similar in structure and profile to our level-1 and level-2 financial instruments, but they trade in less-liquid markets, and the measurement of their fair value is inherently more difficult. As of September 30, 2014, on a gross basis, we categorized in level 3 approximately 5% of our financial assets carried at fair value on a recurring basis. As of the same date and on the same basis, the percentage of our financial liabilities categorized in level 3 to our financial liabilities carried at fair value on a recurring basis was not significant. The fair value of investment securities categorized in level 3 that was measured using non-binding quotes and internally-developed pricing-model inputs composed approximately 98% and 2%, respectively, of the total fair value of our investment securities categorized in level 3 as of September 30, 2014.

The process used to measure the fair value of our level-3 financial assets and liabilities is overseen by a valuation group within Corporate Finance, separate from the business units that manage the assets and liabilities. This function, which develops and manages the valuation process, reports to State Street's Valuation Committee. The Valuation

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Committee, composed of senior management from separate business units, Enterprise Risk Management, a corporate risk oversight group, and Corporate Finance, oversees adherence to State Street's valuation policies.
The valuation group performs validation of the pricing information obtained from third-party sources in order to evaluate reasonableness and consistency with market experience in similar asset classes. Monthly analyses include a review of price changes relative to overall trends, credit analysis and other relevant procedures (discussed below). In addition, prices for level-3 securities carried in our investment portfolio are tested on a sample basis based on unexpected pricing movements. These sample prices are then corroborated through price recalculations, when applicable, using available market information, which is obtained separately from the third-party pricing source. The recalculated prices are compared to market-research information pertaining to credit expectations, execution prices and the timing of cash flows, and where information is available, back-testing. If a difference is identified and it is determined that there is a significant impact requiring an adjustment, the adjustment is presented to the Valuation Committee for review and consideration.
Validation is also performed on fair-value measurements determined using internally-developed pricing models. The pricing models are subject to validation through our Model Assessment Committee, a corporate risk oversight committee that provides technical support and input to the Valuation Committee. This validation process incorporates a review of a diverse set of model and trade parameters across a broad range of values in order to evaluate the model's suitability for valuation of a particular financial instrument type, as well as the model's accuracy in reflecting the characteristics of the related financial asset or liability and its significant risks. Inputs and assumptions, including any price-valuation adjustments, are developed by the business units and separately reviewed by the valuation group. Model valuations are compared to available market information including appropriate proxy instruments and other benchmarks to highlight abnormalities for further investigation.
Measuring fair value requires the exercise of management judgment. The level of subjectivity and the degree of management judgment required is more significant for financial instruments whose fair value is measured using inputs that are not observable. The areas requiring significant judgment are identified, documented and reported to the Valuation Committee as part of the valuation control

framework. We believe that our valuation methods are appropriate; however, the use of different methodologies or assumptions, particularly as they apply to level-3 financial assets and liabilities, could materially affect our fair-value measurements as of the reporting date.
The following tables present information with respect to our financial assets and liabilities carried at fair value in our consolidated statement of condition on a recurring basis as of the dates indicated. No transfers of financial assets or liabilities between levels 1 and 2 occurred in the nine months ended September 30, 2014 or the year ended December 31, 2013.

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(UNAUDITED)

| | Fair-Value Measurements on a Recurring Basis as of September 30, 2014 | | | | |
|---|---|---|---|---|---|
| (In millions) | Quoted Market Prices in Active Markets (Level 1) | Pricing Methods with Significant Observable Market Inputs (Level 2) | Pricing Methods with Significant Unobservable Market Inputs (Level 3) | Impact of Netting[1] | Total Net Carrying Value in Consolidated Statement of Condition |
| Assets: | | | | | |
| Trading account assets: | | | | | |
| U.S. government securities | $37 | $ — | $ — | | $37 |
| Non-U.S. government securities | 479 | — | — | | 479 |
| Other | 52 | 465 | — | | 517 |
| Total trading account assets | 568 | 465 | — | | 1,033 |
| Investment securities available for sale: | | | | | |
| U.S. Treasury and federal agencies: | | | | | |
| Direct obligations | 10,139 | 625 | — | | 10,764 |
| Mortgage-backed securities | — | 20,941 | 260 | | 21,201 |
| Asset-backed securities: | | | | | |
| Student loans | — | 12,540 | 266 | | 12,806 |
| Credit cards | — | 3,111 | — | | 3,111 |
| Sub-prime | — | 997 | — | | 997 |
| Other | — | 399 | 3,944 | | 4,343 |
| Total asset-backed securities | — | 17,047 | 4,210 | | 21,257 |
| Non-U.S. debt securities: | | | | | |
| Mortgage-backed securities | — | 10,239 | — | | 10,239 |
| Asset-backed securities | — | 3,023 | 424 | | 3,447 |
| Government securities | — | 3,613 | — | | 3,613 |
| Other | — | 5,551 | 298 | | 5,849 |
| Total non-U.S. debt securities | — | 22,426 | 722 | | 23,148 |
| State and political subdivisions | — | 10,604 | 41 | | 10,645 |
| Collateralized mortgage obligations | — | 4,437 | 234 | | 4,671 |
| Other U.S. debt securities | — | 4,276 | 8 | | 4,284 |
| U.S. equity securities | — | 38 | — | | 38 |
| Non-U.S. equity securities | — | 2 | — | | 2 |
| U.S. money-market mutual funds | — | 532 | — | | 532 |
| Non-U.S. money-market mutual funds | — | 10 | — | | 10 |
| Total investment securities available for sale | 10,139 | 80,938 | 5,475 | | 96,552 |
| Other assets: | | | | | |
| Derivative instruments: | | | | | |
| Foreign exchange contracts | — | 16,797 | 68 | $ (8,162 ) | 8,703 |
| Interest-rate contracts | — | 63 | — | (58 ) | 5 |
| Other derivative contracts | — | 4 | — | — | 4 |
| Total derivative instruments | — | 16,864 | 68 | (8,220 ) | 8,712 |
| Other | 115 | — | — | — | 115 |
| Total assets carried at fair value | $10,822 | $ 98,267 | $ 5,543 | $ (8,220 ) | $106,412 |

| | | | | | |
|---|---|---|---|---|---|
| Liabilities: | | | | | |
| Accrued expenses and other liabilities: | | | | | |
| Trading account liabilities: | | | | | |
| U.S. government securities | $92 | $— | $— | $— | $92 |
| Non-U.S. government securities | 50 | — | — | — | 50 |
| Other | 3 | — | — | — | 3 |
| Derivative instruments: | | | | | |
| Foreign exchange contracts | — | 16,500 | 59 | (9,911 ) | $6,648 |
| Interest-rate contracts | — | 241 | — | (49 ) | 192 |
| Other derivative contracts | — | 64 | 9 | — | 73 |
| Total derivative instruments | — | 16,805 | 68 | (9,960 ) | 6,913 |
| Other | 115 | — | — | — | 115 |
| Total liabilities carried at fair value | $260 | $ 16,805 | $ 68 | $ (9,960 ) | $7,173 |

[(1)] Represents counterparty netting against level-2 financial assets and liabilities, where a legally enforceable master netting agreement exists between State Street and the counterparty. Netting also reflects asset and liability reductions of $841 million and $2.58 billion, respectively, for cash collateral received from and provided to derivative counterparties.

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STATE STREET CORPORATION
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| (In millions) | Fair-Value Measurements on a Recurring Basis as of December 31, 2013 | | | | |
|---|---|---|---|---|---|
| | Quoted Market Prices in Active Markets (Level 1) | Pricing Methods with Significant Observable Market Inputs (Level 2) | Pricing Methods with Significant Unobservable Market Inputs (Level 3) | Impact of Netting[1] | Total Net Carrying Value in Consolidated Statement of Condition |
| Assets: | | | | | |
| Trading account assets: | | | | | |
| U.S. government securities | $20 | $ — | $— | | $20 |
| Non-U.S. government securities | 399 | — | — | | 399 |
| Other | 67 | 357 | — | | 424 |
| Total trading account assets | 486 | 357 | — | | 843 |
| Investment securities available for sale: | | | | | |
| U.S. Treasury and federal agencies: | | | | | |
| Direct obligations | — | 709 | — | | 709 |
| Mortgage-backed securities | — | 22,847 | 716 | | 23,563 |
| Asset-backed securities: | | | | | |
| Student loans | — | 14,119 | 423 | | 14,542 |
| Credit cards | — | 8,186 | 24 | | 8,210 |
| Sub-prime | — | 1,203 | — | | 1,203 |
| Other | — | 532 | 4,532 | | 5,064 |
| Total asset-backed securities | — | 24,040 | 4,979 | | 29,019 |
| Non-U.S. debt securities: | | | | | |
| Mortgage-backed securities | — | 10,654 | 375 | | 11,029 |
| Asset-backed securities | — | 4,592 | 798 | | 5,390 |
| Government securities | — | 3,761 | — | | 3,761 |
| Other | — | 4,263 | 464 | | 4,727 |
| Total non-U.S. debt securities | — | 23,270 | 1,637 | | 24,907 |
| State and political subdivisions | — | 10,220 | 43 | | 10,263 |
| Collateralized mortgage obligations | — | 5,107 | 162 | | 5,269 |
| Other U.S. debt securities | — | 4,972 | 8 | | 4,980 |
| U.S. equity securities | — | 34 | — | | 34 |
| Non-U.S. equity securities | — | 1 | — | | 1 |
| U.S. money-market mutual funds | — | 422 | — | | 422 |
| Non-U.S. money-market mutual funds | — | 7 | — | | 7 |
| Total investment securities available for sale | — | 91,629 | 7,545 | | 99,174 |
| Other assets: | | | | | |
| Derivatives instruments: | | | | | |
| Foreign exchange contracts | — | 11,892 | 19 | $ (6,442 ) | 5,469 |
| Interest-rate contracts | — | 65 | — | (59 ) | 6 |
| Other derivative contracts | — | 1 | — | — | 1 |
| Total derivative instruments | — | 11,958 | 19 | (6,501 ) | 5,476 |

| | | | | | |
|---|---|---|---|---|---|
| Other | 97 | — | — | — | 97 |
| Total assets carried at fair value | $583 | $ 103,944 | $7,564 | $ (6,501 ) | $105,590 |
| Liabilities: | | | | | |
| Accrued expenses and other liabilities: | | | | | |
| Derivative instruments: | | | | | |
| Foreign exchange contracts | $— | $ 11,454 | $17 | $ (5,458 ) | $6,013 |
| Interest-rate contracts | — | 331 | — | (94 ) | 237 |
| Other derivative contracts | — | — | 9 | — | 9 |
| Total derivative instruments | — | 11,785 | 26 | (5,552 ) | 6,259 |
| Other | 97 | — | — | — | 97 |
| Total liabilities carried at fair value | $97 | $ 11,785 | $26 | $ (5,552 ) | $6,356 |

(1) Represents counterparty netting against level-2 financial assets and liabilities, where a legally enforceable master netting agreement exists between State Street and the counterparty. Netting also reflects asset and liability reductions of $1.93 billion and $979 million, respectively, for cash collateral received from and provided to derivative counterparties.

The following tables present activity related to our level-3 financial assets and liabilities during the three and nine months ended September 30, 2014 and 2013, respectively. Transfers into and out of level 3 are reported as of the beginning of the period presented. In the three and nine months ended September 30, 2014 and 2013, respectively, transfers

out of level 3 were mainly related to certain mortgage- and asset-backed securities, including non-U.S. debt securities, for which fair value was measured using prices for which observable market information became available.

| | Fair Value Measurements Using Significant Unobservable Inputs Three Months Ended September 30, 2014 | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Total Realized and Unrealized Gains (Losses) | | | | | | | | | |
| (In millions) | Fair Value as of June 30, 2014 | Recorded in Revenue | Recorded in Other Comprehensive Income | Purchases | Issuances | Sales | Settlements | Transfers into Level 3 | Transfers out of Level 3 | Fair Value as of September 30, 2014 | Change in Unrealized Gains (Losses) Related to Financial Instruments Held as of September 30, 2014 |
| Assets: | | | | | | | | | | | |
| Investment securities available for sale: | | | | | | | | | | | |
| U.S. Treasury and federal agencies, mortgage-backed securities | $96 | $ — | $ — | $ 168 | $— | $— | $ (4) | $ — | $ — | $260 | |
| Asset-backed securities: | | | | | | | | | | | |
| Student loans | 322 | — | (1) | 24 | — | (74) | (5) | — | — | 266 | |
| Other | 4,061 | 18 | (8) | 275 | — | — | (402) | — | — | 3,944 | |
| Total asset-backed securities | 4,383 | 18 | (9) | 299 | — | (74) | (407) | — | — | 4,210 | |
| Non-U.S. debt securities: | | | | | | | | | | | |
| Asset-backed securities | 506 | 2 | (1) | — | — | — | (99) | 76 | (60) | 424 | |
| Other | 515 | — | — | — | — | — | (25) | — | (192) | 298 | |
| | 1,021 | 2 | (1) | — | — | — | (124) | 76 | (252) | 722 | |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Total non-U.S. debt securities | | | | | | | | | | | |
| State and political subdivisions | 41 | — | — | — | — | — | — | — | — | 41 | |
| Collateralized mortgage obligations | 196 | — | — | 125 | — | — | (7) | — | (80) | 234 | |
| Other U.S. debt securities | 9 | — | — | — | — | — | (1) | — | — | 8 | |
| Total investment securities available for sale | 5,746 | 20 | (10) | 592 | — | (74) | (543) | 76 | (332) | 5,475 | |
| Other assets: | | | | | | | | | | | |
| Derivative instruments: | | | | | | | | | | | |
| Derivative instruments, Foreign exchange contracts | 10 | 44 | — | 22 | — | — | (8) | — | — | 68 | $ 40 |
| Total derivative instruments | 10 | 44 | — | 22 | — | — | (8) | — | — | 68 | 40 |
| Total assets carried at fair value | $ 5,756 | $ 64 | $ (10) | $ 614 | $ — | $ (74) | $ (551) | $ 76 | $ (332) | $ 5,543 | $ 40 |

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

| | Fair-Value Measurements Using Significant Unobservable Inputs Three Months Ended September 30, 2014 | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Total Realized and Unrealized (Gains) Losses | | | | | | | | | |
| (In millions) | Fair Value as of June 30, 2014 | Recorded in Revenue | Recorded in Other Comprehensive Income | Purchases | Issuances | Sales | Settlements | Transfers into Level 3 | Transfers out of Level 3 | Fair Value as of September 30, 2014 | Change in Unrealized (Gains) Losses Related to Financial Instruments Held as of September 30, 2014 |
| Liabilities: | | | | | | | | | | | |
| Accrued expenses and other liabilities: | | | | | | | | | | | |
| Derivative instruments: | | | | | | | | | | | |
| Foreign exchange contracts | $10 | $ 36 | $ — | $ — | $ 18 | $ — | $ (5) | $ — | $ — | $59 | $ 35 |
| Other | 9 | — | — | — | — | — | — | — | — | 9 | — |
| Total derivative instruments | 19 | 36 | — | — | 18 | — | (5) | — | — | 68 | 35 |
| Total liabilities carried at fair value | $19 | $ 36 | $ — | $ — | $ 18 | $ — | $ (5) | $ — | $ — | $68 | $ 35 |

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

| | Fair-Value Measurements Using Significant Unobservable Inputs Nine Months Ended September 30, 2014 | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Total Realized and Unrealized Gains (Losses) | | | | | | | | | |
| (In millions) | Fair Value as of December 31, 2013 | Recorded in Revenue | Recorded in Other Comprehensive Income | Purchases | Issuances | Sales | Settlements | Transfers into Level 3 | Transfers out of Level 3 | Fair Value as of September 30, 2014 | Change in Unrealized Gains (Losses) Related to Financial Instruments Held as of September 30, 2014 |
| Assets: | | | | | | | | | | | |
| Investment securities available for sale: | | | | | | | | | | | |
| U.S. Treasury and federal agencies, mortgage-backed securities | $716 | $— | $— | $168 | $— | $— | $(14) | $— | $(610) | $260 | |
| Asset-backed securities: | | | | | | | | | | | |
| Student loans | 423 | 1 | 2 | 24 | — | (74) | (31) | — | (79) | 266 | |
| Credit cards | 24 | — | — | — | — | — | (24) | — | — | — | |
| Other | 4,532 | 46 | (14) | 282 | — | — | (902) | — | — | 3,944 | |
| Total asset-backed securities | 4,979 | 47 | (12) | 306 | — | (74) | (957) | — | (79) | 4,210 | |
| Non-U.S. debt securities: | | | | | | | | | | | |
| Mortgage-backed securities | 375 | — | — | — | — | — | — | — | (375) | — | |
| Asset-backed securities | 798 | 5 | — | — | — | — | (219) | 76 | (236) | 424 | |
| Other | 464 | — | — | 55 | — | (1) | (28) | — | (192) | 298 | |
| Total non-U.S. debt securities | 1,637 | 5 | — | 55 | — | (1) | (247) | 76 | (803) | 722 | |
| State and political subdivisions | 43 | 1 | (1) | — | — | — | (2) | — | — | 41 | |
| Collateralized mortgage obligations | 162 | — | 1 | 205 | — | (6) | (20) | — | (108) | 234 | |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Other U.S. debt securities | 8 | — | — | — | — | — | — | — | — | 8 | |
| Total investment securities available for sale | 7,545 | 53 | (12) | 734 | — | (81) | (1,240) | 76 | (1,600) | 5,475 | |
| Other assets: | | | | | | | | | | | |
| Derivative instruments: | | | | | | | | | | | |
| Derivative instruments, Foreign exchange contracts | 19 | 26 | — | 32 | — | — | (9) | — | — | 68 | $ 35 |
| Total derivative instruments | 19 | 26 | — | 32 | — | — | (9) | — | — | 68 | 35 |
| Total assets carried at fair value | $ 7,564 | $ 79 | $ (12) | $ 766 | $ — | $ (81) | $ (1,249) | $ 76 | $ (1,600) | $ 5,543 | $ 35 |

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

| | Fair-Value Measurements Using Significant Unobservable Inputs Nine months ended September 30, 2014 | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Total Realized and Unrealized (Gains) Losses | | | | | | | | | |
| (In millions) | Fair Value as of December 31, 2013 | Recorded in Revenue | Recorded in Other Comprehensive Income | Purchases | Issuances | Sales | Settlements | Transfers into Level 3 | Transfers out of Level 3 | Fair Value as of September 30, 2014 | Change in Unrealized (Gains) Losses Related to Financial Instruments Held as of September 30, 2014 |
| Liabilities: | | | | | | | | | | | |
| Accrued expenses and other liabilities: | | | | | | | | | | | |
| Derivative instruments: | | | | | | | | | | | |
| Foreign exchange contracts | $17 | $ 22 | $ — | $ — | $ 28 | $— | $ (8) | $ — | $ — | $59 | $ 32 |
| Other | 9 | — | — | — | — | — | — | — | — | 9 | — |
| Total derivative instruments | 26 | 22 | — | — | 28 | — | (8) | — | — | 68 | 32 |
| Total liabilities carried at fair value | $26 | $ 22 | $ — | $ — | $ 28 | $— | $ (8) | $ — | $ — | $68 | $ 32 |

