

STATE STREET CORP
Form 10-Q
August 07, 2015
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

Form 10-Q

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

For the quarterly period ended June 30, 2015

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

(State or other jurisdiction of incorporation)

One Lincoln Street

Boston, Massachusetts

(Address of principal executive office)

617-786-3000

(Registrant's telephone number, including area code)

04-2456637

(I.R.S. Employer Identification No.)

02111

(Zip Code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer 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 ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐
(Do not check if a 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 ☒

The number of shares of the registrant's common stock outstanding as of July 31, 2015 was 408,113,062.

STATE STREET CORPORATION
QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTERLY PERIOD ENDED
JUNE 30, 2015

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

<u>Table of Contents for Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>3</u>
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>4</u>
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>53</u>
<u>Controls and Procedures</u>	<u>53</u>
<u>Consolidated Statement of Income (Unaudited) for the three and six months ended June 30, 2015 and 2014</u>	<u>54</u>
<u>Consolidated Statement of Comprehensive Income (Unaudited) for the three and six months ended June 30, 2015 and 2014</u>	<u>55</u>
<u>Consolidated Statement of Condition as of June 30, 2015 (Unaudited) and December 31, 2014</u>	<u>56</u>
<u>Consolidated Statement of Changes in Shareholders' Equity (Unaudited) for the six months ended June 30, 2015 and 2014</u>	<u>57</u>
<u>Consolidated Statement of Cash Flows (Unaudited) for the six months ended June 30, 2015 and 2014</u>	<u>58</u>
<u>Condensed Notes to Consolidated Financial Statements (Unaudited)</u>	<u>59</u>
<u>Review Report of Independent Registered Public Accounting Firm</u>	<u>102</u>
PART II. OTHER INFORMATION	
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>103</u>
<u>Exhibits</u>	<u>103</u>
<u>Signatures</u>	<u>104</u>
<u>Exhibit Index</u>	<u>105</u>

Table of Contents

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

TABLE OF CONTENTS

<u>General</u>	<u>4</u>
<u>Forward-Looking Statements</u>	<u>5</u>
<u>Overview of Financial Results</u>	<u>8</u>
<u>Consolidated Results of Operations</u>	<u>9</u>
<u>Total Revenue</u>	<u>10</u>
<u>Fee Revenue</u>	<u>10</u>
<u>Net Interest Revenue</u>	<u>16</u>
<u>Gains (Losses) Related to Investment Securities, Net</u>	<u>20</u>
<u>Provision for Loan Losses</u>	<u>20</u>
<u>Expenses</u>	<u>21</u>
<u>Income Tax Expense</u>	<u>22</u>
<u>Line of Business Information</u>	<u>22</u>
<u>Financial Condition</u>	<u>24</u>
<u>Investment Securities</u>	<u>25</u>
<u>Loans and Leases</u>	<u>30</u>
<u>Cross-Border Outstandings</u>	<u>31</u>
<u>Risk Management</u>	<u>32</u>
<u>Liquidity Risk Management</u>	<u>32</u>
<u>Operational Risk Management</u>	<u>36</u>
<u>Market Risk Management</u>	<u>36</u>
<u>Model Risk Management</u>	<u>41</u>
<u>Capital</u>	<u>41</u>
<u>Off-Balance Sheet Arrangements</u>	<u>52</u>
<u>Recent Accounting Developments</u>	<u>52</u>

Table of Contents

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

GENERAL

State Street Corporation, referred to as the parent company, is a financial holding company organized in 1969 under the laws of the Commonwealth of Massachusetts. Our executive offices are located at One Lincoln Street, Boston, Massachusetts 02111 (telephone (617) 786-3000). For purposes of this Form 10-Q, unless the context requires otherwise, references to "State Street," "we," "us," "our" or similar terms mean State Street Corporation and its subsidiaries on a consolidated basis. The parent company is a source of financial and managerial support to our subsidiaries. Through our subsidiaries, including our principal banking subsidiary, State Street Bank and Trust Company, referred to as State Street Bank, we provide a broad range of financial products and services to institutional investors worldwide.

As of June 30, 2015, we had consolidated total assets of \$294.57 billion, consolidated total deposits of \$230.59 billion, consolidated total shareholders' equity of \$21.50 billion and 31,070 employees. We operate in more than 100 geographic markets worldwide, including in the U.S., Canada, Europe, the Middle East and Asia. We are a leader in providing financial services and products to meet the needs of institutional investors worldwide, with \$28.65 trillion of assets under custody and administration and \$2.37 trillion of assets under management as of June 30, 2015.

We have two lines of business:

Investment Servicing provides services for institutional clients, including 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 June 30, 2015, and updates the Management's Discussion and Analysis in our Annual Report on Form 10-K for the year ended December 31, 2014, which we refer to as the 2014 Form 10-K, previously filed with the Securities and Exchange Commission, or SEC. You should read the financial information contained in this Management's Discussion and Analysis and elsewhere in this Form 10-Q in conjunction with the financial and other information contained in our 2014 Form 10-K. Certain previously reported amounts presented in this Form 10-Q have been reclassified to conform to current-period presentation.

We prepare our consolidated financial statements in conformity with 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 include accounting for fair value measurements; other-than-temporary impairment of investment securities; impairment of goodwill and other intangible assets; and contingencies. These significant accounting policies require the most subjective or complex

judgments, and underlying estimates and assumptions could be subject to revision as new information becomes available. Additional information about these significant accounting policies is included under “Significant Accounting Estimates” in Management's Discussion and Analysis in our 2014 Form 10-K. We did not change these significant accounting policies in the first six months of 2015.

Certain financial information provided in this Form 10-Q, including 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

Table of Contents

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

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 und

love those erlying 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 Form 10-Q, including 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), 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 the Dodd-Frank Act, and resolution plan disclosures required under the Dodd-Frank Act. These additional disclosures are accessible on the "Investor Relations" section of our corporate website at www.statestreet.com.

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

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 the 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, expected outcomes of legal proceedings, market growth, acquisitions, joint ventures and divestitures and new technologies, services and opportunities, as well as regarding industry, regulatory, economic and market trends, initiatives and developments, the business environment and other matters.

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, regulatory environment and the equity, debt, currency and other financial markets, as well as factors specific to State Street and its subsidiaries, including State Street Bank. Factors that could cause changes in the expectations or assumptions on which forward-looking statements are based cannot be foreseen with certainty and include, but are not limited to: The financial strength and continuing viability of the counterparties with which we or our clients do business and to which we have investment, credit or financial exposure, including, for example, the direct and indirect effects on counterparties of the sovereign-debt risks in the U.S., Europe and other regions;

-

increases in the volatility of, or declines in the level of, our 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;

Table of Contents

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

the level and volatility of interest rates, the valuation of the U.S. dollar relative to other currencies in which we record revenue or accrue expenses and the performance and volatility of securities, credit, currency and other markets in the U.S. and internationally;

the credit quality, credit-agency ratings and fair values of the securities in our investment securities portfolio, a deterioration or downgrade of which could lead to other-than-temporary impairment of the respective securities and the recognition of an impairment loss