Fair Value Measurements Using Significant Unobservable Inputs
Three Months Ended September 30, 2013

| (In millions) | Fair Value as of June 30, 2013 | Total Realized and Unrealized Gains (Losses) Recorded in Revenue | Recorded in Other Comprehensive Income | Purchases | Issuances | Sales | Settlements | Transfers into Level 3 | Transfers out of Level 3 | Fair Value as of September 30, 2013 | Change in Unrealized Gains (Losses) Related to Financial Instruments Held as of September 30, 2013 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Assets: | | | | | | | | | | | |
| Investment securities available for sale: | | | | | | | | | | | |
| U.S. Treasury and federal agencies, mortgage-backed securities | $864 | $— | $(1) | $— | $— | $— | $(29) | $— | $(93) | $741 | |
| Asset-backed securities: | | | | | | | | | | | |
| Student loans | 380 | — | (2) | — | — | — | (10) | — | — | 368 | |
| Credit cards | 24 | — | — | — | — | — | — | — | — | 24 | |
| Other | 3,848 | 13 | (5) | 793 | — | (24) | (275) | — | — | 4,350 | |
| Total asset-backed securities | 4,252 | 13 | (7) | 793 | — | (24) | (285) | — | — | 4,742 | |
| Non-U.S. debt securities: | | | | | | | | | | | |
| Mortgage-backed securities | 328 | — | (1) | — | — | — | 13 | — | — | 340 | |
| Asset-backed securities | 756 | 1 | 1 | 164 | — | — | (19) | — | (104) | 799 | |
| Other | 281 | — | (1) | 149 | — | — | 12 | — | — | 441 | |
| Total non-U.S. debt securities | 1,365 | 1 | (1) | 313 | — | — | 6 | — | (104) | 1,580 | |
| State and political subdivisions | 45 | — | (1) | — | — | — | — | — | — | 44 | |
| Collateralized mortgage obligations | 238 | — | (5) | 50 | — | — | (11) | 15 | (100) | 187 | |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Other U.S. debt securities | 9 | — | — | — | — | — | — | — | — | 9 | |
| Total investment securities available for sale | 6,773 | 14 | (15) | 1,156 | — | (24) | (319) | 15 | (297) | 7,303 | |
| Other assets: | | | | | | | | | | | |
| Derivative instruments: | | | | | | | | | | | |
| Derivative instruments, Foreign exchange contracts | 121 | (21) | — | 7 | — | — | (30) | — | — | 77 | $(16) |
| Total derivative instruments | 121 | (21) | — | 7 | — | — | (30) | — | — | 77 | (16) |
| Total assets carried at fair value | $6,894 | $(7) | $(15) | $1,163 | $— | $(24) | $(349) | $15 | $(297) | $7,380 | $(16) |

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

| | Fair Value Measurements Using Significant Unobservable Inputs Three Months Ended September 30, 2013 | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Total Realized and Unrealized (Gains) Losses | | | | | | | | | |
| (In millions) | Fair Value as of June 30, 2013 | Recorded in Revenue | Recorded in Other Comprehensive Income | Purchases | Issuances | Sales | Settlements | Transfers into Level 3 | Transfers out of Level 3 | Fair Value as of September 30, 2013 | Change in Unrealized (Gains) Losses Related to Financial Instruments Held as of September 30, 2013 |
| Liabilities: | | | | | | | | | | | |
| Accrued expenses and other liabilities: | | | | | | | | | | | |
| Derivative instruments: | | | | | | | | | | | |
| Foreign exchange contracts | $108 | $ (17) | $ — | $ — | $ 5 | $ — | $ (41) | $ — | $ — | $ 55 | $ (15) |
| Other | 9 | — | — | — | — | — | — | — | — | 9 | — |
| Total derivative instruments | 117 | (17) | — | — | 5 | — | (41) | — | — | 64 | (15) |
| Total liabilities carried at fair value | $117 | $ (17) | $ — | $ — | $ 5 | $ — | $ (41) | $ — | $ — | $ 64 | $ (15) |

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

| | Fair-Value Measurements Using Significant Unobservable Inputs Nine Months Ended September 30, 2013 | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Total Realized and Unrealized Gains (Losses) | | | | | | | | | |
| (In millions) | Fair Value as of December 31, 2012 | Recorded in Revenue | Recorded in Other Comprehensive Income | Purchases | Issuances | Sales | Settlements | Transfers into Level 3 | Transfers out of Level 3 | Fair Value as of September 30, 2013 | Change in Unrealized Gains (Losses) Related to Financial Instruments Held as of September 30, 2013 |
| Assets: | | | | | | | | | | | |
| Investment securities available for sale: | | | | | | | | | | | |
| U.S. Treasury and federal agencies: | | | | | | | | | | | |
| Mortgage-backed securities | $825 | $— | $(1) | $92 | $— | $— | $(83) | $— | $(92) | $741 | |
| Asset-backed securities: | | | | | | | | | | | |
| Student loans | 588 | 1 | 6 | — | — | (26) | (26) | — | (175) | 368 | |
| Credit cards | 67 | — | — | — | — | — | (43) | — | — | 24 | |
| Other | 3,994 | 40 | 25 | 1,358 | — | (33) | (1,034) | — | — | 4,350 | |
| Total asset-backed securities | 4,649 | 41 | 31 | 1,358 | — | (59) | (1,103) | — | (175) | 4,742 | |
| Non-U.S. debt securities: | | | | | | | | | | | |
| Mortgage-backed securities | 555 | — | (1) | — | — | — | (6) | — | (208) | 340 | |
| Asset-backed securities | 524 | 4 | 2 | 399 | — | — | (88) | 139 | (181) | 799 | |
| Other | 140 | — | — | 328 | — | — | 13 | — | (40) | 441 | |
| Total non-U.S. debt securities | 1,219 | 4 | 1 | 727 | — | — | (81) | 139 | (429) | 1,580 | |
| State and political subdivisions | 48 | — | (1) | — | — | — | (3) | — | — | 44 | |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Collateralized mortgage obligations | 117 | 1 | (5) | 190 | — | — | (31) | 15 | (100) | 187 | |
| Other U.S. debt securities | 9 | — | — | — | — | — | — | — | — | 9 | |
| Total investment securities available for sale | 6,867 | 46 | 25 | 2,367 | — | (59) | (1,301) | 154 | (796) | 7,303 | |
| Other assets: | | | | | | | | | | | |
| Derivative instruments: | | | | | | | | | | | |
| Foreign exchange contracts | 113 | 119 | — | 25 | — | — | (180) | — | — | 77 | $ 29 |
| Total derivative instruments | 113 | 119 | — | 25 | — | — | (180) | — | — | 77 | 29 |
| Total assets carried at fair value | $ 6,980 | $ 165 | $ 25 | $ 2,392 | $ — | $ (59) | $ (1,481) | $ 154 | $ (796) | $ 7,380 | $ 29 |

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

| | Fair-Value Measurements Using Significant Unobservable Inputs Nine Months Ended September 30, 2013 | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Total Realized and Unrealized (Gains) Losses | | | | | | | | | |
| (In millions) | Fair Value as of December 31, 2012 | Recorded in Revenue | Recorded in Other Comprehensive Income | Purchases | Issuances | Sales | Settlements | Transfers into Level 3 | Transfers out of Level 3 | Fair Value as of September 30, 2013 | Change in Unrealized (Gains) Losses Related to Financial Instruments Held as of September 30, 2013 |
| Liabilities: | | | | | | | | | | | |
| Accrued expenses and other liabilities: | | | | | | | | | | | |
| Derivative instruments: | | | | | | | | | | | |
| Foreign exchange contracts | $ 106 | $ 59 | $ — | $ — | $ 24 | $ — | $ (134) | $ — | $ — | $ 55 | $ 15 |
| Other | 9 | — | — | — | — | — | — | — | — | 9 | — |
| Total derivative instruments | 115 | 59 | — | — | 24 | — | (134) | — | — | 64 | 15 |
| Total liabilities carried at fair value | $ 115 | $ 59 | $ — | $ — | $ 24 | $ — | $ (134) | $ — | $ — | $ 64 | $ 15 |

The following table presents total realized and unrealized gains and losses for the periods indicated that were recorded in revenue for our level-3 financial assets and liabilities:

| | Three Months Ended September 30, | | | | Nine Months Ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | Total Realized and Unrealized Gains (Losses) Recorded in Revenue | | Change in Unrealized Gains (Losses) Related to Financial Instruments Held at September 30, | | Total Realized and Unrealized Gains (Losses) Recorded in Revenue | | Change in Unrealized Gains (Losses) Related to Financial Instruments Held at September 30, | |
| (In millions) | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Fee revenue: | | | | | | | | |
| Trading services | $8 | $(4) | $5 | $(1) | $4 | $60 | $3 | $14 |
| Total fee revenue | 8 | (4) | 5 | (1) | 4 | 60 | 3 | 14 |
| Net interest revenue | 20 | 14 | — | — | 53 | 46 | — | — |
| Total revenue | $28 | $10 | $5 | $(1) | $57 | $106 | $3 | $14 |

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

The following table presents quantitative information, as of the dates indicated, about the valuation techniques and significant unobservable inputs used in the valuation of our level-3 financial assets and liabilities measured at fair value on a recurring basis for which we use internally-developed pricing models. The significant unobservable inputs

for our level-3 financial assets and liabilities whose fair value is measured using pricing information from non-binding broker or dealer quotes are not included in the table, as the specific inputs applied are not provided by the broker/dealer.

| | Quantitative Information about Level-3 Fair-Value Measurements | | | | | |
|---|---|---|---|---|---|---|
| | Fair Value | | | | Weighted-Average | |
| (Dollars in millions) | As of September 30, 2014 | As of December 31, 2013 | Valuation Technique | Significant Unobservable Input | As of September 30, 2014 | As of December 31, 2013 |
| Significant unobservable inputs readily available to State Street: | | | | | | |
| Assets: | | | | | | |
| Asset-backed securities, student loans | $— | $13 | Discounted cash flows | Credit spread | — % | 3.5 % |
| Asset-backed securities, credit cards | — | 24 | Discounted cash flows | Credit spread | — | 2.0 |
| Asset-backed securities, other | 66 | 92 | Discounted cash flows | Credit spread | 0.2 | 1.5 |
| State and political subdivisions | 41 | 43 | Discounted cash flows | Credit spread | 1.6 | 1.7 |
| Derivative instruments, foreign exchange contracts | 68 | 19 | Option model | Volatility | 7.7 | 11.4 |
| Total | $175 | $191 | | | | |
| Liabilities: | | | | | | |
| Derivative instruments, foreign exchange contracts | $59 | $17 | Option model | Volatility | 7.7 | 11.2 |
| Derivative instruments, other[1] | 9 | 9 | Discounted cash flows | Participant redemptions | 6.0 | 7.5 |
| Total | $68 | $26 | | | | |

[1] Relates to stable value wrap contracts; refer to the sensitivity discussion following the tables presented below, and to note 7.

The following tables present information with respect to the composition of our level-3 financial assets and

liabilities, by availability of significant unobservable inputs, as of the dates indicated:

| September 30, 2014 | Significant Unobservable Inputs Readily Available to State Street[1] | Significant Unobservable Inputs Not Developed by State Street and Not Readily Available[2] | Total Assets and Liabilities with Significant Unobservable Inputs |
|---|---|---|---|
| (In millions) | | | |

| | | | |
|---|---|---|---|
| Assets: | | | |
| U.S. Treasury and federal agencies, mortgage-backed securities | $— | $260 | $260 |
| Asset-backed securities, student loans | — | 266 | 266 |
| Asset-backed securities, other | 66 | 3,878 | 3,944 |
| Non-U.S. debt securities, asset-backed securities | — | 424 | 424 |
| Non-U.S. debt securities, other | — | 298 | 298 |
| State and political subdivisions | 41 | — | 41 |
| Collateralized mortgage obligations | — | 234 | 234 |
| Other U.S. debt securities | — | 8 | 8 |
| Derivative instruments, foreign exchange contracts | 68 | — | 68 |
| Total | $175 | $5,368 | $5,543 |
| Liabilities: | | | |
| Derivative instruments, foreign exchange contracts | $59 | $— | $59 |
| Derivative instruments, other | 9 | — | 9 |
| Total | $68 | $— | $68 |

(1) Information with respect to these model-priced financial assets and liabilities is provided above in a separate table.
(2) Fair value for these financial assets is measured using non-binding broker or dealer quotes.

| December 31, 2013 | Significant Unobservable Inputs Readily Available to State Street[1] | Significant Unobservable Inputs Not Developed by State Street and Not Readily Available[2] | Total Assets and Liabilities with Significant Unobservable Inputs |
|---|---|---|---|
| (In millions) | | | |
| Assets: | | | |
| U.S. Treasury and federal agencies, mortgage-backed securities | $— | $716 | $716 |
| Asset-backed securities, student loans | 13 | 410 | 423 |
| Asset-backed securities, credit cards | 24 | — | 24 |
| Asset-backed securities, other | 92 | 4,440 | 4,532 |
| Non-U.S. debt securities, mortgage-backed securities | — | 375 | 375 |
| Non-U.S. debt securities, asset-backed securities | — | 798 | 798 |
| Non-U.S. debt securities, other | — | 464 | 464 |
| State and political subdivisions | 43 | — | 43 |
| Collateralized mortgage obligations | — | 162 | 162 |
| Other U.S. debt securities | — | 8 | 8 |
| Derivative instruments, foreign exchange contracts | 19 | — | 19 |
| Total | $191 | $7,373 | $7,564 |
| Liabilities: | | | |
| Derivative instruments, foreign exchange contracts | $17 | $— | $17 |
| Derivative instruments, other | 9 | — | 9 |
| Total | $26 | $— | $26 |

(1) Information with respect to these model-priced financial assets and liabilities is provided above in a separate table.
(2) Fair value for these financial assets is measured using non-binding broker or dealer quotes.

We use internally-developed pricing models to measure the fair value of our level-3 financial assets and liabilities, which models incorporate discounted cash flow and option modeling techniques. Use of these techniques requires the determination of relevant inputs and assumptions, some of which represent significant unobservable inputs as indicated in the preceding table. Accordingly, changes in these unobservable inputs may have a significant impact on fair value.

Certain of these unobservable inputs will, in isolation, have a directionally consistent impact on the fair value of the instrument for a given change in that input. Alternatively, the fair value of the instrument may move in an opposite direction for a given change in another input. Where multiple inputs are used within the valuation technique of an asset or liability, a change in one input in a certain direction may be offset by an opposite change in another input, resulting in a potentially muted impact on the overall fair value of that particular instrument. Additionally, a change in one unobservable input may result in a change to another unobservable input (that is, changes in certain inputs are interrelated to one another), which may counteract or magnify the fair-value impact.

For recurring level-3 fair-value measurements for which significant unobservable inputs were readily available to State Street as of September 30, 2014, the sensitivity of the fair-value measurement to

changes in significant unobservable inputs, and a description of any interrelationships between those unobservable inputs, is described below; however, we rarely experience a situation in which those unobservable inputs change in

isolation:

- The significant unobservable input used in the measurement of the fair value of our asset-backed securities and municipal securities (state and political subdivisions) is the credit spread. Significant increases (decreases) in the credit spread would result in measurements of significantly lower (higher) fair value of these securities.
- The significant unobservable input used in the measurement of the fair value of our foreign exchange option contracts is the implied volatility surface. A significant increase (decrease) in the implied volatility surface would result in measurements of significantly higher (lower) fair value of these contracts.
- The significant unobservable input used in the measurement of the fair value of our other derivative instruments, specifically stable value wrap contracts, is participant redemptions. Increased volatility of participant redemptions may result in changes to our measurement of fair value. Generally, significant increases (decreases) in participant redemptions may result in

measurements of significantly higher (lower) fair value of this liability.

Fair Values of Financial Instruments:

Estimates of fair value for financial instruments not carried at fair value on a recurring basis in our consolidated statement of condition, as defined by GAAP, are generally subjective in nature, and are determined as of a specific point in time based on the characteristics of the financial instruments and relevant market information. Disclosure of fair-value estimates is not required by GAAP for certain items, such as lease financing, equity-method investments, obligations for pension and other post-retirement plans, premises and equipment, other intangible assets and income-tax assets and liabilities. Accordingly, aggregate fair-value estimates presented do not purport to represent, and should not be considered representative of, our underlying “market” or franchise value. In addition, because of potential differences in methodologies and assumptions used to estimate fair values, our estimates of fair value should not be compared to those of other financial institutions.

We use the following methods to estimate the fair values of our financial instruments:

- For financial instruments that have quoted market prices, those quoted prices are used to estimate fair value.
- For financial instruments that have no defined maturity, have a remaining maturity of 180 days or less, or reprice frequently to a market rate, we assume that the fair value of these instruments approximates their reported value, after taking into consideration any applicable credit risk.
- For financial instruments for which no quoted market prices are available, fair value is

estimated using information obtained from independent third parties, or by discounting the expected cash flows using an estimated current market interest rate for the financial instrument.

The generally short duration of certain of our assets and liabilities results in a significant number of financial instruments for which fair value equals or closely approximates the amount recorded in our consolidated statement of condition. These financial instruments are reported in the following captions in our consolidated statement of condition: cash and due from banks; interest-bearing deposits with banks; securities purchased under resale agreements; accrued interest and fees receivable; deposits; securities sold under repurchase agreements; federal funds purchased; and other short-term borrowings.

In addition, due to the relatively short duration of certain of our net loans (excluding leases), we consider fair value for these loans to approximate their reported value. The fair value of other types of loans, such as senior secured bank loans, commercial real estate loans and purchased receivables, is estimated using information obtained from independent third parties or by discounting expected future cash flows using current rates at which similar loans would be made to borrowers with similar credit ratings for the same remaining maturities. Commitments to lend have no reported value because their terms are at prevailing market rates.

The following tables present the reported amounts and estimated fair values of the financial instruments defined by GAAP, excluding financial assets and liabilities carried at fair value on a recurring basis, as they would be categorized within the fair-value hierarchy, as of the dates indicated.

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STATE STREET CORPORATION

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

| | | | Fair-Value Hierarchy | | |
|---|---|---|---|---|---|
| September 30, 2014 | Reported Amount | Estimated Fair Value | Quoted Market Prices in Active Markets (Level 1) | Pricing Methods with Significant Observable Market Inputs (Level 2) | Pricing Methods with Significant Unobservable Market Inputs (Level 3) |
| (In millions) | | | | | |
| Financial Assets: | | | | | |
| Cash and due from banks | $4,146 | $4,146 | $4,146 | $ — | $ — |
| Interest-bearing deposits with banks | 86,946 | 86,946 | — | 86,946 | — |
| Securities purchased under resale agreements | 2,603 | 2,603 | — | 2,603 | — |
| Investment securities held to maturity | 18,767 | 18,865 | — | 18,865 | — |
| Net loans (excluding leases) | 17,296 | 17,287 | — | 16,830 | 457 |
| Financial Liabilities: | | | | | |
| Deposits: | | | | | |
| Noninterest-bearing | $66,134 | $66,134 | $— | $ 66,134 | $ — |
| Interest-bearing - U.S. | 24,435 | 24,435 | — | 24,435 | — |
| Interest-bearing - non-U.S. | 117,399 | 117,399 | — | 117,399 | — |
| Securities sold under repurchase agreements | 9,385 | 9,385 | — | 9,385 | — |
| Federal funds purchased | 17 | 17 | — | 17 | — |
| Other short-term borrowings | 4,307 | 4,307 | — | 4,307 | — |
| Long-term debt | 9,016 | 9,352 | — | 8,474 | 878 |

| | | | Fair-Value Hierarchy | | |
|---|---|---|---|---|---|
| December 31, 2013 | Reported Amount | Estimated Fair Value | Quoted Market Prices in Active Markets (Level 1) | Pricing Methods with Significant Observable Market Inputs (Level 2) | Pricing Methods with Significant Unobservable Market Inputs (Level 3) |
| (In millions) | | | | | |
| Financial Assets: | | | | | |
| Cash and due from banks | $3,220 | $3,220 | $3,220 | $ — | $ — |
| Interest-bearing deposits with banks | 64,257 | 64,257 | — | 64,257 | — |
| Securities purchased under resale agreements | 6,230 | 6,230 | — | 6,230 | — |
| Investment securities held to maturity | 17,740 | 17,560 | — | 17,560 | — |
| Net loans (excluding leases) | 12,363 | 12,355 | — | 11,908 | 447 |
| Financial Liabilities: | | | | | |
| Deposits: | | | | | |
| Noninterest-bearing | $65,614 | $65,614 | $— | $ 65,614 | $ — |
| Interest-bearing - U.S. | 13,392 | 13,392 | — | 13,392 | — |
| Interest-bearing - non-U.S. | 103,262 | 103,262 | — | 103,262 | — |
| Securities sold under repurchase agreements | 7,953 | 7,953 | — | 7,953 | — |
| Federal funds purchased | 19 | 19 | — | 19 | — |
| Other short-term borrowings | 3,780 | 3,780 | — | 3,780 | — |

| | | | | | |
|---|---|---|---|---|---|
| Long-term debt | 9,699 | 9,909 | — | 9,056 | 853 |

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

Note 3. Investment Securities

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

| | September 30, 2014 | | | | December 31, 2013 | | | |
|---|---|---|---|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized | | Fair Value | Amortized Cost | Gross Unrealized | | Fair Value |
| (In millions) | | Gains | Losses | | | Gains | Losses | |
| Available for sale: | | | | | | | | |
| U.S. Treasury and federal agencies: | | | | | | | | |
| Direct obligations | $10,751 | $17 | $4 | $10,764 | $702 | $9 | $2 | $709 |
| Mortgage-backed securities | 21,203 | 196 | 198 | 21,201 | 23,744 | 211 | 392 | 23,563 |
| Asset-backed securities: | | | | | | | | |
| Student loans[1] | 12,806 | 122 | 122 | 12,806 | 14,718 | 92 | 268 | 14,542 |
| Credit cards | 3,128 | 13 | 30 | 3,111 | 8,230 | 21 | 41 | 8,210 |
| Sub-prime | 1,054 | 2 | 59 | 997 | 1,291 | 3 | 91 | 1,203 |
| Other | 4,239 | 114 | 10 | 4,343 | 4,949 | 138 | 23 | 5,064 |
| Total asset-backed securities | 21,227 | 251 | 221 | 21,257 | 29,188 | 254 | 423 | 29,019 |
| Non-U.S. debt securities: | | | | | | | | |
| Mortgage-backed securities | 10,056 | 185 | 2 | 10,239 | 10,808 | 230 | 9 | 11,029 |
| Asset-backed securities | 3,433 | 15 | 1 | 3,447 | 5,369 | 23 | 2 | 5,390 |
| Government securities | 3,605 | 8 | — | 3,613 | 3,759 | 2 | — | 3,761 |
| Other | 5,802 | 55 | 8 | 5,849 | 4,679 | 59 | 11 | 4,727 |
| Total non-U.S. debt securities | 22,896 | 263 | 11 | 23,148 | 24,615 | 314 | 22 | 24,907 |
| State and political subdivisions | 10,366 | 323 | 44 | 10,645 | 10,301 | 160 | 198 | 10,263 |
| Collateralized mortgage obligations | 4,629 | 57 | 15 | 4,671 | 5,275 | 70 | 76 | 5,269 |
| Other U.S. debt securities | 4,189 | 106 | 11 | 4,284 | 4,876 | 138 | 34 | 4,980 |
| U.S. equity securities | 29 | 9 | — | 38 | 28 | 6 | — | 34 |
| Non-U.S. equity securities | 2 | — | — | 2 | 1 | — | — | 1 |
| U.S. money-market mutual funds | 532 | — | — | 532 | 422 | — | — | 422 |
| Non-U.S. money-market mutual funds | 10 | — | — | 10 | 7 | — | — | 7 |
| Total | $95,834 | $1,222 | $504 | $96,552 | $99,159 | $1,162 | $1,147 | $99,174 |
| Held to maturity: | | | | | | | | |
| U.S. Treasury and federal agencies: | | | | | | | | |
| Direct obligations | $5,117 | $— | $222 | $4,895 | $5,041 | $— | $448 | $4,593 |
| Mortgage-backed securities | 68 | 4 | — | 72 | 91 | 6 | — | 97 |
| Asset-backed securities: | | | | | | | | |
| Student loans[1] | 1,873 | 5 | 1 | 1,877 | 1,627 | — | 10 | 1,617 |
| Credit cards | 897 | 2 | — | 899 | 762 | 1 | — | 763 |
| Other | 633 | 3 | 1 | 635 | 782 | 1 | 2 | 781 |
| Total asset-backed securities | 3,403 | 10 | 2 | 3,411 | 3,171 | 2 | 12 | 3,161 |
| Non-U.S. debt securities: | | | | | | | | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Mortgage-backed securities | 4,153 | 192 | 16 | 4,329 | 4,211 | 150 | 48 | 4,313 |
| Asset-backed securities | 3,293 | 18 | — | 3,311 | 2,202 | 19 | — | 2,221 |
| Government securities | 110 | — | — | 110 | 2 | — | — | 2 |
| Other | 75 | — | — | 75 | 192 | — | — | 192 |
| Total non-U.S. debt securities | 7,631 | 210 | 16 | 7,825 | 6,607 | 169 | 48 | 6,728 |
| State and political subdivisions | 12 | — | — | 12 | 24 | 1 | — | 25 |
| Collateralized mortgage obligations | 2,536 | 129 | 15 | 2,650 | 2,806 | 176 | 26 | 2,956 |
| Total | $18,767 | $353 | $255 | $18,865 | $17,740 | $354 | $534 | $17,560 |

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

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

Aggregate investment securities with carrying values of $44.77 billion and $46.99 billion as of September 30, 2014 and December 31, 2013, respectively, were designated as pledged for public

and trust deposits, short-term borrowings and for other purposes as provided by law.

The following tables present the aggregate fair values of investment securities that have been in a continuous unrealized loss position for less than 12 months, and those that have been in a continuous unrealized loss position for 12 months or longer, as of the dates indicated:

| September 30, 2014 (In millions) | Less than 12 months | | 12 months or longer | | Total | |
|---|---|---|---|---|---|---|
| | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses |
| Available for sale: | | | | | | |
| U.S. Treasury and federal agencies: | | | | | | |
| Direct obligations | $4,374 | $3 | $158 | $1 | $4,532 | $4 |
| Mortgage-backed securities | 3,391 | 23 | 7,026 | 175 | 10,417 | 198 |
| Asset-backed securities: | | | | | | |
| Student loans | 291 | 2 | 6,158 | 120 | 6,449 | 122 |
| Credit cards | — | — | 1,258 | 30 | 1,258 | 30 |
| Sub-prime | — | — | 936 | 59 | 936 | 59 |
| Other | 606 | 2 | 506 | 8 | 1,112 | 10 |
| Total asset-backed securities | 897 | 4 | 8,858 | 217 | 9,755 | 221 |
| Non-U.S. debt securities: | | | | | | |
| Mortgage-backed securities | 443 | 1 | 176 | 1 | 619 | 2 |
| Asset-backed securities | — | — | 84 | 1 | 84 | 1 |
| Other | 2,148 | 2 | 283 | 6 | 2,431 | 8 |
| Total non-U.S. debt securities | 2,591 | 3 | 543 | 8 | 3,134 | 11 |
| State and political subdivisions | 439 | 2 | 1,786 | 42 | 2,225 | 44 |
| Collateralized mortgage obligations | 886 | 5 | 314 | 10 | 1,200 | 15 |
| Other U.S. debt securities | 336 | 2 | 294 | 9 | 630 | 11 |
| Total | $12,914 | $42 | $18,979 | $462 | $31,893 | $504 |
| Held to maturity: | | | | | | |
| U.S. Treasury and federal agencies: | | | | | | |
| Direct obligations | $114 | $1 | $4,781 | $221 | $4,895 | $222 |
| Asset-backed securities: | | | | | | |
| Student loans | 364 | 1 | — | — | 364 | 1 |
| Other | 79 | 1 | — | — | 79 | 1 |
| Total asset-backed securities | 443 | 2 | — | — | 443 | 2 |
| Non-U.S. mortgage-backed securities | | | | | | |
| Mortgage-backed securities | 255 | 1 | 658 | 15 | 913 | 16 |
| Total non-U.S. debt securities | 255 | 1 | 658 | 15 | 913 | 16 |
| Collateralized mortgage obligations | 467 | 3 | 552 | 12 | 1,019 | 15 |
| Total | $1,279 | $7 | $5,991 | $248 | $7,270 | $255 |

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CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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| December 31, 2013 | Less than 12 months | | 12 months or longer | | Total | |
|---|---|---|---|---|---|---|
| (In millions) | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses |
| Available for sale: | | | | | | |
| U.S. Treasury and federal agencies: | | | | | | |
| Direct obligations | $182 | $1 | $113 | $1 | $295 | $2 |
| Mortgage-backed securities | 10,562 | 316 | 2,389 | 76 | 12,951 | 392 |
| Asset-backed securities: | | | | | | |
| Student loans | 1,930 | 16 | 7,252 | 252 | 9,182 | 268 |
| Credit cards | 3,714 | 30 | 161 | 11 | 3,875 | 41 |
| Sub-prime | — | — | 1,150 | 91 | 1,150 | 91 |
| Other | 1,896 | 12 | 439 | 11 | 2,335 | 23 |
| Total asset-backed securities | 7,540 | 58 | 9,002 | 365 | 16,542 | 423 |
| Non-U.S. debt securities: | | | | | | |
| Mortgage-backed securities | 868 | 2 | 258 | 7 | 1,126 | 9 |
| Asset-backed securities | 551 | 1 | 16 | 1 | 567 | 2 |
| Other | 1,655 | 9 | 150 | 2 | 1,805 | 11 |
| Total non-U.S. debt securities | 3,074 | 12 | 424 | 10 | 3,498 | 22 |
| State and political subdivisions | 3,242 | 113 | 1,268 | 85 | 4,510 | 198 |
| Collateralized mortgage obligations | 1,581 | 55 | 510 | 21 | 2,091 | 76 |
| Other U.S. debt securities | 1,039 | 25 | 58 | 9 | 1,097 | 34 |
| Total | $27,220 | $580 | $13,764 | $567 | $40,984 | $1,147 |
| Held to maturity: | | | | | | |
| U.S. Treasury and federal agencies: | | | | | | |
| Direct obligations | $4,571 | $448 | $— | $— | $4,571 | $448 |
| Asset-backed securities: | | | | | | |
| Student Loans | 1,352 | 10 | — | — | 1,352 | 10 |
| Other | 297 | 1 | 29 | 1 | 326 | 2 |
| Total asset-backed securities | 1,649 | 11 | 29 | 1 | 1,678 | 12 |
| Non-U.S. mortgage-backed securities | 834 | 3 | 878 | 45 | 1,712 | 48 |
| Collateralized mortgage obligations | 759 | 18 | 161 | 8 | 920 | 26 |
| Total | $7,813 | $480 | $1,068 | $54 | $8,881 | $534 |

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The following table presents contractual maturities of debt investment securities as of September 30, 2014:

| (In millions) | Under 1 Year | 1 to 5 Years | 6 to 10 Years | Over 10 Years |
|---|---|---|---|---|
| Available for sale: | | | | |
| U.S. Treasury and federal agencies: | | | | |
| Direct obligations | $151 | $6,766 | $3,300 | $547 |
| Mortgage-backed securities | 183 | 2,441 | 4,753 | 13,824 |
| Asset-backed securities: | | | | |
| Student loans | 342 | 6,572 | 3,750 | 2,142 |
| Credit cards | 307 | 1,513 | 1,291 | — |
| Sub-prime | 9 | 14 | — | 974 |
| Other | 255 | 1,069 | 1,149 | 1,870 |
| Total asset-backed securities | 913 | 9,168 | 6,190 | 4,986 |
| Non-U.S. debt securities: | | | | |
| Mortgage-backed securities | 2,190 | 4,344 | 384 | 3,321 |
| Asset-backed securities | 359 | 2,691 | 290 | 107 |
| Government securities | 1,978 | 1,635 | — | — |
| Other | 1,969 | 2,942 | 938 | — |
| Total non-U.S. debt securities | 6,496 | 11,612 | 1,612 | 3,428 |
| State and political subdivisions | 731 | 3,021 | 4,451 | 2,442 |
| Collateralized mortgage obligations | 286 | 1,165 | 1,072 | 2,148 |
| Other U.S. debt securities | 700 | 3,221 | 328 | 35 |
| Total | $9,460 | $37,394 | $21,706 | $27,410 |
| Held to maturity: | | | | |
| U.S. Treasury and federal agencies: | | | | |
| Direct obligations | $— | $— | $5,000 | $117 |
| Mortgage-backed securities | — | 15 | 13 | 40 |
| Asset-backed securities | | | | |
| Student loans | 7 | 182 | 393 | 1,291 |
| Credit cards | — | 375 | 522 | — |
| Other | 19 | 401 | 208 | 5 |
| Total asset-backed securities | 26 | 958 | 1,123 | 1,296 |
| Non-U.S. debt securities: | | | | |
| Mortgage-backed securities | 323 | 1,208 | 274 | 2,348 |
| Asset-backed securities | 5 | 3,051 | 237 | — |
| Government securities | 110 | — | — | — |
| Other | — | 75 | — | — |
| Total non-U.S. debt securities | 438 | 4,334 | 511 | 2,348 |
| State and political subdivisions | 9 | 3 | — | — |
| Collateralized mortgage obligations | 577 | 550 | 503 | 906 |
| Total | $1,050 | $5,860 | $7,150 | $4,707 |

The maturities of asset-backed securities, mortgage-backed securities and collateralized mortgage obligations are based on expected principal payments.

STATE STREET CORPORATION
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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The following tables present gross realized gains and gross realized losses from sales of available-for-sale securities, and the components of net impairment losses included in net gains and losses related to investment securities, for the periods indicated:

| | Three Months Ended September 30, | |
|---|---|---|
| (In millions) | 2014 | 2013 |
| Gross realized gains from sales of available-for-sale securities | $48 | $11 |
| Gross realized losses from sales of available-for-sale securities | (48) | (5) |
| Net impairment losses: | | |
| Gross losses from other-than-temporary impairment | — | (13) |
| Losses reclassified (from) to other comprehensive income | — | 3 |
| Net impairment losses[(1)] | — | (10) |
| Gains related to investment securities, net | $— | $(4) |
| [(1)] Net impairment losses, recognized in our consolidated statement of income, were composed of the following: | | |
| Impairment associated with expected credit losses | $— | $(8) |
| Impairment associated with management's intent to sell impaired securities prior to recovery in value | — | — |
| Impairment associated with adverse changes in timing of expected future cash flows | — | (2) |
| Net impairment losses | $— | $(10) |

| | Nine Months Ended September 30, | |
|---|---|---|
| (In millions) | 2014 | 2013 |
| Gross realized gains from sales of available-for-sale securities | $64 | $98 |
| Gross realized losses from sales of available-for-sale securities | (49) | (87) |
| Net impairment losses: | | |
| Gross losses from other-than-temporary impairment | (1) | (19) |
| Losses reclassified (from) to other comprehensive income | (10) | (1) |
| Net impairment losses[(1)] | (11) | (20) |
| Gains related to investment securities, net | $4 | $(9) |
| [(1)] Net impairment losses, recognized in our consolidated statement of income, were composed of the following: | | |
| Impairment associated with expected credit losses | $(10) | $(8) |
| Impairment associated with management's intent to sell impaired securities prior to recovery in value | — | (6) |
| Impairment associated with adverse changes in timing of expected future cash flows | (1) | (6) |
| Net impairment losses | $(11) | $(20) |

The following table presents activity with respect to net impairment losses for the periods indicated:

| | Nine Months Ended September 30, | |
|---|---|---|
| (In millions) | 2014 | 2013 |
| Beginning balance | $122 | $124 |
| Plus losses for which other-than-temporary impairment was not previously recognized | — | 14 |
| | 11 | 6 |

| | | |
|---|---|---|
| Plus losses for which other-than-temporary impairment was previously recognized | | |
| Less previously recognized losses related to securities sold or matured | (11) | (10) |
| Less losses related to securities intended or required to be sold | (6) | — |
| Ending balance | $116 | $134 |

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Impairment:
We conduct periodic reviews of individual securities to assess whether other-than-temporary impairment exists. Impairment exists when the current fair value of an individual security is below its amortized cost basis. When the decline in the security's fair value is deemed to be other than temporary, the loss is recorded in our consolidated statement of income. In addition, for debt securities available for sale and held to maturity, impairment is recorded 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).

Our review of impaired securities generally includes:

- the identification and evaluation of securities that have indications of potential other-than-temporary impairment, such as issuer-specific concerns, including deteriorating financial condition or bankruptcy;
- the analysis of expected future cash flows of securities, based on quantitative and qualitative factors;
- the analysis of the collectability of those future cash flows, including information about past events, current conditions and reasonable and supportable forecasts;
- the analysis of the underlying collateral for mortgage- and asset-backed securities;
- the analysis of individual impaired securities, including consideration of the length of time the security has been in an unrealized loss position, the anticipated recovery period, and the magnitude of the overall price decline;
- discussion and evaluation of factors or triggers that could cause individual securities to be deemed other-than-temporarily impaired and those that would not support other-than-temporary impairment; and
- documentation of the results of these analyses.

Factors considered in determining whether impairment is other than temporary include:

- certain macroeconomic drivers;
- certain industry-specific drivers;
- the length of time the security has been impaired;
- the severity of the impairment;
- the cause of the impairment and the financial condition and near-term prospects of the issuer;
- activity in the market with respect to the issuer's securities, which may indicate adverse credit conditions; and
- our intention not to sell, and the likelihood that we will not be required to sell, the security for a period of time sufficient to allow for its recovery in value.

Substantially all of our investment securities portfolio is composed of debt securities. A critical component of our assessment of other-than-temporary impairment of these debt securities is the identification of credit-impaired securities for which management does not expect to receive cash flows sufficient to recover the entire amortized cost basis of the security.

Debt securities that are not deemed to be credit-impaired are subject to additional management analysis to assess whether management intends to sell, or, more likely than not, would be required to sell, the security before the expected recovery to its amortized cost basis.

The following provides a description of our process for the identification and assessment of other-than-temporary impairment, as well as information about other-than-temporary impairment recorded in the three and nine months ended September 30, 2014 and 2013 and changes in period-end unrealized losses, for major security types.

U.S. Agency Securities

Our portfolio of U.S. agency direct obligations and mortgage-backed securities receives the implicit or explicit backing of the U.S. government in conjunction with specified financial support of the U.S. Treasury. We recorded no other-than-temporary impairment on these securities in the three and nine months ended September 30, 2014 or 2013. The overall decline in the unrealized losses on these securities as of September 30, 2014 compared to December 31, 2013 was primarily attributable to

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narrowing spreads in the nine months ended September 30, 2014.

Asset-Backed Securities - Student Loans

Asset-backed securities collateralized by student loans are primarily composed of securities collateralized by Federal Family Education Loan Program, or FFELP, loans. FFELP loans benefit from a federal government guarantee of at least 97% of defaulted principal and accrued interest, with additional credit support provided in the form of over-collateralization, subordination and excess spread, which collectively total in excess of 100%. Accordingly, the vast majority of FFELP loan-backed securities are protected from traditional consumer credit risk.

We recorded no other-than-temporary impairment on these securities in the three and nine months ended September 30, 2014 or 2013. The gross unrealized losses in our FFELP loan-backed securities portfolio as of September 30, 2014 were primarily attributable to the lower spreads on these securities relative to those associated with more current issuances. The decline in the unrealized losses on these securities as of September 30, 2014 compared to December 31, 2013 was primarily attributable to narrowing spreads in the nine months ended September 30, 2014.

Our assessment of other-than-temporary impairment of these securities considers, among many other factors, the strength of the U.S. government guarantee, the performance of the underlying collateral, and the remaining average term of the FFELP loan-backed securities portfolio, which was approximately 4.6 years as of September 30, 2014.

Our total exposure to private student loan-backed securities was less than $800 million as of September 30, 2014. Our assessment of other-than-temporary impairment of private student loan-backed securities considers, among other factors, the impact of high unemployment rates on the collateral performance of private student loans. We recorded no other-than-temporary impairment on these securities in the three and nine months ended September 30, 2014 or 2013.

Non-U.S. Mortgage- and Asset-Backed Securities

Non-U.S. mortgage- and asset-backed securities are primarily composed of U.K., Australian and Dutch securities collateralized by residential mortgages and German securities collateralized by automobile loans and leases. Our assessment of impairment with respect to these securities considers the location of the underlying collateral, collateral

enhancement and structural features, expected credit losses under base-case and stressed conditions and the macroeconomic outlook for the country in which the collateral is located, including housing prices and unemployment. Where appropriate, any potential loss after consideration of the above-referenced factors is further evaluated to determine whether any other-than-temporary impairment exists.

In the nine months ended September 30, 2014, we recorded other-than-temporary impairment of $1 million on non-U.S. residential mortgage-backed securities in our consolidated statement of income, associated with adverse changes in the timing of expected future cash flows from the securities. In the three and nine months ended September 30, 2013, we recorded other-than-temporary impairment of $2 million and $6 million, respectively, on these securities in our consolidated statement of income, associated with adverse changes in the timing of expected future cash flows from the securities.

In addition, in the nine months ended September 30, 2013, we recorded other-than-temporary impairment of $6 million on these securities in our consolidated statement of income, all in the three months ended June 30, 2013, associated with management's intent to sell the impaired security prior to its recovery in value.

Our aggregate exposure to Spain, Italy, Ireland and Portugal with respect to mortgage- and asset-backed securities totaled approximately $910 million as of September 30, 2014, composed of $173 million in Spain, $555 million in Italy, $109 million in Ireland and $73 million in Portugal. We had no direct sovereign debt exposure to any of these countries as of that date. As of September 30, 2014, these mortgage- and asset-backed securities had an aggregate pre-tax net unrealized gain of approximately $125 million, composed of gross unrealized gains of $126 million and gross unrealized losses of $1 million. We recorded the above-mentioned other-than-temporary impairment of $6 million on one of these securities, all in the three months ended June 30, 2013.

Our assessment of other-than-temporary impairment of these securities takes into account government intervention in the corresponding mortgage markets and assumes a conservative baseline macroeconomic environment for this

region, factoring in slower economic growth and continued government austerity measures. Our baseline view assumes a recessionary period characterized by high unemployment and by additional housing price declines of between 9% and 15% across these four countries. Our evaluation of other-than-temporary

impairment in our base case does not assume a disorderly sovereign-debt restructuring or a break-up of the Eurozone. In addition, we perform stress testing and sensitivity analysis in order to understand the impact of more severe assumptions on potential other-than-temporary impairment.

State and Political Subdivisions and Other U.S. Debt Securities

Our municipal securities portfolio primarily includes securities issued by U.S. states and their municipalities. A portion of this portfolio is held in connection with our tax-exempt investment program, more fully described in note 9. Our portfolio of other U.S. debt securities is primarily composed of securities issued by U.S. corporations.

Our assessment of other-than-temporary impairment of these portfolios considers, among other factors, adverse conditions specifically related to the industry, geographic area or financial condition of the issuer; the structure of the security, including collateral, if any, and payment schedule; rating agency changes to the security's credit rating; the volatility of the fair value changes; and our intent and ability to hold the security until its recovery in value. If the impairment of the security is credit-related, we estimate the future cash flows from the security, tailored to the security and considering the above-described factors, and any resulting impairment deemed to be other than temporary is recorded in our consolidated statement of income.

We recorded no other-than-temporary impairment on these securities in the three and nine months ended September 30, 2014 or 2013. The decline in the unrealized losses on these securities as of September 30, 2014 compared to December 31, 2013 was primarily attributable to the narrowing of spreads and U.S. Treasury rates in the nine months ended September 30, 2014.

U.S. Non-Agency Residential Mortgage-Backed Securities

We assess other-than-temporary impairment of our portfolio of U.S. non-agency residential mortgage-backed securities using cash-flow models, tailored for each security, that estimate the future cash flows from the underlying mortgages, using the security-specific collateral and transaction structure. Estimates of future cash flows are subject to management judgment. The future cash flows and performance of our portfolio of U.S. non-agency residential mortgage-backed securities are a function of a number of factors, including, but not limited to, the condition of the U.S. economy, the condition of the U.S. residential mortgage markets, and the level of loan

defaults, prepayments and loss severities. Management's estimates of future losses for each security also consider the underwriting and historical performance of each specific security, the underlying collateral type, vintage, borrower profile, third-party guarantees, current levels of subordination, geography and other factors.

We recorded no other-than-temporary impairment on these securities in the three and nine months ended September 30, 2014 or 2013.

U.S. Non-Agency Commercial Mortgage-Backed Securities

With respect to our portfolio of U.S. non-agency commercial mortgage-backed securities, other-than-temporary impairment is assessed by considering a number of factors, including, but not limited to, the condition of the U.S. economy and the condition of the U.S. commercial real estate market, as well as capitalization rates. Management estimates of future losses for each security also consider the underlying collateral type, property location, vintage, debt-service coverage ratios, expected property income, servicer advances and estimated property values, as well as current levels of subordination. In the nine months ended September 30, 2014, we recorded other-than-temporary impairment of $10 million on these securities in our consolidated statement of income, all associated with credit losses. We recorded $8 million of other-than-temporary impairment on these securities, all associated with credit losses, in our consolidated statement of income in both the three and nine months ended September 30, 2013.

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The estimates, assumptions and other risk factors utilized in our assessment of impairment as described above are used by management to identify securities which are subject to further analysis of potential credit losses. Additional analyses are performed using more stressful assumptions to further evaluate the sensitivity of losses relative to the above-described factors. However, since the assumptions are based on the unique characteristics of each security,

management uses a range of estimates for prepayment speeds, default, and loss severity forecasts that reflect the collateral profile of the securities within each asset class. In addition, in measuring expected credit losses, the individual characteristics of each security are examined to determine whether any additional factors would increase or mitigate the expected loss. Once losses are determined, the timing of the loss will also affect the ultimate other-than-temporary impairment, since



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the loss is ultimately subject to a discount commensurate with the purchase yield of the security.
In the aggregate, we recorded no other-than-temporary impairment in three months ended September 30, 2014, and $11 million in the nine months ended September 30, 2014, compared to $10 million and $20 million in the three and nine months ended September 30, 2013, respectively, as summarized below:
Nine months ended September 30, 2014:
- $1 million (non-U.S. mortgage-backed securities) resulted from adverse changes in the timing of expected future cash flows from the securities; and
- $10 million (U.S. non-agency commercial mortgage-backed securities) was associated with expected credit losses.

Three and nine months ended September 30, 2013:
- $8 million in both periods was associated with expected credit losses;
- $2 million and $6 million (non-U.S. mortgage-backed securities), respectively, resulted from adverse changes in the timing of expected future cash flows from certain of the securities; and
- $6 million in the nine months ended September 30, 2013 was associated with management's intent to sell the impaired security prior to its recovery in value.

After a review of the investment portfolio, taking into consideration current economic conditions, adverse situations that might affect our ability to fully collect principal and interest, the timing of future payments, the credit quality and performance of the collateral underlying mortgage- and asset-backed securities and other relevant factors, and excluding other-than-temporary impairment recorded in the nine months ended September 30, 2014, management considers the aggregate decline in fair value of the investment securities portfolio and the resulting gross pre-tax unrealized losses of $759 million as of September 30, 2014, related to 1,459 securities, to be temporary, and not the result of any material changes in the credit characteristics of the securities.

## Note 4. Loans and Leases

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

| (In millions) | September 30, 2014 | December 31, 2013 |
|---|---|---|
| Institutional: | | |
| Investment funds: | | |
| U.S. | $10,896 | $8,695 |
| Non-U.S. | 3,250 | 1,718 |
| Commercial and financial: | | |
| U.S. | 2,506 | 1,372 |
| Non-U.S. | 240 | 154 |
| Purchased receivables: | | |
| U.S. | 142 | 217 |
| Non-U.S. | — | 26 |
| Lease financing: | | |
| U.S. | 340 | 339 |
| Non-U.S. | 728 | 756 |
| Total institutional | 18,102 | 13,277 |
| Commercial real estate: | | |
| U.S. | 296 | 209 |
| Total loans and leases | 18,398 | 13,486 |
| Allowance for loan losses | (34) | (28) |
| Loans and leases, net of allowance for loan losses | $18,364 | $13,458 |

Aggregate short-duration advances to our clients included in the institutional segment were $5.39 billion and $2.45 billion as of September 30, 2014 and December 31, 2013, respectively.

The commercial and financial class in the institutional segment presented in the table above included approximately $1.72 billion and $724 million of senior secured bank loans as of September 30, 2014 and December 31, 2013, respectively. These senior secured bank loans are included in the “speculative” category in the credit-quality-indicator tables presented below. As of September 30, 2014, our allowance for loan losses included approximately $22 million related to these loans.

The commercial real estate, or CRE, segment is composed of the loans acquired in 2008 pursuant to indemnified repurchase agreements with an affiliate of Lehman as a result of the Lehman Brothers bankruptcy. These loans, which are primarily collateralized by direct and indirect interests in commercial real estate, were recorded at their then-current fair value, based on management’s expectations with respect to future cash flows from the loans using appropriate market discount rates as of the date of acquisition. These cash flow estimates

are updated quarterly to reflect changes in management's expectations, which consider market conditions and other factors.

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

| | Institutional | | | | Commercial Real Estate | | |
|---|---|---|---|---|---|---|---|
| September 30, 2014 (In millions) | Investment Funds | Commercial and Financial | Purchased Receivables | Lease Financing | Property Development | Other | Total Loans and Leases |
| Investment grade[1] | $13,864 | $916 | $142 | $1,034 | $— | $28 | $15,984 |
| Speculative[2] | 282 | 1,830 | — | 34 | 268 | — | 2,414 |
| Total | $14,146 | $2,746 | $142 | $1,068 | $268 | $28 | $18,398 |

| | Institutional | | | | Commercial Real Estate | | |
|---|---|---|---|---|---|---|---|
| December 31, 2013 (In millions) | Investment Funds | Commercial and Financial | Purchased Receivables | Lease Financing | Property Development | Other | Total Loans and Leases |
| Investment grade[1] | $10,282 | $740 | $243 | $1,068 | $— | $29 | $12,362 |
| Speculative[2] | 131 | 770 | — | 27 | 180 | — | 1,108 |
| Special mention[3] | — | 16 | — | — | — | — | 16 |
| Total | $10,413 | $1,526 | $243 | $1,095 | $180 | $29 | $13,486 |

[1] Investment-grade loans and leases consist of counterparties with strong credit quality and low expected credit risk and probability of default. Ratings apply to counterparties with a strong capacity to support the timely repayment of any financial commitment.
[2] Speculative loans and leases consist of counterparties that face ongoing uncertainties or exposure to business, financial, or economic downturns. However, these counterparties may have financial flexibility or access to financial alternatives, which allow for financial commitments to be met.
[3] Special mention loans and leases consist of counterparties with potential weaknesses that, if uncorrected, may result in deterioration of repayment prospects.

Loans and leases are categorized in the rating categories presented in the preceding table that align with our internal risk-rating framework. Management considers the ratings to be current as of September 30, 2014. We use an internal risk-rating system to assess our risk of credit loss for each loan or lease. This risk-rating process incorporates the use of risk-rating tools in conjunction with management judgment. Qualitative and quantitative inputs are captured in a systematic manner, and following a formal review and approval process, an internal credit rating based on our credit scale is assigned.

In assessing the risk rating assigned to each individual loan or lease, among the factors considered are the borrower's debt capacity, collateral coverage, payment history and delinquency experience, financial flexibility and earnings strength, the expected amounts and sources of repayment, the level and nature of contingencies, if any, and the industry and geography in which the borrower operates. These factors are based on an evaluation of historical and current information, and involve subjective assessment and interpretation. Credit counterparties are evaluated and risk-rated on an individual basis at least annually.

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

| | September 30, 2014 | | | December 31, 2013 | | |
|---|---|---|---|---|---|---|
| (In millions) | Institutional | Commercial Real Estate | Total Loans and Leases | Institutional | Commercial Real Estate | Total Loans and Leases |
| Loans and leases: | | | | | | |
| Individually evaluated for impairment | $— | $130 | $130 | $26 | $180 | $206 |
| Collectively evaluated for impairment[1] | 18,102 | 166 | 18,268 | 13,251 | 29 | 13,280 |
| Total | $18,102 | $296 | $18,398 | $13,277 | $209 | $13,486 |

[1] As of September 30, 2014 and December 31, 2013, all of the allowance for loan losses of $34 million and $28 million, respectively, related to institutional loans collectively evaluated for impairment.

The following tables present information related to our recorded investment in impaired loans and leases as of the dates, or for the periods, indicated:

| | September 30, 2014 | | | December 31, 2013 | | |
|---|---|---|---|---|---|---|
| (In millions) | Recorded Investment | Unpaid Principal Balance | Related Allowance[1] | Recorded Investment | Unpaid Principal Balance | Related Allowance[1] |
| With no related allowance recorded: | | | | | | |
| CRE—property development | $130 | $143 | $ — | $130 | $143 | $ — |
| CRE—property development—acquired credit-impaired | — | 34 | — | — | 34 | — |
| CRE—other—acquired credit-impaired | — | 22 | — | — | 21 | — |
| Total CRE | $130 | $199 | $ — | $130 | $198 | $ — |

[1] As of September 30, 2014 and December 31, 2013, all of the allowance for loan losses of $34 million and $28 million, respectively, related to loans that were not impaired.

| | Three Months Ended September 30, | | | |
|---|---|---|---|---|
| | Average Recorded Investment | | Interest Revenue Recognized | |
| | 2014 | 2013 | 2014 | 2013 |
| (In millions) | | | | |
| With no related allowance recorded: | | | | |
| CRE—property development | $130 | $130 | $3 | $2 |
| Total CRE | $130 | $130 | $3 | $2 |

| | Nine Months Ended September 30, | | | |
|---|---|---|---|---|
| | Average Recorded Investment | | Interest Revenue Recognized | |
| | 2014 | 2013 | 2014 | 2013 |
| (In millions) | | | | |
| With no related allowance recorded: | | | | |
| CRE—property development | $130 | $160 | $8 | $17 |
| Total CRE | $130 | $160 | $8 | $17 |

As of both September 30, 2014 and December 31, 2013, we held an aggregate of approximately $130 million of CRE loans, presented in the preceding impaired loans and leases table, which were modified in troubled debt restructurings. No impairment loss was recognized as a result of restructuring the loans, as the discounted cash flows of the modified loans exceeded the carrying amount of the original loans as of the modification date. In the nine months ended

September 30, 2014 and the year ended December 31, 2013, no loans were modified in troubled debt restructurings.

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The following tables present activity in the allowance for loan losses for the periods indicated:

| | Three Months Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2014 | | | 2013 | | |
| (In millions) | Institutional | Commercial Real Estate | Total Loans and Leases | Institutional | Commercial Real Estate | Total Loans and Leases |
| Allowance for loan losses[1]: | | | | | | |
| Beginning balance | $32 | $— | $32 | $22 | $— | $22 |
| Charge-offs | — | — | — | — | — | — |
| Provisions | 2 | — | 2 | — | — | — |
| Recoveries | — | — | — | — | — | — |
| Ending balance | $34 | $— | $34 | $22 | $— | $22 |

| | Nine Months Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2014 | | | 2013 | | |
| (In millions) | Institutional | Commercial Real Estate | Total Loans and Leases | Institutional | Commercial Real Estate | Total Loans and Leases |
| Allowance for loan losses[1]: | | | | | | |
| Beginning balance | $28 | $— | $28 | $22 | $— | $22 |
| Charge-offs | — | — | — | — | — | — |
| Provisions | 6 | — | 6 | — | — | — |
| Recoveries | — | — | — | — | — | — |
| Ending balance | $34 | $— | $34 | $22 | $— | $22 |

[1] As of September 30, 2014, approximately $22 million of our allowance for loan losses was related to senior secured bank loans included in the institutional segment; the remaining $12 million was related to other commercial-and-financial loans in the institutional segment.

The provision of $2 million recorded in the three months ended September 30, 2014 was associated with an increase in our estimate of credit losses incurred on our portfolio of senior secured bank loans, as the portfolio continues to grow and become more seasoned. These loans are held in connection with our participation in loan syndications in the non-investment-grade lending market.

The provision of $6 million recorded in the nine months ended September 30, 2014 was composed of a provision of $16 million associated with the senior

secured bank loans, offset by a negative provision of $10 million associated with the pay-down of an unrelated commercial and financial loan with speculative-rated credit quality.

Loans and leases are reviewed on a regular basis, and any provisions for loan losses that are recorded reflect management's estimate of the amount necessary to maintain the allowance for loan losses at a level considered appropriate to absorb estimated incurred losses in the loan-and-lease portfolio.

## Note 5. Goodwill and Other Intangible Assets

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

| | Nine Months Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2014 | | | 2013 | | |
| (In millions) | Investment Servicing | Investment Management | Total | Investment Servicing | Investment Management | Total |
| Goodwill: | | | | | | |
| Beginning balance | $5,999 | $37 | $6,036 | $5,941 | $36 | $5,977 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Foreign currency translation and other, net | (134 ) | (3 ) | (137 ) | 28 | 1 | 29 |
| Ending balance | $5,865 | $34 | $5,899 | $5,969 | $37 | $6,006 |

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

| | Nine Months Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2014 | | | 2013 | | |
| (In millions) | Investment Servicing | Investment Management | Total | Investment Servicing | Investment Management | Total |
| Other intangible assets: | | | | | | |
| Beginning balance | $2,321 | $39 | $2,360 | $2,492 | $47 | $2,539 |
| Amortization | (155) | (7) | (162) | (153) | (7) | (160) |
| Foreign currency translation and other, net | (75) | (2) | (77) | 17 | — | 17 |
| Ending balance | $2,091 | $30 | $2,121 | $2,356 | $40 | $2,396 |

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

| | September 30, 2014 | | | December 31, 2013 | | |
|---|---|---|---|---|---|---|
| (In millions) | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Client relationships | $2,614 | $(1,060) | $1,554 | $2,706 | $(975) | $1,731 |
| Core deposits | 697 | (213) | 484 | 717 | (191) | 526 |
| Other | 220 | (137) | 83 | 234 | (131) | 103 |
| Total | $3,531 | $(1,410) | $2,121 | $3,657 | $(1,297) | $2,360 |

Note 6. Other Assets

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

| (In millions) | September 30, 2014 | December 31, 2013 |
|---|---|---|
| Collateral deposits, net | $17,540 | $13,706 |
| Unrealized gains on derivative financial instruments, net | 8,712 | 5,476 |
| Bank-owned life insurance | 2,391 | 2,343 |
| Investments in joint ventures and other unconsolidated entities | 1,741 | 1,644 |
| Receivable for securities sold | 917 | — |
| Accounts receivable | 843 | 950 |
| Receivable for securities settlement | 396 | 195 |
| Prepaid expenses | 307 | 286 |
| Income taxes receivable | 258 | 337 |
| Deferred tax assets, net of valuation allowance | 253 | 263 |
| Deposits with clearing organizations | 231 | 177 |
| Other[(1)] | 556 | 613 |
| Total | $34,145 | $25,990 |

(1) Included other real estate owned of approximately $61 million and $59 million as of September 30, 2014 and December 31, 2013, respectively.

Note 7. Commitments and Guarantees

Commitments:

We had unfunded off-balance sheet commitments to extend credit totaling $24.15 billion and $21.30 billion as of September 30, 2014 and December 31, 2013, respectively. The potential losses associated with these commitments equal the gross contractual amounts, and do not consider the value of any collateral. As of September 30, 2014, approximately 78% of our unfunded commitments to extend credit expire within one year. Since many of these commitments are expected to expire or renew without being drawn upon, the gross contractual amounts do not necessarily represent our future cash requirements.

Guarantees:

Off-balance sheet guarantees are composed of indemnified securities financing, stable value protection, unfunded commitments to purchase assets, and standby letters of credit. The potential losses associated with these guarantees equal the gross contractual amounts, and do not consider the value of any collateral. The following table presents the aggregate gross contractual amounts of our off-balance sheet guarantees as of the dates indicated. Amounts presented do not reflect participations to independent third parties.

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| (In millions) | September 30, 2014 | December 31, 2013 |
|---|---|---|
| Indemnified securities financing | $340,239 | $320,078 |
| Stable value protection | 24,305 | 24,906 |
| Asset purchase agreements | 4,205 | 4,685 |
| Standby letters of credit | 4,455 | 4,612 |

Indemnified Securities Financing

On behalf of our clients, we lend their securities, as agent, to brokers and other institutions. In most circumstances, we indemnify our clients for the fair market value of those securities against a failure of the borrower to return such securities. We require the borrowers to maintain collateral in an amount in excess of 100% of the fair market value of the securities borrowed. Securities on loan and the collateral are revalued daily to determine if additional collateral is necessary or if excess collateral is required to be returned to the borrower. Collateral received in connection with our securities lending services is held by us as agent and is not recorded in our consolidated statement of condition.

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.

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

| (In millions) | September 30, 2014 | December 31, 2013 |
|---|---|---|
| Aggregate fair value of indemnified securities financing | $340,239 | $320,078 |
| Aggregate fair value of cash and securities held by us, as agent, as collateral for indemnified securities financing | 354,516 | 331,732 |
| Aggregate fair value of collateral for indemnified securities financing invested in indemnified repurchase agreements | 81,870 | 85,374 |
| Aggregate fair value of cash and securities held by us or our agents as collateral for investments in indemnified repurchase agreements | 87,191 | 91,097 |

In certain cases, we participate in securities finance transactions as a principal. As a principal, we borrow securities from the lending client and then lend such securities to the subsequent borrower, either a State Street client or a broker/dealer. Collateral provided and received in connection with such transactions is recorded in other assets and accrued expenses and other liabilities, respectively, in our consolidated statement of condition. As of September 30, 2014 and December 31, 2013, we had approximately $15.78 billion and $11.29 billion, respectively, of collateral provided and approximately $7.01 billion and $6.62 billion, respectively, of collateral received from clients in connection with our participation in principal securities finance transactions.

Stable Value Protection

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

These contingencies are individually accounted for as derivative financial instruments. The notional amounts of the stable value contracts are presented as "derivatives not designated as hedging instruments" in the table of aggregate notional amounts of derivative financial instruments provided in note 12. We have not made a payment under these contingencies that we consider material to our consolidated financial condition, and management believes that the probability of payment under these contingencies in the future, that we would consider material to our consolidated financial condition, is remote.

Note 8. Contingencies

Legal and Regulatory Matters:

In the ordinary course of business, we and our subsidiaries are involved in disputes, litigation, and governmental or regulatory inquiries and

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

We evaluate our needs for accruals of loss contingencies related to legal proceedings on a case-by-case basis. When we have a liability that we deem probable and that we deem can be reasonably estimated as of the date of our consolidated financial statements, we accrue for our estimate of the loss. We also consider a loss probable and establish an accrual when we make or intend to make an offer of settlement. Once established, an accrual is subject to subsequent adjustment as a result of additional information. The resolution of proceedings and the reasonably estimable loss (or range thereof) are inherently difficult to predict, especially in the early stages of proceedings. Even if a loss is probable, due to many complex factors, such as speed of discovery and the timing of court decisions or rulings, a loss or range of loss might not be reasonably estimated until the later stages of the proceeding.

As of September 30, 2014, our aggregate accruals for legal loss contingencies and regulatory matters, net of anticipated insurance recoveries, totaled approximately $111 million. To the extent that we have established accruals in our consolidated statement of condition for probable loss contingencies, such accruals may not be sufficient to cover our ultimate financial exposure associated with any settlements or judgments. We may be subject to proceedings in the future that, if adversely resolved, would have a material adverse effect on our businesses or on our future consolidated financial statements. Except where otherwise noted below, we have not established accruals with respect to the claims discussed and do not believe that potential exposure is probable and can be reasonably estimated.

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

Securities Finance

Two related participants in our agency securities lending program have brought suit against us challenging actions taken by us in response to their withdrawal from the program. We believe that certain withdrawals by these participants were inconsistent with the redemption policy applicable to the agency lending collateral pools and, consequently, redeemed their remaining interests through an in-kind distribution that reflected the assets these participants would have received had they acted in accordance with the collateral pools' redemption policy. In taking these actions, we believe that we acted in the best interests of all participants in the collateral pools. The two participants have asserted damages of $125 million, an amount that plaintiffs attribute to alleged deficiencies in the methodology that State Street used to construct the in-kind distribution and alleged errors in the pricing of the securities that plaintiffs received on or about August 2009. While management does not believe that such difference is an appropriate measure of damages, we have been informed that the participants liquidated these securities in June 2013, and we estimate the loss on those sales to be approximately $11 million. As of September 30, 2014, we had $10 million accrued in connection with this matter.

Foreign Exchange

We offer our custody clients and their investment managers the option to route foreign exchange transactions to our foreign exchange desk through our asset servicing operation. We record as revenue an amount approximately equal to the difference between the rates we set for those indirect trades and indicative interbank market rates at the time of settlement of the trade.

As discussed more fully below, claims have been asserted on behalf of certain current and former custody clients, and future claims may be asserted, alleging that our indirect foreign exchange rates (including the differences between those rates and indicative interbank market rates at the time we executed the trades) were not adequately disclosed or

were otherwise improper, and seeking to recover, among other things, the full amount of the revenue we obtained from our indirect foreign exchange trading with them.

In October 2009, the Attorney General of the State of California commenced an action under the California False Claims Act and California Business and Professional Code related to services State Street provides to California state pension plans. The California Attorney General asserts that the pricing of certain foreign exchange trades for these pension

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plans was governed by the custody contracts for these plans and that our pricing was not consistent with the terms of those contracts and related disclosures to the plans, and that, as a result, State Street made false claims and engaged in unfair competition. The Attorney General asserts actual damages of approximately $100 million for periods from 2001 to 2009 and seeks additional penalties, including treble damages. This action is in the discovery phase.

We provide custody services to and engage in principal foreign exchange trading with government pension plans in other jurisdictions. Since the commencement of the litigation in California, attorneys general and other government authorities from a number of jurisdictions, as well as U.S. Attorney's offices, the U.S. Department of Labor and the SEC, have requested information or issued subpoenas in connection with inquiries into the pricing of our indirect foreign exchange trading. We continue to respond to such inquiries and subpoenas.

We engage in indirect foreign exchange trading with a broad range of custody clients in the U.S. and internationally. We have responded and are responding to information requests from a number of clients concerning our indirect foreign exchange rates. In February 2011, a putative class action was filed in federal court in Boston seeking unspecified damages, including treble damages, on behalf of all custodial clients that executed certain foreign exchange transactions with State Street from 1998 to 2009. The putative class action alleges, among other things, that the rates at which State Street executed foreign currency trades constituted an unfair and deceptive practice under Massachusetts law and a breach of the duty of loyalty.

Two other putative class actions are currently pending in federal court in Boston alleging various violations of ERISA on behalf of all ERISA plans custodied with us that executed indirect foreign exchange trades with State Street from 1998 onward. The complaints allege that State Street caused class members to pay unfair and unreasonable rates on indirect foreign exchange trades with State Street. The complaints seek unspecified damages, disgorgement of profits, and other equitable relief. Other claims may be asserted in the future, including in response to developments in the actions discussed above or governmental proceedings.

We expect that plaintiffs will seek to recover their share of all or a portion of the revenue that we have recorded from indirect foreign exchange trades. We cannot predict whether a court, in the event of an

adverse resolution, would consider our revenue to be the appropriate measure of damages.

The following table summarizes our estimated total revenue worldwide from indirect foreign exchange trading for the periods indicated:

| (In millions) | Revenue from indirect foreign exchange trading |
|---|---|
| 2008 | $462 |
| 2009 | 369 |
| 2010 | 336 |
| 2011 | 331 |
| 2012 | 248 |
| 2013 | 285 |
| Nine Months Ended September 30, 2014 | 186 |

We believe that the amount of our revenue from such trading has been of a similar or lesser order of magnitude for many years prior to 2008. Our revenue calculations related to indirect foreign exchange trading reflect a judgment concerning the relationship between the rates we charge for indirect foreign exchange execution and indicative interbank market rates near in time to execution. Our revenue from foreign exchange trading generally depends on the difference between the rates we set for those indirect trades and indicative interbank market rates at the time of settlement of the trade.

In the third quarter of 2014, we recorded an accrual of $70 million, or $53 million after-tax, reflecting our intention to seek to resolve some, but not all, of the outstanding and potential claims arising out of our indirect foreign exchange client activities. We are engaged in discussions with some, but not all, of the governmental agencies and civil litigants

discussed above regarding potential settlements of their outstanding or potential claims. There can be no assurance that we will reach a settlement in any of these matters, that the cost of such settlements would not materially exceed such accrual, or that other claims will not be asserted. We do not currently intend to seek to negotiate settlements with respect to all outstanding and potential claims, and our current efforts, even if successful, will address only a portion of our potential material legal exposure arising out of our indirect foreign exchange client activities.

Shareholder Litigation

Three shareholder-related complaints are currently pending in federal court in Boston. One complaint purports to be a class action on behalf of State Street shareholders. The two other complaints purport to be class actions on behalf of participants



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and beneficiaries in the State Street Salary Savings Program who invested in the program's State Street common stock investment option. The complaints allege various violations of the federal securities laws, common law and ERISA in connection with our public disclosures concerning our investment securities portfolio, our asset-backed commercial paper conduit program, and our foreign exchange trading business. In July 2014, the court preliminarily approved a $60 million class settlement in the shareholder litigation and a $10 million class settlement in the two Salary Savings Program actions. A fourth complaint, a purported shareholder derivative action on behalf of State Street, was dismissed in September 2013. We have entered into an agreement to settle that matter for nominal consideration. As of September 30, 2014, we had an accrual which, together with anticipated insurance recovery, will be sufficient to fund each of these proposed settlements.

Transition Management

In January 2014, we entered into a settlement with the U.K. Financial Conduct Authority, or FCA, pursuant to which we paid a fine of £22.9 million (approximately $37.8 million), as a result of our having charged six clients of our U.K. transition management business during 2010 and 2011 amounts in excess of the contractual terms. The SEC and the U.S. Attorney are conducting separate investigations into this matter. As of September 30, 2014, we had remaining accruals of approximately $4.3 million for indemnification costs associated with this matter, including an accrual for one additional client claim arising out of the FCA settlement.

Investment Servicing

State Street has been named as a defendant in related complaints by investment management clients of TAG Virgin Islands, Inc., or TAG, who hold or held custodial accounts with State Street. The complaints collectively have alleged various claims in connection with certain assets managed by TAG. As of September 30, 2014, one action remains pending. As of September 30, 2014, we had $4.3 million accrued with respect to these matters.

Income Taxes:

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

income among tax jurisdictions. We recognize a tax benefit when it is more likely than not that our position will result in a tax deduction or credit. Unrecognized tax benefits totaled approximately $155 million and $164 million as of September 30, 2014 and December 31, 2013, respectively.

The Internal Revenue Service, or IRS, is currently reviewing our U.S. income tax returns for the tax years 2010 and 2011. Management believes that we have sufficiently accrued liabilities as of September 30, 2014 for tax exposures, including, but not limited to, exposures related to the review by the IRS of the tax years 2010 and 2011.

Note 9. Variable Interest Entities

Asset-Backed Investment Securities:

We invest in various forms of asset-backed securities, which we carry in our investment securities portfolio. These asset-backed securities meet the GAAP definition of asset securitization entities, which are considered to be variable interest entities, or VIEs, as defined by GAAP. We are not considered to be the primary beneficiary of these VIEs, as defined by GAAP, since we do not have control over their activities. Additional information about our asset-backed securities is provided in note 3.

Tax-Exempt Investment Program:

In the normal course of our business, we structure and sell certificated interests in pools of tax-exempt investment-grade assets, principally to our mutual fund clients. We structure these pools as partnership trusts, and the assets and liabilities of the trusts are recorded in our consolidated statement of condition as investment securities available for sale and other short-term borrowings. We may also provide liquidity and re-marketing services to the

trusts. As of September 30, 2014 and December 31, 2013, we carried investment securities available for sale, composed of securities related to state and political subdivisions, with a fair value of $2.30 billion and $2.33 billion, respectively, and other short-term borrowings of $1.89 billion and $1.95 billion, respectively, in our consolidated statement of condition in connection with these trusts.

We transfer assets to the trusts from our investment securities portfolio at adjusted book value, and the trusts finance the acquisition of these assets by selling certificated interests issued by the trusts to third-party investors and to State Street as residual holder. These transfers do not meet the de-recognition criteria defined by GAAP, and therefore, are recorded in our consolidated financial statements. The trusts had a weighted-average life of approximately 6.1 years as of September 30, 2014,



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compared to approximately 6.5 years as of December 31, 2013.

Under separate legal agreements, we provide standby bond-purchase agreements to these trusts and, with respect to certain securities, letters of credit. Our commitments to the trusts under these standby bond-purchase agreements and letters of credit totaled $1.92 billion and $684 million, respectively, as of September 30, 2014, none of which was utilized as of that date. In the event that our obligations under these agreements are triggered, no material impact to our consolidated results of operations or financial condition is expected to occur, because the securities are already recorded at fair value in our consolidated statement of condition.

Interests in Sponsored Investment Funds:

In the normal course of business, we manage various types of sponsored investment funds through SSgA. The services we provide to these sponsored investment funds generate management fee revenue. From time to time, we may invest cash in the funds, which we refer to as seed capital, in order for the funds to establish a performance history for newly-launched strategies. These funds may be considered VIEs.

As of September 30, 2014, we were an investor in a sponsored investment fund, considered to be a VIE, which was initially launched on December 31, 2013. Given the extent of our exposure to the variability of the net assets of the fund, we were deemed to be the fund's primary beneficiary, and as a result we include the fund in our consolidated financial statements. The fund's activities consist primarily of active trading in various equity, fixed-income, currency, commodity and futures markets. Such activities are included in our consolidated financial statements.

As of September 30, 2014, the aggregate assets and liabilities of this consolidated sponsored investment fund totaled $313 million and $260 million, respectively. As of December 31, 2013, the fund's assets consisted solely of $50 million in cash.

As of September 30, 2014 our potential maximum total exposure associated with the consolidated sponsored investment fund totaled $53 million and represented the value of our economic ownership interest in the fund. In the aggregate, we expect any financial losses that we realize over time from these seed investments to be limited to the actual fair value of the amount invested in the consolidated fund, which is based on the fair value of the underlying investment securities held by the funds. However, in the event of a fund wind-down, gross gains and losses of the fund may be

recognized for financial accounting purposes in different periods during the time the fund is consolidated but not wholly owned. Although we expect the actual economic loss to be limited to the amount invested, our losses in any period could exceed the value of our economic interests in the fund and could exceed the value of our initial seed capital investment.

Our conclusion to consolidate a sponsored investment fund may vary from period to period, most commonly as a result of fluctuation in our ownership interest as a result of changes in the number of fund shares held by either us or by third parties. Given that the funds follow specialized investment company accounting rules which prescribe fair value, a de-consolidation generally would not result in gains or losses for us.

The net assets of any consolidated fund are solely available to settle the liabilities of the fund and to settle any investors' ownership redemption requests, including any seed capital invested in the fund by State Street. We are not contractually required to provide financial or any other support to any of our sponsored investment funds. In addition, neither creditors nor equity investors in the sponsored investment funds have any recourse to State Street's general credit.

As of September 30, 2014 and December 31, 2013, we managed certain sponsored investment funds, considered VIEs, in which we held a variable interest but for which we were not deemed to be the primary beneficiary. Our potential maximum loss exposure related to these unconsolidated funds totaled $40 million and $18 million as of September 30, 2014 and December 31, 2013, respectively, and represented the carrying value of our seed capital investment, which is recorded in either investment securities available for sale or other assets in our consolidated statement of condition. The amount of loss we may recognize during any period is limited to the carrying amount of

our seed capital investment in the unconsolidated fund.

Note 10. Shareholders' Equity

Preferred Stock:

In the three months ended March 31, 2014, we issued 30 million depositary shares, each representing a 1/4,000th ownership interest in a share of State Street's fixed-to-floating-rate non-cumulative perpetual preferred stock, Series D, without par value, with a liquidation preference of $100,000 per share (equivalent to $25 per depositary share), which we refer to as our Series D preferred stock, in a public offering. The aggregate proceeds

from the offering, net of underwriting discounts, commissions and other issuance costs, were approximately $742 million.
On March 15, 2024, or any dividend payment date thereafter, the Series D preferred stock and corresponding depositary shares may be redeemed by us, in whole or in part, at a redemption price equal to $100,000 per share (equivalent to $25 per depositary share) plus any declared and unpaid dividends, without accumulation of any undeclared dividends. The Series D preferred stock and corresponding depositary shares may be redeemed at our option in whole, but not in part, prior to March 15, 2024, upon the occurrence of a regulatory capital treatment event, as defined in the certificate of designation with respect to the Series D preferred stock, at a redemption price equal to $100,000 per share (equivalent to $25 per depositary share) plus any declared and unpaid dividends, without accumulation of any undeclared dividends.
In the three months ended September 30, 2014, we declared a dividend on our Series D preferred stock of $1,475 per share, or approximately $0.37 per depositary share, totaling approximately $11 million. In the nine months ended September 30, 2014, we declared aggregate dividends on our Series D preferred stock, Series D, of $3,130 per share, or approximately $0.78 per depositary share, totaling approximately $23 million. We did not declare a dividend on our Series D preferred stock in the three months ended March 31, 2014.
In the three months ended September 30, 2014, we declared a dividend on our non-cumulative perpetual preferred stock, Series C (represented by depositary shares, each representing a 1/4,000th ownership interest in a share of State Street's non-cumulative perpetual preferred stock, Series C), referred to as our Series C preferred stock, of $1,313 per share, or approximately $0.33 per depositary share, totaling approximately $7 million. In the nine months ended September 30, 2014, we declared aggregate dividends on our Series C preferred stock of $3,939 per share, or approximately $0.99 per depositary share, totaling approximately $20 million. In the three months ended September 30, 2013, we declared a dividend on our Series C preferred stock of $1,313 per share, or approximately $0.33 per depositary share, totaling approximately $7 million. In the nine months ended September 30, 2013, we declared aggregate dividends on our Series C preferred stock of $3,939 per share, or approximately $0.98 per depositary share, totaling approximately $20 million.

Dividends on shares of both our Series C and Series D preferred stock are not mandatory and are not cumulative. If declared, dividends will be payable on the liquidation preference of $100,000 per share quarterly in arrears on March 15, June 15, September 15 or December 15 of each year at an annual rate of 5.25% and 5.90%, respectively. If we issue additional shares of our Series C or Series D preferred stock after the original issue date, dividend rights with respect to such shares will commence from the original issue date of such additional shares. Dividends on our Series C and Series D preferred stock will not be declared to the extent that such declaration would cause us to fail to comply with applicable laws and regulations, including applicable federal regulatory capital guidelines.
On September 15, 2017, or any dividend payment date thereafter, the Series C preferred stock and corresponding depositary shares may be redeemed by us, in whole or in part, at a redemption price equal to $100,000 per share (equivalent to $25 per depositary share) plus any declared and unpaid dividends, without accumulation of any undeclared dividends. The Series C preferred stock and corresponding depositary shares may be redeemed at our option, in whole or in part, prior to September 15, 2017, upon the occurrence of a regulatory capital treatment event, as defined in the certificate of designation with respect to the Series C preferred stock, at a redemption price equal to $100,000 per share (equivalent to $25 per depositary share) plus any declared and unpaid dividends, without accumulation of any undeclared dividends.
Common Stock:
In March 2014, our Board of Directors approved a common stock purchase program authorizing the purchase of up to $1.70 billion of our common stock through March 31, 2015. In the three months ended September 30, 2014, we purchased approximately 5.8 million shares of our common stock under that program, at an average per-share cost of $70.61 and an aggregate cost of approximately $410 million.

In the nine months ended September 30, 2014, we purchased approximately 12.1 million shares of our common stock at an average per-share cost of $67.70 and an aggregate cost of approximately $820 million under that program, all in the three months ended June 30, 2014 and September 30, 2014. No shares were purchased under that program in the three months ended March 31, 2014.
In the three months ended March 31, 2014, we purchased approximately 6.1 million shares of our common stock at an average cost of $69.14 per share and an aggregate cost of approximately $420

million, under a previous program approved by the Board in March 2013. As of March 31, 2014, no shares remained available for purchase under the March 2013 program.

Under both programs, in the nine months ended September 30, 2014, we purchased in the aggregate approximately 18.2 million shares of our common stock at an average per-share cost of $68.18 and an aggregate cost of approximately $1.24 billion. Shares acquired under the March 2014 common stock purchase program which remained unissued as of September 30, 2014 were recorded as treasury stock in our consolidated statement of condition as of September 30, 2014.

In the three months ended September 30, 2014, we declared a quarterly common stock dividend of

$0.30 per share, totaling approximately $126 million. In the three months ended September 30, 2013, we declared a quarterly common stock dividend of $0.26 per share, totaling approximately $115 million. In the nine months ended September 30, 2014, we declared aggregate common stock dividends of $0.86 per share, totaling approximately $366 million, compared to aggregate common stock dividends of $0.78 per share, totaling approximately $350 million, declared in the nine months ended September 30, 2013.

Accumulated Other Comprehensive Income (Loss):

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

| (In millions) | September 30, 2014 | December 31, 2013 |
|---|---|---|
| Net unrealized gains on cash flow hedges | $ 217 | $ 161 |
| Net unrealized gains (losses) on available-for-sale securities portfolio | 254 | (56) |
| Net unrealized gains (losses) related to reclassified available-for-sale securities | 46 | (72) |
| Net unrealized gains (losses) on available-for-sale securities | 300 | (128) |
| Net unrealized losses on available-for-sale securities designated in fair value hedges | (106) | (97) |
| Other-than-temporary impairment on available-for-sale securities related to factors other than credit | 1 | 4 |
| Net unrealized losses on hedges of net investments in non-U.S. subsidiaries | (14) | (14) |
| Other-than-temporary impairment on held-to-maturity securities related to factors other than credit | (31) | (47) |
| Net unrealized losses on retirement plans | (185) | (203) |
| Foreign currency translation | (289) | 229 |
| Total | $ (107) | $ (95) |

In the nine months ended September 30, 2014, we realized net gains of $15 million, or $9 million net of related taxes as presented in the tables that follow, from sales of available-for-sale securities. Unrealized pre-tax losses of $43 million were included in AOCI as of December 31, 2013, net of deferred tax benefits of $17 million, related to these sales. In the nine

months ended September 30, 2013, we realized net gains of $11 million, or $7 million net of related taxes as presented in the tables that follow, from sales of available-for-sale securities. Unrealized pre-tax gains of $25 million were included in AOCI as of December 31, 2012, net of deferred taxes of $10 million, related to these sales.

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

| | Nine Months Ended September 30, 2014 | | | | | | |
|---|---|---|---|---|---|---|---|
| (In millions) | Net Unrealized Gains (Losses) on Cash Flow Hedges | Net Unrealized Gains (Losses) on Available-for-Sale Securities | Net Unrealized Losses on Hedges of Net Investments in Non-U.S. Subsidiaries | Other-Than-Temporary Impairment on Held-to-Maturity Securities | Net Unrealized Losses on Retirement Plans | Foreign Currency Translation | Total |
| Beginning balance | $161 | $ (221) | $(14) | $ (47) | $(203) | $229 | $(95) |
| Other comprehensive income (loss) before reclassifications | 54 | 425 | — | 15 | (1) | (518) | (25) |
| Amounts reclassified out of AOCI | 2 | (9) | — | 1 | 19 | — | 13 |
| Other comprehensive income (loss) | 56 | 416 | — | 16 | 18 | (518) | (12) |
| Ending balance | $217 | $ 195 | $(14) | $ (31) | $(185) | $(289) | $(107) |

| | Nine Months Ended September 30, 2013 | | | | | | |
|---|---|---|---|---|---|---|---|
| (In millions) | Net Unrealized Gains (Losses) on Cash Flow Hedges | Net Unrealized Gains (Losses) on Available-for-Sale Securities | Net Unrealized Losses on Hedges of Net Investments in Non-U.S. Subsidiaries | Other-Than-Temporary Impairment on Held-to-Maturity Securities | Net Unrealized Losses on Retirement Plans | Foreign Currency Translation | Total |
| Beginning balance | $69 | $ 519 | $(14) | $ (65) | $(283) | $134 | $360 |
| Other comprehensive income (loss) before reclassifications | 59 | (578) | — | 11 | (6) | 22 | (492) |
| Amounts reclassified out of AOCI | 2 | (3) | — | 3 | 15 | 1 | 18 |
| Other comprehensive income (loss) | 61 | (581) | — | 14 | 9 | 23 | (474) |
| Ending balance | $130 | $ (62) | $(14) | $ (51) | $(274) | $157 | $(114) |

The following tables present after-tax reclassifications out of AOCI for the periods indicated:

| | Three Months Ended September 30, | | |
|---|---|---|---|
| | 2014 | 2013 | |
| (In millions) | Amounts Reclassified out of AOCI | | Affected Line Item in Consolidated Statement of Income |
| Cash flow hedges: | | | |
| Interest-rate contracts | $1 | $— | Net interest revenue |

| | | | |
|---|---|---|---|
| Available-for-sale securities: | | | |
| Net realized gains from sales of available-for-sale securities, net of related taxes of ($2) | — | (4) | Net gains (losses) from sales of available-for-sale securities |
| Held-to-maturity securities: | | | |
| Other-than-temporary impairment on held-to-maturity securities related to factors other than credit, net of related tax benefits of $1 | — | 1 | Losses reclassified (from) to other comprehensive income |
| Retirement plans: | | | |
| Amortization of actuarial losses, net of related tax benefits of $3 and $3, respectively | 2 | 5 | Compensation and employee benefits expenses |
| Total reclassifications out of AOCI | $3 | $2 | |

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| (In millions) | Nine Months Ended September 30, 2014 | 2013 | Affected Line Item in Consolidated Statement of Income |
|---|---|---|---|
| | Amounts Reclassified out of AOCI | | |
| Cash flow hedges: | | | |
| Interest-rate contracts, net of related tax benefit of $1 and $1, respectively | $2 | $2 | Net interest revenue |
| Available-for-sale securities: | | | |
| Net realized gains from sales of available-for-sale securities, net of related taxes of ($6) and ($4), respectively | (9) | (7) | Net gains (losses) from sales of available-for-sale securities |
| Other-than-temporary impairment on available-for-sale securities related to factors other than credit, net of related tax benefit of $2 | — | 4 | Losses reclassified (from) to other comprehensive income |
| Held-to-maturity securities: | | | |
| Other-than-temporary impairment on held-to-maturity securities related to factors other than credit, net of related tax benefit of $3 for 2013 | 1 | 3 | Losses reclassified (from) to other comprehensive income |
| Retirement plans: | | | |
| Amortization of actuarial losses, net of related taxes of ($2) and tax benefits of $9, respectively | 19 | 15 | Compensation and employee benefits expenses |
| Foreign currency translation: | | | |
| Sales of non-U.S. entities, net of related taxes of ($1) | — | 1 | Processing fees and other revenue |
| Total reclassifications out of AOCI | $13 | $18 | |

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Note 11. Regulatory Capital

As of December 31, 2013, we were subject to the generally applicable minimum regulatory capital requirements enforced by U.S. banking regulators, referred to as Basel I. These requirements were based on a 1988 international accord developed by the Basel Committee on Banking Supervision, or Basel Committee.

In July 2013, U.S. banking regulators jointly issued a final rule to implement the Basel III framework in the U.S., referred to as the Basel III final rule, provisions of which become effective under a transition timetable which began on January 1, 2014, with full implementation required beginning on January 1, 2019. As provided in the Basel III final rule, banking organizations in their Basel II qualification period, or parallel run, were required to complete a superseding parallel run under Basel III.

We were notified by the Federal Reserve on February 21, 2014 that we completed our parallel run and would be required to begin using the advanced approaches framework in the Basel III final rule in the determination of our risk-based capital requirements. Pursuant to this notification, we began to use the advanced approaches to calculate and disclose our risk-based capital ratios starting with the three months ended June 30, 2014.

As required by the Dodd-Frank Wall Street Reform and Consumer Protection Act, or Dodd-Frank Act, enacted in 2010, State Street and State Street Bank, as advanced approaches banking organizations, are subject to a permanent "capital floor" in the calculation and assessment of their regulatory capital adequacy by U.S. banking regulators. Beginning on January 1, 2014, this capital floor is based on the provisions of Basel I, as adjusted by the final market risk capital rule issued by U.S. banking regulators in 2012.

Beginning on January 1, 2014, we became subject to the provisions of the Basel III final rule that govern our calculation of regulatory capital, including transitional, or phase-in, provisions. Beginning with the three months ended June 30, 2014 and ending
with December 31, 2014, the lower of our regulatory capital ratios calculated under the advanced approaches provisions of the Basel III final rule and those ratios calculated under the transitional provisions of Basel III (capital calculated in conformity with Basel III and risk-weighted assets calculated in conformity with Basel I as described above) will apply in the assessment of our capital adequacy for regulatory purposes.

As of September 30, 2014, the minimum required regulatory capital ratios are as follows:

- common equity tier 1, or
tier 1 common, risk-based capital - 4%;
- tier 1 risk-based capital - 5.5%;
- total risk-based capital - 8%; and
- tier 1 leverage - 4%

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

As of September 30, 2014, State Street and State Street Bank exceeded all regulatory capital adequacy requirements to which they were subject. As of September 30, 2014, State Street Bank was categorized as “well capitalized” under the applicable regulatory capital adequacy framework, and exceeded all “well capitalized” ratio guidelines to which it was subject. Management believes that no conditions or events have occurred since September 30, 2014 that have changed the capital categorization of State Street Bank.

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

| (Dollars in millions) | State Street Basel III Advanced Approach September 30, 2014[1] | Basel III Transitional September 30, 2014[2] | December 31, 2013[3] | State Street Bank Basel III Advanced Approach September 30, 2014[1] | Basel III Transitional September 30, 2014[2] | December 31, 2013[3] |
|---|---|---|---|---|---|---|
| Common shareholders' equity: | | | | | | |
| Common stock and related surplus | $10,284 | $ 10,284 | $10,280 | $10,840 | $ 10,840 | $10,786 |
| Retained earnings | 14,531 | 14,531 | 13,395 | 9,500 | 9,500 | 9,064 |
| Accumulated other comprehensive income (loss) | (264) | (264) | 215 | (220) | (220) | 209 |
| Treasury stock, at cost | (4,785) | (4,785) | (3,693) | — | — | — |
| Total | 19,766 | 19,766 | 20,197 | 20,120 | 20,120 | 20,059 |
| Regulatory capital adjustments: | | | | | | |
| Goodwill and other intangible assets, net of associated deferred tax liabilities[4] | (5,942) | (5,942) | (7,743) | (5,672) | (5,672) | (7,341) |
| Other adjustments | (43) | (43) | — | (132) | (132) | — |
| Tier 1 common capital | 13,781 | 13,781 | 12,454 | 14,316 | 14,316 | 12,718 |
| Preferred stock | 1,233 | 1,233 | 491 | — | — | — |
| Trust preferred capital securities subject to phase-out from tier 1 capital | 475 | 475 | 950 | — | — | — |
| Other adjustments | (171) | (171) | — | — | — | — |
| Tier 1 capital | 15,318 | 15,318 | 13,895 | 14,316 | 14,316 | 12,718 |
| | 1,738 | 1,738 | 1,918 | 1,754 | 1,754 | 1,936 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Qualifying subordinated long-term debt | | | | | | | | |
| Trust preferred capital securities phased out of tier 1 capital | | | 475 | 475 | NA | — | — | NA |
| Other adjustments | | | 3 | 3 | (26) | — | — | 45 |
| Total capital | | | $17,534 | $ 17,534 | $15,787 | $16,070 | $ 16,070 | $14,699 |
| Risk-weighted assets: | | | | | | | | |
| Credit risk | | | $67,915 | $ 90,377 | $78,864 | $60,610 | $ 87,150 | $76,197 |
| Operational risk | | | 35,960 | NA | NA | 35,530 | NA | NA |
| Market risk | | | 4,203 | 1,423 | 1,262 | 3,707 | 1,423 | 1,262 |
| Total risk-weighted assets | | | $108,078 | $ 91,800 | $80,126 | $99,847 | $ 88,573 | $77,459 |
| Adjusted quarterly average assets | | | $240,529 | $ 240,529 | $202,801 | $236,340 | $ 236,340 | $199,301 |
| Capital Ratios: | Minimum Requirements[5] | Minimum Requirements[6] | | | | | | |
| | 2014 | 2013 | | | | | | |
| Tier 1 common risk-based capital | 4.0 % | NA | 12.8 % | 15.0 % | 15.5 % | 14.3 % | 16.2 % | 16.4 % |
| Tier 1 risk-based capital | 5.5 | 4.0 % | 14.2 | 16.7 | 17.3 | 14.3 | 16.2 | 16.4 |
| Total risk-based capital | 8.0 | 8.0 | 16.2 | 19.1 | 19.7 | 16.1 | 18.1 | 19.0 |
| Tier 1 leverage | 4.0 | 4.0 | 6.4 | 6.4 | 6.9 | 6.1 | 6.1 | 6.4 |

NA: Not applicable.

(1) Tier 1 common capital, tier 1 capital and total capital ratios as of September 30, 2014 were calculated in conformity with the advanced approaches provisions of the Basel III final rule. Tier 1 leverage ratio as of September 30, 2014 was calculated in conformity with the Basel III final rule.

(2) Tier 1 common capital, tier 1 capital, total capital and tier 1 leverage ratios as of September 30, 2014 were calculated in conformity with the transitional provisions of the Basel III final rule. Specifically, these ratios reflect tier 1 common, tier 1 and total capital (the numerator) calculated in conformity with the provisions of the Basel III final rule, and total risk-weighted assets or, with respect to the tier 1 leverage ratio, quarterly average assets (in both cases, the denominator), calculated in conformity with the provisions of Basel I.

(3) Tier 1 common capital, tier 1 capital, total capital and tier 1 leverage ratios as of December 31, 2013 were calculated in conformity with the provisions of Basel I.

(4) Amounts for State Street and State Street Bank as of September 30, 2014 consisted of goodwill, net of associated deferred tax liabilities, and 20% of other intangible assets, net of associated deferred tax liabilities, the latter phased in as a deduction from capital, in conformity with the Basel III final rule.

(5) Minimum requirements will be phased in up to full implementation beginning on January 1, 2019; minimum requirements listed are as of September 30, 2014.

(6) Minimum requirements listed, governed by Basel I, are as of December 31, 2013.

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## Note 12. Derivative Financial Instruments

We use derivative financial instruments to support our clients' needs and to manage our interest-rate and currency risk. In undertaking these activities, we assume positions in both the foreign exchange and interest-rate markets by buying and selling cash instruments and using derivative financial instruments, including foreign exchange forward contracts, foreign exchange and interest-rate options and interest-rate swaps, interest-rate forward contracts and interest-rate futures. Our derivative positions include derivative contracts held by a consolidated sponsored investment fund (refer to note 9).

Interest-rate contracts involve an agreement with a counterparty to exchange cash flows based on the movement of an underlying interest-rate index. An interest-rate swap agreement involves the exchange of a series of interest payments, at either a fixed or variable rate, based on the notional amount without the exchange of the underlying principal amount. An interest-rate option contract provides the purchaser, for a premium, the right, but not the obligation, to receive an interest rate based upon a predetermined notional amount during a specified period. An interest-rate futures contract is a commitment to buy or sell, at a future date, a financial instrument at a contracted price; it may be settled in cash or through the delivery of the contracted instrument.

Foreign exchange contracts involve an agreement to exchange one currency for another currency at an agreed-upon rate and settlement date. Foreign exchange contracts generally consist of foreign exchange forward and spot contracts, option contracts and cross-currency swaps. Future cash requirements, if any, related to foreign exchange contracts are represented by the gross amount of currencies to be exchanged under each contract unless we and the counterparty have agreed to pay or to receive the net contractual settlement amount on the settlement date.

Derivative financial instruments involve the management of interest-rate and foreign currency risk, and involve, to varying degrees, market risk and credit and counterparty risk (risk related to repayment). Market risk is defined by U.S. banking regulators as the risk of loss that could result from broad market movements, such as changes in the general level of interest rates, credit spreads, foreign exchange rates or commodity prices. We use a variety of risk management tools and methodologies to measure, monitor and manage the market risk associated with our trading activities, which trading

activities include our use of derivative financial instruments. One such risk-management measure is Value-at-Risk, or VaR. VaR is an estimate of potential loss for a given period within a stated statistical confidence interval. We use a risk-measurement system to measure VaR daily. We have adopted standards for measuring VaR, and we maintain regulatory capital for market risk in accordance with currently applicable regulatory market risk requirements.

Derivative financial instruments are also subject to credit and counterparty risk, which is defined as the risk of financial loss if a borrower or counterparty is either unable or unwilling to repay borrowings or settle a transaction in accordance with the underlying contractual terms. We manage credit and counterparty risk by performing credit reviews, maintaining individual counterparty limits, entering into netting arrangements and requiring the receipt of collateral. Collateral requirements are determined after a review of the creditworthiness of each counterparty, and these requirements are monitored and adjusted daily. Collateral is generally held in the form of cash or highly liquid U.S. government securities. We may be required to provide collateral to the counterparty in connection with our entry into derivative financial instruments. Cash collateral received from and provided to counterparties in connection with derivative financial instruments is recorded in accrued expenses and other liabilities and other assets, respectively, in our consolidated statement of condition. As of September 30, 2014 and December 31, 2013, we had recorded approximately $1.37 billion and $2.58 billion, respectively, of cash collateral received from counterparties and approximately $4.32 billion and $3.36 billion, respectively, of cash collateral provided to counterparties in connection with derivative financial instruments in our consolidated statement of condition.

We enter into master netting agreements with many of our derivative counterparties, and we have elected to net derivative assets and liabilities, including cash collateral received or deposited, which are subject to those agreements. Certain of these agreements contain credit risk-related contingent features in which the counterparty has the right to

declare State Street in default and accelerate cash settlement of our net derivative liabilities with the counterparty in the event that our credit rating falls below specified levels. The aggregate fair value of all derivative instruments with credit risk-related contingent features that were in a net liability position as of September 30, 2014 totaled approximately $2.49 billion, against which we posted aggregate



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collateral of approximately $110 million, with the latter amount due to timing differences with respect to the mark-to-market valuation of the collateral. If State Street's credit rating were downgraded below levels specified in the agreements, the maximum additional amount of payments related to termination events that could have been required pursuant to these contingent features as of September 30, 2014 was approximately $2.38 billion. Such accelerated settlement would not affect our consolidated results of operations.

Derivatives Not Designated as Hedging Instruments:

In connection with our trading activities, we use derivative financial instruments in our role as a financial intermediary and as both a manager and servicer of financial assets, in order to accommodate our clients' investment and risk management needs. In addition, we use derivative financial instruments for risk management purposes as economic hedges, which are not formally designated as accounting hedges, in order to contribute to our overall corporate earnings and liquidity. These activities are designed to generate trading services revenue and to manage volatility in our net interest revenue. The level of market risk that we assume is a function of our overall objectives and liquidity needs, our clients' requirements and market volatility.

With respect to cross-border investing, our clients often enter into foreign exchange forward contracts to convert currency for international investments and to manage the currency risk in their international investment portfolios. As an active participant in the foreign exchange markets, we provide foreign exchange forward contracts and options in support of these client needs, and also act as a dealer in the currency markets. As part of our trading activities, we assume positions in both the foreign exchange and interest-rate markets by buying and selling cash instruments and using derivative financial instruments, including foreign exchange forward contracts, foreign exchange and interest-rate options and interest-rate swaps, interest-rate forward contracts, and interest-rate futures. In the aggregate, we seek to match positions closely with the objective of minimizing related currency and interest-rate risk.

We offer products that provide book-value protection primarily to plan participants in stable value funds managed by non-affiliated investment managers of post-retirement defined contribution benefit plans, particularly 401(k) plans. We account for the associated contingencies, more fully described in note 7, individually as derivative financial instruments. These contracts are valued quarterly

and unrealized losses, if any, are recorded in other expenses in our consolidated statement of income.

In 2013 and 2014, we granted deferred cash awards to certain of our employees as part of our employee incentive compensation plans. We account for these awards as derivative financial instruments, as the underlying referenced shares are not equity instruments of State Street. The fair value of these derivatives is referenced to the value of units in State Street-sponsored investment funds or funds sponsored by other unrelated entities. We re-measure these derivatives to fair value quarterly, and record the change in value in compensation and employee benefits expenses in our consolidated statement of income.

Derivatives Designated as Hedging Instruments:

In connection with our asset-and-liability management activities, we use derivative financial instruments to manage our interest-rate risk. Interest-rate risk, defined as the sensitivity of income or financial condition to variations in interest rates, is a significant non-trading market risk to which our assets and liabilities are exposed. We manage our interest-rate risk by identifying, quantifying and hedging our exposures, using fixed-rate portfolio securities and a variety of derivative financial instruments, most frequently interest-rate swaps and options (for example, interest-rate caps and floors). Interest-rate swap agreements alter the interest-rate characteristics of specific balance sheet assets or liabilities. When appropriate, forward-rate agreements, options on swaps, and exchange-traded futures and options are also used. Our hedging relationships are formally designated, and qualify for hedge accounting, as fair value or cash flow hedges.

Fair value hedges

Derivatives designated as fair value hedges are utilized to mitigate the risk of changes in the fair values of recognized assets and liabilities. Differences between the gains and losses on fair value hedges and the gains and losses on the

asset or liability attributable to the hedged risk represent hedge ineffectiveness. We use interest-rate or foreign exchange contracts in this manner to manage our exposure to changes in the fair value of hedged items caused by changes in interest rates or foreign exchange rates.

We have entered into interest-rate swap agreements to modify our interest revenue from certain available-for-sale investment securities from a fixed rate to a floating rate. The hedged securities had a weighted-average life of approximately 6.1 years as of September 30, 2014, compared to 6.5



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years as of December 31, 2013. These securities are hedged with interest-rate swap contracts of similar maturity, repricing and fixed-rate coupons. The interest-rate swap contracts convert the interest revenue from a fixed rate to a floating rate indexed to LIBOR, thereby mitigating our exposure to fluctuations in the fair value of the securities attributable to changes in the benchmark interest rate.

We have entered into interest-rate swap agreements to modify our interest expense on two senior notes and one subordinated note from fixed rates to floating rates. The senior notes mature in 2018 and 2023 and pay fixed interest at annual rates of 1.35% and 3.70%, respectively. The subordinated note matures in 2023 and pays fixed interest at a 3.10% annual rate. The senior and subordinated notes are hedged with interest-rate swap contracts with notional amounts, maturities and fixed-rate coupon terms that align with the hedged notes. The interest-rate swap contracts convert the fixed-rate coupons to floating rates indexed to LIBOR, thereby mitigating our exposure to fluctuations in the fair values of the senior and subordinated notes stemming from changes in the benchmark interest rates.

We have entered into forward foreign exchange contracts to hedge the change in fair value attributable to foreign exchange movements in the funding of non-functional currency-denominated investment securities. These forward contracts convert the foreign currency risk to U.S. dollars, thereby mitigating our exposure to fluctuations in the fair value of the securities attributable to changes in foreign exchange rates. Generally, no ineffectiveness is recorded in earnings, since the notional amount of the hedging instruments is aligned with the carrying value of the hedged securities. The forward points on the hedging instruments are considered to be a hedging cost, and accordingly are excluded from the evaluation of hedge effectiveness and recorded in net interest revenue.

Cash flow hedges

Derivatives categorized as cash flow hedges are utilized to offset the variability of cash flows to be received from or paid on a floating-rate asset or liability. Ineffectiveness of cash flow hedges is defined as the extent to which the changes in fair value of the derivative exceed the variability of cash flows of the forecast transaction.

We have entered into an interest-rate swap agreement to modify our interest revenue from an available-for-sale debt security from a floating rate to a fixed rate. The hedged security had a remaining life

of approximately 1 month as of September 30, 2014, compared to approximately 10 months as of December 31, 2013. The security is hedged with an interest-rate swap contract of similar maturity, repricing and other characteristics. The interest-rate swap contract converts the interest revenue from a floating rate to a fixed rate, thereby mitigating our exposure to fluctuations in the cash flows of the security attributable to changes in the benchmark interest rate.

We have entered into foreign exchange contracts to hedge the change in cash flows attributable to foreign exchange movements in the funding of non-functional currency-denominated investment securities. These foreign exchange contracts convert the foreign currency risk to U.S. dollars, thereby mitigating our exposure to fluctuations in the cash flows of the securities attributable to changes in foreign exchange rates. Generally, no ineffectiveness is recorded in earnings, since the critical terms of the hedging instruments and the hedged securities are aligned.

For cash flow hedges, any changes in the fair value of the derivative financial instruments remain in AOCI, and are generally recorded in our consolidated statement of income in future periods when earnings are affected by the variability of the hedged cash flow.

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

| (In millions) | September 30, 2014 | December 31, 2013 |
|---|---|---|
| Derivatives not designated as hedging instruments: | | |
| Interest-rate contracts: | | |
| Swap agreements and forwards | $842 | $1,023 |
| Options and caps purchased | 9 | 27 |
| Options and caps written | 9 | 27 |
| Futures | 6,389 | 3,282 |
| Foreign exchange contracts: | | |
| Forward, swap and spot | 1,307,605 | 1,124,355 |
| Options purchased | 2,923 | 1,666 |
| Options written | 2,399 | 1,423 |
| Futures | 19 | — |
| Credit derivative contracts: | | |
| Credit swap agreements | 192 | 141 |
| Total return swap agreements[1] | 8 | — |
| Commodity and equity contracts: | | |
| Commodity[1] | 555 | 2 |
| Equity[1] | 86 | 1 |
| Other: | | |
| Stable value contracts | 24,305 | 24,906 |
| Deferred cash awards[2] | 227 | 42 |
| Derivatives designated as hedging instruments: | | |
| Interest-rate contracts: | | |
| Swap agreements | 5,212 | 5,221 |
| Foreign exchange contracts: | | |
| Forward and swap | 2,693 | 2,783 |

[1] Primarily composed of positions held by a consolidated sponsored investment fund, more fully described in note 9.
[2] Represents grants of deferred cash awards to employees; refer to discussion in this note under "Derivatives Not Designated as Hedging Instruments."

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

| (In millions) | September 30, 2014 | | |
|---|---|---|---|
| | Fair Value Hedges | Cash Flow Hedges | Total |
| Investment securities available for sale | $2,583 | $129 | $2,712 |
| Long-term debt[1] | 2,500 | — | 2,500 |
| Total | $5,083 | $129 | $5,212 |

| (In millions) | December 31, 2013 Fair Value Hedges | Cash Flow Hedges | Total |
|---|---|---|---|
| Investment securities available for sale | $2,589 | $132 | $2,721 |
| Long-term debt[1] | 2,500 | — | 2,500 |
| Total | $5,089 | $132 | $5,221 |

[1] As of September 30, 2014, these fair value hedges increased the carrying value of long-term debt presented in our consolidated statement of condition by $25 million. As of December 31, 2013, these fair value hedges decreased the carrying value of long-term debt presented in our consolidated statement of condition by $35 million.

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

| | Three Months Ended September 30, | | | |
|---|---|---|---|---|
| | 2014 | | 2013 | |
| | Contractual Rates | Rate Including Impact of Hedges | Contractual Rates | Rate Including Impact of Hedges |
| Long-term debt | 3.44 % | 2.64 % | 3.34 % | 2.67 % |

| | Nine Months Ended September 30, | | | |
|---|---|---|---|---|
| | 2014 | | 2013 | |
| | Contractual Rates | Rate Including Impact of Hedges | Contractual Rates | Rate Including Impact of Hedges |
| Long-term debt | 3.45 % | 2.66 % | 3.49 % | 2.77 % |

The following tables present the fair value of derivative financial instruments, excluding the impact of master netting agreements, recorded in our consolidated statement of condition as of the dates indicated. The impact of master netting agreements is disclosed in note 2.

| | Derivatives - Assets | | |
|---|---|---|---|
| | Balance Sheet Location | Fair Value | |
| (In millions) | | September 30, 2014 | December 31, 2013 |
| Derivatives not designated as hedging instruments: | | | |
| Foreign exchange contracts | Other assets | $16,434 | $11,552 |
| Interest-rate contracts | Other assets | 16 | 29 |
| Other derivative contracts | Other assets | 4 | 1 |
| Total | | $16,454 | $11,582 |
| Derivatives designated as hedging instruments: | | | |
| Foreign exchange contracts | Other assets | $431 | $359 |
| Interest-rate contracts | Other assets | 47 | 36 |
| Total | | $478 | $395 |

| | Derivatives - Liabilities | | |
|---|---|---|---|
| | Balance Sheet Location | Fair Value | |
| (In millions) | | September 30, 2014 | December 31, 2013 |
| Derivatives not designated as hedging instruments: | | | |
| Foreign exchange contracts | Other liabilities | $16,556 | $11,428 |
| Other derivative contracts | Other liabilities | 73 | 23 |
| Interest-rate contracts | Other liabilities | 16 | 29 |
| Total | | $16,645 | $11,480 |
| Derivatives designated as hedging instruments: | | | |
| Interest-rate contracts | Other liabilities | $225 | $302 |
| Foreign exchange contracts | Other liabilities | 3 | 43 |
| Total | | $228 | $345 |

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

| | Location of Gain (Loss) on Derivative in Consolidated Statement of Income | Amount of Gain (Loss) on Derivative Recognized in Consolidated Statement of Income | | | |
|---|---|---|---|---|---|
| | | Three Months Ended September 30, | | Nine Months Ended September 30, | |
| (In millions) | | 2014 | 2013 | 2014 | 2013 |
| Derivatives not designated as hedging instruments: | | | | | |
| Foreign exchange contracts | Trading services revenue | $163 | $147 | $441 | $461 |
| Interest-rate contracts | Trading services revenue | 1 | — | — | 3 |
| Credit derivative contracts | Processing fees and other revenue | — | 1 | (1) | 1 |
| Other derivative contracts | Trading services revenue | 1 | — | 1 | — |
| Total | | $165 | $148 | $441 | $465 |

| | Location of (Gain) Loss on Derivative in Consolidated Statement of Income | Amount of (Gain) Loss on Derivative Recognized in Consolidated Statement of Income | | | |
|---|---|---|---|---|---|
| | | Three Months Ended September 30, | | Nine Months Ended September 30, | |
| (In millions) | | 2014 | 2013 | 2014 | 2013 |
| Derivatives not designated as hedging instruments: | | | | | |
| Other derivative contracts | Compensation and employee benefits | $18 | $4 | $89 | $10 |
| Total | | $18 | $4 | $89 | $10 |

| (In millions) | Location of Gain (Loss) on Derivative in Consolidated Statement of Income | Amount of Gain (Loss) on Derivative Recognized in Consolidated Statement of Income: Three Months Ended September 30, 2014 | Amount of Gain (Loss) on Derivative Recognized in Consolidated Statement of Income: Nine Months Ended September 30, 2014 | Hedged Item in Fair Value Hedging Relationship | Location of Gain (Loss) on Hedged Item in Consolidated Statement of Income | Amount of Gain (Loss) on Hedged Item Recognized in Consolidated Statement of Income: Three Months Ended September 30, 2014 | Amount of Gain (Loss) on Hedged Item Recognized in Consolidated Statement of Income: Nine Months Ended September 30, 2014 |
|---|---|---|---|---|---|---|---|
| Derivatives designated as fair value hedges: | | | | | | | |
| Foreign exchange contracts | Processing fees and other revenue | $(82) | $(22) | Investment securities | Processing fees and other revenue | $82 | $22 |
| Interest-rate contracts | Processing fees and other revenue | 24 | (17) | Available-for-sale securities | Processing fees and other revenue(1) | (23) | 15 |
| Interest-rate contracts | Processing fees and other revenue | (8) | 88 | Long-term debt | Processing fees and other revenue | 9 | (80) |
| Total | | $(66) | $49 | | | $68 | $(43) |

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| (In millions) | Location of Gain (Loss) on Derivative in Consolidated Statement of Income | Amount of Gain (Loss) on Derivative Recognized in Consolidated Statement of Income | | Hedged Item in Fair Value Hedging Relationship | Location of Gain (Loss) on Hedged Item in Consolidated Statement of Income | Amount of Gain (Loss) on Hedged Item Recognized in Consolidated Statement of Income | |
|---|---|---|---|---|---|---|---|
| | | Three Months Ended September 30, 2013 | Nine Months Ended September 30, 2013 | | | Three Months Ended September 30, 2013 | Nine Months Ended September 30, 2013 |
| Derivatives designated as fair value hedges: | | | | | | | |
| Foreign exchange contracts | Processing fees and other revenue | $20 | $(135) | Investment securities | Processing fees and other revenue | $(20) | $135 |
| Interest-rate contracts | Processing fees and other revenue | (14) | (146) | Long-term debt | Processing fees and other revenue | 12 | 133 |
| Interest-rate contracts | Processing fees and other revenue | (6) | 15 | Available-for-sale securities | Processing fees and other revenue[1] | 7 | (15) |
| Total | | $— | $(266) | | | $(1) | $253 |

[1] Represents amounts reclassified out of other comprehensive income, or OCI. For the three and nine months ended September 30, 2014, $14 million of unrealized gains and $9 million of unrealized losses, respectively, on available-for-sale securities designated in fair value hedges were recognized in OCI. For the three and nine months ended September 30, 2013, $1 million and $61 million, respectively, of unrealized gains on available-for-sale securities designated in fair value hedges were recognized in OCI.

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

| (In millions) | Amount of Gain (Loss) on Derivative Recognized in Other Comprehensive Income | | Location of Gain (Loss) Reclassified from OCI to Consolidated Statement of Income | Amount of Gain (Loss) Reclassified from OCI to Consolidated Statement of Income | | Location of Gain (Loss) on Derivative Recognized in Consolidated Statement of Income | Amount of Gain (Loss) on Derivative Recognized in Consolidated Statement of Income | |
|---|---|---|---|---|---|---|---|---|
| | Three Months Ended September 30, 2014 | Nine Months Ended September 30, 2014 | | Three Months Ended September 30, 2014 | Nine Months Ended September 30, 2014 | | Three Months Ended September 30, 2014 | Nine Months Ended September 30, 2014 |
| Derivatives designated as cash flow hedges: | | | | | | | | |
| Interest-rate contracts | $(1) | $(3) | Net interest revenue | $(1) | $(3) | Net interest revenue | $1 | $3 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Foreign exchange contracts | 92 | 28 | Net interest revenue | — | — | Net interest revenue | 2 | 4 |
| Total | $91 | $25 | | $(1) | $(3) | | $3 | $7 |

| | Amount of Gain (Loss) on Derivative Recognized in Other Comprehensive Income | | Location of Gain (Loss) Reclassified from OCI to Consolidated Statement of Income | Amount of Gain (Loss) Reclassified from OCI to Consolidated Statement of Income | | Location of Gain (Loss) on Derivative Recognized in Consolidated Statement of Income | Amount of Gain (Loss) on Derivative Recognized in Consolidated Statement of Income | |
|---|---|---|---|---|---|---|---|---|
| | Three Months Ended September 30, 2013 | Nine Months Ended September 30, 2013 | | Three Months Ended September 30, 2013 | Nine Months Ended September 30, 2013 | | Three Months Ended September 30, 2013 | Nine Months Ended September 30, 2013 |
| (In millions) | | | | | | | | |
| Derivatives designated as cash flow hedges: | | | | | | | | |
| Interest-rate contracts | $(1) | $10 | Net interest revenue | $(1) | $(3) | Net interest revenue | $1 | $3 |
| Foreign exchange contracts | (55) | 98 | Net interest revenue | — | — | Net interest revenue | — | 5 |
| Total | $(56) | $108 | | $(1) | $(3) | | $1 | $8 |

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Note 13. Offsetting Arrangements

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

Certain of our derivative contracts are executed under either standardized netting agreements or, for exchange-traded derivatives, the relevant contracts for a particular exchange which contain enforceable netting provisions. In certain cases, we may have cross-product netting arrangements which allow for netting and set-off of a variety of types of derivatives with a single counterparty. A derivative netting arrangement creates an enforceable right of set-off that becomes effective, and effects the realization or settlement of individual financial assets and liabilities, only following a specified event of default. Collateral requirements associated with our derivative contracts are determined after a review of the creditworthiness of each counterparty, and the requirements are monitored and adjusted daily, typically based on net exposure by counterparty. Collateral is generally in the form of cash or highly liquid U.S. government securities.

In connection with secured financing transactions, we enter into netting agreements and other collateral arrangements with counterparties, which provide for the right to liquidate collateral in the event of default. Collateral is generally required in the form of cash, equity securities or fixed-income securities. Default events may include the failure to make payments or deliver securities timely, material adverse changes in financial condition or insolvency, the breach of minimum regulatory capital requirements, or loss of license, charter or other legal

authorization necessary to perform under the contract.

In order for an arrangement to be eligible for netting, we must have a reasonable basis to conclude that such netting arrangements are legally enforceable. The analysis of the legal enforceability of an arrangement differs by jurisdiction, depending on the laws of that jurisdiction. In many jurisdictions, specific legislation exists that provides for the enforceability in bankruptcy of close-out netting under a netting agreement, typically by way of specific exception from more general prohibitions on the exercise of creditor rights.

When we have a basis to conclude that a legally enforceable netting arrangement exists between us and the derivative counterparty and the relevant transaction is the type of transaction that is recorded in our consolidated statement of condition, we offset derivative assets and liabilities, and the related collateral received and provided, in our consolidated statement of condition. We also offset assets and liabilities related to secured financing transactions with the same counterparty or clearinghouse which have the same maturity date and are settled in the normal course of business on a net basis.

Collateral that we receive in the form of securities in connection with secured financing transactions and derivative contracts can be transferred or re-pledged as collateral in many instances to enter into repurchase agreements or securities finance or derivative transactions. The securities collateral received in connection with our securities finance activities is recorded at fair value in other assets in our consolidated statement of condition, with a related liability to return the collateral, if we have the right to transfer or re-pledge the collateral. As of September 30, 2014 and December 31, 2013, the fair value of securities received as collateral where we are permitted to transfer or re-pledge the securities totaled $2.94 billion and $5.64 billion, respectively, and the fair value of the portion that had been transferred or re-pledged as of the same date was $370 million and $1.77 billion, respectively.

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

| Assets: | September 30, 2014 | | | December 31, 2013 | | |
|---|---|---|---|---|---|---|
| (In millions) | Gross Amounts of Recognized Assets[1] | Gross Amounts Offset in Statement of Condition[2] | Net Amounts of Assets Presented in Statement of Condition | Gross Amounts of Recognized Assets[1] | Gross Amounts Offset in Statement of Condition[2] | Net Amounts of Assets Presented in Statement of Condition |
| Derivatives: | | | | | | |
| Foreign exchange contracts | $16,865 | $(7,345) | $9,520 | $11,911 | $(4,514) | $7,397 |
| Interest-rate contracts | 63 | (34) | 29 | 65 | (59) | 6 |
| Other derivative contracts | 4 | — | 4 | 1 | — | 1 |
| Cash collateral netting | — | (841) | (841) | — | (1,928) | (1,928) |
| Total derivatives | $16,932 | $(8,220) | $8,712 | $11,977 | $(6,501) | $5,476 |
| Other financial instruments: | | | | | | |
| Resale agreements and securities borrowing[3] | $48,078 | $(29,692) | $18,386 | $48,221 | $(30,700) | $17,521 |
| Total derivatives and other financial instruments | $65,010 | $(37,912) | $27,098 | $60,198 | $(37,201) | $22,997 |

[1] Amounts include all transactions regardless of whether or not they are subject to an enforceable netting arrangement.
[2] Amounts subject to netting arrangements which have been determined to be legally enforceable.
[3] Included in the $18,386 million as of September 30, 2014 were $2,603 million of resale agreements and $15,783 million of collateral provided related to securities borrowing. Included in the $17,521 million as of December 31, 2013 were $6,230 million of resale agreements and $11,291 million of collateral provided related to securities borrowing. Resale agreements and collateral provided related to securities borrowing were recorded in securities purchased under resale agreements and other assets, respectively, in our consolidated statement of condition. Refer to note 7 for additional information with respect to principal securities finance transactions.

| | September 30, 2014 | | | | December 31, 2013 | | | |
|---|---|---|---|---|---|---|---|---|
| | | Gross Amounts Not Offset in Statement of Condition[1] | | | | Gross Amounts Not Offset in Statement of Condition[1] | | |
| (In millions) | Net Amount of Assets Presented in Statement of Condition | Counterparty Netting | Collateral Received | Net Amount[2] | Net Amount of Assets Presented in Statement of Condition | Counterparty Netting | Collateral Received | Net Amount[2] |
| Derivatives | $8,712 | $— | $(644) | $8,068 | $5,476 | $— | $(181) | $5,295 |
| Resale agreements and securities borrowing | 18,386 | (108) | (18,185) | 93 | 17,521 | (131) | (14,983) | 2,407 |
| Total | $27,098 | $(108) | $(18,829) | $8,161 | $22,997 | $(131) | $(15,164) | $7,702 |

[1] Amounts subject to netting arrangements which have been determined to be legally enforceable.
[2] Includes amounts secured by collateral not determined to be subject to enforceable netting arrangements.



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

| Liabilities: | September 30, 2014 | | | December 31, 2013 | | |
|---|---|---|---|---|---|---|
| (In millions) | Gross Amounts of Recognized Liabilities[1] | Gross Amounts Offset in Statement of Condition[2] | Net Amounts of Liabilities Presented in Statement of Condition | Gross Amounts of Recognized Liabilities[1] | Gross Amounts Offset in Statement of Condition[2] | Net Amounts of Liabilities Presented in Statement of Condition |
| Derivatives: | | | | | | |
| Foreign exchange contracts | $16,559 | $(7,345) | $9,214 | $11,471 | $(4,514) | $6,957 |
| Interest-rate contracts | 241 | (34) | 207 | 331 | (59) | 272 |
| Other derivative contracts | 73 | — | 73 | 9 | — | 9 |
| Cash collateral netting | — | (2,581) | (2,581) | — | (979) | (979) |
| Total derivatives | $16,873 | $(9,960) | $6,913 | $11,811 | $(5,552) | $6,259 |
| Other financial instruments: | | | | | | |
| Repurchase agreements and securities lending[3] | $46,089 | $(29,692) | $16,397 | $45,273 | $(30,700) | $14,573 |
| Total derivatives and other financial instruments | $62,962 | $(39,652) | $23,310 | $57,084 | $(36,252) | $20,832 |

[1] Amounts include all transactions regardless of whether or not they are subject to an enforceable netting arrangement.
[2] Amounts subject to netting arrangements which have been determined to be legally enforceable.
[3] Included in the $16,397 million as of September 30, 2014 were $9,385 million of repurchase agreements and $7,012 million of collateral received related to securities lending. Included in the $14,573 million as of December 31, 2013 were $7,953 million of repurchase agreements and $6,620 million of collateral received related to securities lending. Repurchase agreements and collateral received related to securities lending were recorded in securities sold under repurchase agreements and accrued expenses and other liabilities, respectively, in our consolidated statement of condition. Refer to note 7 for additional information with respect to principal securities finance transactions.

| | September 30, 2014 | | | | December 31, 2013 | | | |
|---|---|---|---|---|---|---|---|---|
| | | Gross Amounts Not Offset in Statement of Condition[1] | | | | Gross Amounts Not Offset in Statement of Condition[1] | | |
| (In millions) | Net Amount of Liabilities Presented in Statement of Condition | Counterparty Netting | Collateral Provided | Net Amount[2] | Net Amount of Liabilities Presented in Statement of Condition | Counterparty Netting | Collateral Provided | Net Amount[2] |
| Derivatives | $6,913 | $— | $(78) | $6,835 | $6,259 | $— | $(6) | $6,253 |
| Repurchase agreements and securities | 16,397 | (108) | (14,173) | 2,116 | 14,573 | (131) | (13,036) | 1,406 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| lending | | | | | | | | |
| Total | $23,310 | $(108 ) | $(14,251 ) | $8,951 | $20,832 | $(131 ) | $(13,042) | $7,659 |

[1] Amounts subject to netting arrangements which have been determined to be legally enforceable.
[2] Includes amounts secured by collateral not determined to be subject to enforceable netting arrangements.

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Note 14. Net Interest Revenue
The following table presents the components of interest revenue and interest expense, and related net interest revenue, for the periods indicated:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| (In millions) | 2014 | 2013 | 2014 | 2013 |
| Interest revenue: | | | | |
| Deposits with banks | $53 | $29 | $138 | $91 |
| Investment securities: | | | | |
| U.S. Treasury and federal agencies | 165 | 165 | 493 | 542 |
| State and political subdivisions | 58 | 59 | 173 | 164 |
| Other investments | 320 | 323 | 957 | 1,003 |
| Securities purchased under resale agreements | 9 | 8 | 27 | 33 |
| Loans and leases | 64 | 58 | 183 | 193 |
| Other interest-earning assets | 2 | 1 | 5 | 4 |
| Total interest revenue | 671 | 643 | 1,976 | 2,030 |
| Interest expense: | | | | |
| Deposits | 33 | 17 | 66 | 78 |
| Short-term borrowings | — | 15 | 4 | 46 |
| Long-term debt | 60 | 59 | 186 | 169 |
| Other interest-bearing liabilities | 8 | 6 | 34 | 19 |
| Total interest expense | 101 | 97 | 290 | 312 |
| Net interest revenue | $570 | $546 | $1,686 | $1,718 |

Note 15. Expenses
Severance Costs:
We recorded $74 million of net severance costs in the nine months ended September 30, 2014. These severance costs were the result of staff reductions associated with the realignment of our cost base, and were recorded in compensation and employee benefits expenses in our consolidated statement of income.

Acquisition and Restructuring Costs:
The following table presents net acquisition and restructuring costs recorded in the periods indicated:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| (In millions) | 2014 | 2013 | 2014 | 2013 |
| Acquisition costs | $12 | $18 | $48 | $52 |
| Restructuring charges, net | 8 | 12 | 33 | 22 |
| Total acquisition and restructuring costs | $20 | $30 | $81 | $74 |

Acquisition Costs
Acquisition costs recorded in the three and nine months ended September 30, 2014 and the three and nine months ended September 30, 2013 were related to previously disclosed acquisitions.
Restructuring Charges
Information with respect to our Business Operations and Information Technology Transformation program and our 2012 expense control measures, including charges, employee reductions and aggregate activity in the related accruals, is provided in the two sections that follow.
Business Operations and Information Technology Transformation Program

In November 2010, we announced a global multi-year Business Operations and Information Technology Transformation program. The program includes operational, information technology and targeted cost initiatives, including plans related to reductions in both staff and occupancy costs. To date, we have recorded aggregate restructuring charges of $402 million in our consolidated statement of income, composed of $156 million in 2010, $133 million in 2011, $67 million in 2012, $25 million in 2013 and $21 million in the nine months ended September 30, 2014.

The charges related to the program included costs related to severance, benefits and outplacement services, as well as costs which resulted from actions taken to reduce our occupancy costs through the consolidation of leases and properties. The charges also included costs related to information technology, including transition fees associated with the expansion of our use of third-party service providers associated with components of our information technology infrastructure and application maintenance and support.

In 2010, in connection with the program, we initiated the involuntary termination of 1,400 employees, or approximately 5% of our global workforce, which we completed by the end of 2011. In addition, in connection with our announcement in 2011 of the expansion of our use of third-party service providers associated with our information technology infrastructure and application maintenance and support, as well as the continued execution of the business operations transformation component of the program, we identified 1,574 additional involuntary terminations. As of September 30, 2014, we eliminated 1,522 of these positions.

Expense Control Measures

In December 2012, in connection with expense control measures designed to better align our

expenses to our business strategy and related outlook for 2013, we identified additional targeted staff reductions. As a result of these actions, we have recorded aggregate pre-tax restructuring charges of $133 million in 2012, $3 million in 2013 and $12 million in the nine months ended September 30, 2014 in our consolidated statement of income. Employee-related costs included severance, benefits and outplacement services. Costs for asset and other write-offs were primarily related to contract terminations. We originally identified involuntary terminations of 960 employees (630 positions after replacements). As of March 31, 2014, we substantially completed these reductions.

Aggregate Restructuring-Related Accrual Activity

The following table presents aggregate activity associated with accruals that resulted from the charges associated with the Business Operations and Information Technology Transformation program and expense control measures:

| (In millions) | Employee-Related Costs | Real Estate Consolidation | Asset and Other Write-Offs | Total |
|---|---|---|---|---|
| Balance as of December 31, 2013 | $50 | $49 | $7 | $106 |
| Additional accruals for Business Operations and Information Technology Transformation program | 14 | 7 | — | 21 |
| Additional accruals for 2012 expense control measures | 1 | — | 11 | 12 |
| Payments and adjustments | (37) | (36) | (7) | (80) |
| Balance as of September 30, 2014 | $28 | $20 | $11 | $59 |

Note 16. Earnings Per Common Share

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

| | Three Months Ended September 30, | |
|---|---|---|
| (Dollars in millions, except per share amounts) | 2014 | 2013 |
| Net income | $560 | $540 |
| Less: | | |
| Preferred stock dividends | (18) | (7) |
| Dividends and undistributed earnings allocated to participating securities[1] | — | (2) |
| Net income available to common shareholders | $542 | $531 |
| Average common shares outstanding (in thousands): | | |
| Basic average common shares | 421,974 | 442,860 |
| Effect of dilutive securities: common stock options and common stock awards | 7,762 | 9,294 |
| Diluted average common shares | 429,736 | 452,154 |
| Anti-dilutive securities[2] | 876 | 1,788 |
| Earnings per Common Share: | | |
| Basic | $1.28 | $1.20 |
| Diluted[3] | 1.26 | 1.17 |

| | Nine Months Ended September 30, | |
|---|---|---|
| (Dollars in millions, except per share amounts) | 2014 | 2013 |
| Net income | $1,545 | $1,583 |
| Less: | | |
| Preferred stock dividends | (43) | (20) |
| Dividends and undistributed earnings allocated to participating securities[1] | (2) | (6) |
| Net income available to common shareholders | $1,500 | $1,557 |
| Average common shares outstanding (in thousands): | | |
| Basic average common shares | 426,775 | 449,742 |
| Effect of dilutive securities: common stock options and common stock awards | 7,735 | 8,650 |
| Diluted average common shares | 434,510 | 458,392 |
| Anti-dilutive securities[2] | 1,502 | 2,384 |
| Earnings per Common Share: | | |
| Basic | $3.52 | $3.46 |
| Diluted[3] | 3.45 | 3.40 |

[1] Represented the portion of net income available to common equity allocated to participating securities, composed of fully vested deferred director stock and unvested restricted stock that contain non-forfeitable rights to dividends during the vesting period on a basis equivalent to dividends paid to common shareholders.
[2] Represented common stock options and other equity-based awards outstanding but not included in the computation of diluted average common shares, because their effect was anti-dilutive.
[3] Calculations reflect allocation of earnings to participating securities using the two-class method, as this computation is more dilutive than the treasury stock method.

Note 17. Line of Business Information

We have two lines of business: Investment Servicing and Investment Management. Given our services and management organization, 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. Information about our two lines of business, as well as revenues, expenses and capital allocation methodologies associated with them, is provided in note 25 to the consolidated financial statements included in our 2013 Form 10-K.

The following is a summary of our line-of-business results for the periods indicated. The "Other" column for the three and nine months ended September 30, 2014 included net costs of $14 million and $157 million, respectively, composed of the following -

Three months ended September 30, 2014 -

- Severance cost credits of $2 million associated with prior accruals for staff reductions;
- Net acquisition and restructuring costs of $20 million; and
- Credits to provisions for litigation exposure and other costs of $4 million.

Nine months ended September 30, 2014 -

- Net severance costs associated with staff reductions of $74 million;
- Net acquisition and restructuring costs of $81 million; and
- Provisions for litigation exposure and other costs of $2 million.

The "Other" column for the three and nine months ended September 30, 2013 included costs of $35 million and $94 million, respectively, composed of the following -

Three months ended September 30, 2013 -

- Net acquisition and restructuring costs of $30 million; and
- Net provisions for litigation exposure and other costs of $5 million.

Nine months ended September 30, 2013 -

- Net acquisition and restructuring costs of $74 million; and
- Net provisions for litigation exposure and other costs of $20 million.

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The amounts in the “Other” columns were not allocated to State Street's business lines. Results for the 2013 periods reflect reclassifications, for comparative purposes, related to management changes in methodologies associated with allocations

of revenue and expenses reflected in line-of-business results for 2014.

| | Three Months Ended September 30, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Investment Servicing | | Investment Management | | Other | | Total | |
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| (Dollars in millions, except where otherwise noted) | | | | | | | | |
| Fee revenue: | | | | | | | | |
| Servicing fees | $1,302 | $1,211 | $— | $— | $— | $— | $1,302 | $1,211 |
| Management fees | — | — | 316 | 276 | — | — | 316 | 276 |
| Trading services | 266 | 251 | 12 | 14 | — | — | 278 | 265 |
| Securities finance | 99 | 74 | — | — | — | — | 99 | 74 |
| Processing fees and other | 25 | 52 | (8) | 5 | — | — | 17 | 57 |
| Total fee revenue | 1,692 | 1,588 | 320 | 295 | — | — | 2,012 | 1,883 |
| Net interest revenue | 551 | 527 | 19 | 19 | — | — | 570 | 546 |
| Gains (losses) related to investment securities, net | — | (4) | — | — | — | — | — | (4) |
| Total revenue | 2,243 | 2,111 | 339 | 314 | — | — | 2,582 | 2,425 |
| Provision for loan losses | 2 | — | — | — | — | — | 2 | — |
| Total expenses | 1,639 | 1,500 | 239 | 187 | 14 | 35 | 1,892 | 1,722 |
| Income before income tax expense | $602 | $611 | $100 | $127 | $(14) | $(35) | $688 | $703 |
| Pre-tax margin | 27% | 29% | 29% | 40% | | | 27% | 29% |
| Average assets (in billions) | $243.2 | $197.7 | $4.1 | $3.6 | | | $247.3 | $201.3 |

| | Nine Months Ended September 30, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Investment Servicing | | Investment Management | | Other | | Total | |
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| (Dollars in millions, except where otherwise noted) | | | | | | | | |
| Fee revenue: | | | | | | | | |
| Servicing fees | $3,828 | $3,587 | $— | $— | $— | $— | $3,828 | $3,587 |
| Management fees | — | — | 908 | 816 | — | — | 908 | 816 |
| Trading services | 756 | 803 | 35 | 55 | — | — | 791 | 858 |
| Securities finance | 331 | 283 | — | — | — | — | 331 | 283 |
| Processing fees and other | 122 | 157 | (5) | 10 | — | — | 117 | 167 |
| Total fee revenue | 5,037 | 4,830 | 938 | 881 | — | — | 5,975 | 5,711 |
| Net interest revenue | 1,634 | 1,655 | 52 | 63 | — | — | 1,686 | 1,718 |
| Gains (losses) related to investment securities, net | 4 | (9) | — | — | — | — | 4 | (9) |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Total revenue | 6,675 | 6,476 | 990 | 944 | — | — | 7,665 | 7,420 |
| Provision for loan losses | 6 | — | — | — | — | — | 6 | — |
| Total expenses | 4,905 | 4,639 | 708 | 613 | 157 | 94 | 5,770 | 5,346 |
| Income before income tax expense | $1,764 | $1,837 | $282 | $331 | $(157 ) | $(94 ) | $1,889 | $2,074 |
| Pre-tax margin | 26 % | 28 % | 28 % | 35 % | | | 25 % | 28 % |
| Average assets (in billions) | $229.0 | $201.9 | $3.6 | $3.8 | | | $232.6 | $205.7 |

Note 18. Non-U.S. Activities

We generally define our non-U.S. activities as those revenue-producing business activities that arise from clients domiciled outside the U.S. Due to the integrated nature of our business, precise segregation of our U.S. and non-U.S. activities is not possible. Subjective estimates and other judgments

are applied to quantify the financial results and assets related to our non-U.S. activities, including our application of funds transfer pricing, our asset-and-liability management policies and our allocation of certain indirect corporate expenses. Interest expense

allocations are based on our internal funds transfer pricing methodology.

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

| | Three Months Ended September 30, | |
|---|---|---|
| (In millions) | 2014 | 2013 |
| Total fee revenue | $862 | $771 |
| Net interest revenue | 325 | 306 |
| Gains (losses) related to investment securities, net | 1 | (2) |
| Total revenue | 1,188 | 1,075 |
| Expenses | 791 | 786 |
| Income before income taxes | 397 | 289 |
| Income tax expense | 96 | 74 |
| Net income | $301 | $215 |

| | Nine Months Ended September 30, | |
|---|---|---|
| (In millions) | 2014 | 2013 |
| Total fee revenue | $2,488 | $2,347 |
| Net interest revenue | 991 | 874 |
| Gains (losses) related to investment securities, net | 6 | (12) |
| Total revenue | 3,485 | 3,209 |
| Expenses | 2,443 | 2,279 |
| Income before income taxes | 1,042 | 930 |
| Income tax expense | 248 | 228 |
| Net income | $794 | $702 |

The following table presents the significant components of our non-U.S. assets as of the dates indicated, based on the domicile of the underlying counterparties:

| (In millions) | September 30, 2014 | December 31, 2013 |
|---|---|---|
| Interest-bearing deposits with banks | $9,828 | $9,584 |
| Investment securities | 30,791 | 31,522 |
| Other assets | 17,326 | 16,778 |
| Total non-U.S. assets | $57,945 | $57,884 |

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REVIEW REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Shareholders and Board of Directors of
State Street Corporation

We have reviewed the consolidated statement of condition of State Street Corporation (the “Corporation”) as of September 30, 2014, and the related consolidated statements of income and comprehensive income for the three and nine-month periods ended September 30, 2014 and 2013 and changes in shareholders' equity and cash flows for the nine-month periods ended September 30, 2014 and 2013. These financial statements are the responsibility of the Corporation's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statement of condition of State Street Corporation as of December 31, 2013, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the year then ended, not presented herein, and in our report dated February 21, 2014, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated statement of condition of the Corporation as of December 31, 2013, is fairly stated, in all material respects, in relation to the consolidated statement of condition from which it has been derived.

/s/ Ernst & Young LLP
Boston, Massachusetts
November 7, 2014

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FORM 10-Q PART I CROSS-REFERENCE INDEX

The information required by the items presented below is incorporated herein by reference from the “Financial Information” section of this Form 10-Q.


PART I. FINANCIAL INFORMATION

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| Item 1. | Financial Statements | |
| | Consolidated Statement of Income (Unaudited) for the three and nine months ended September 30, 2014 and 2013 | 73 |
| | Consolidated Statement of Comprehensive Income (Unaudited) for the three and nine months ended September 30, 2014 and 2013 | 74 |
| | Consolidated Statement of Condition as of September 30, 2014 (Unaudited) and December 31, 2013 | 75 |
| | Consolidated Statement of Changes in Shareholders’ Equity (Unaudited) for the nine months ended September 30, 2014 and 2013 | 76 |
| | Consolidated Statement of Cash Flows (Unaudited) for the nine months ended September 30, 2014 and 2013 | 77 |
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PART II. OTHER INFORMATION

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

(c) In March 2014, our Board of Directors approved a new common stock purchase program authorizing the purchase by us of up to $1.70 billion of our common stock through March 31, 2015.

The following table presents purchases of our common stock under this program and related information for each of the months in the quarter ended September 30, 2014. We may employ third-party broker/dealers to acquire shares on the open market in connection with our common stock purchase programs.

| (Dollars in millions, except per share amounts, shares in thousands) | Total Number of Shares Purchased Under Publicly Announced Program | Average Price Paid Per Share | Approximate Dollar Value of Shares Purchased Under Publicly Announced Program | Approximate Dollar Value of Shares Yet to be Purchased Under Publicly Announced Program |
|---|---|---|---|---|
| Period: | | | | |
| July 1 - July 31, 2014 | 1,836 | $69.46 | $127 | $1,163 |
| August 1 - August 31, 2014 | 2,824 | 70.31 | 199 | 964 |
| September 1 - September 30, 2014 | 1,146 | 73.19 | 84 | 880 |
| Total | 5,806 | $70.61 | $410 | $880 |

ITEM 6. EXHIBITS

The exhibits listed in the Exhibit Index following the signature page of this Form 10-Q are filed herewith or are incorporated herein by reference to other SEC filings.



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SIGNATURES

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

STATE STREET CORPORATION
(Registrant)

| | | | |
|---|---|---|---|
| Date: | November 7, 2014 | By: | /s/ MICHAEL W. BELL<br>Michael W. Bell,<br>Executive Vice President and Chief Financial Officer (Principal Financial Officer) |
| Date: | November 7, 2014 | By: | /s/ SEAN P. NEWTH<br>Sean P. Newth,<br>Senior Vice President, Chief Accounting Officer and Controller (Principal Accounting Officer) |

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EXHIBIT INDEX

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| 10.1† | State Street's Management Supplemental Savings Plan, Amended and Restated |
| 12 | Ratios of earnings to fixed charges |
| 15 | Letter regarding unaudited interim financial information |
| 31.1 | Rule 13a-14(a)/15d-14(a) Certification of Chairman, President and Chief Executive Officer |
| 31.2 | Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer |
| 32 | Section 1350 Certifications |
| * 101.INS | XBRL Instance Document |
| * 101.SCH | XBRL Taxonomy Extension Schema Document |
| * 101.CAL | XBRL Taxonomy Calculation Linkbase Document |
| * 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |
| * 101.LAB | XBRL Taxonomy Label Linkbase Document |
| * 101.PRE | XBRL Taxonomy Presentation Linkbase Document |

† Denotes management contract or compensatory plan or arrangement
* Submitted electronically herewith

Attached as Exhibit 101 to this report are the following formatted in XBRL (Extensible Business Reporting Language): (i) consolidated statement of income for the three and nine months ended September 30, 2014 and 2013, (ii) consolidated statement of comprehensive income for the three and nine months ended September 30, 2014 and 2013, (iii) consolidated statement of condition as of September 30, 2014 and December 31, 2013, (iv) consolidated statement of changes in shareholders' equity for the nine months ended September 30, 2014 and 2013, (v) consolidated statement of cash flows for the nine months ended September 30, 2014 and 2013, and (vi) condensed notes to consolidated financial statements.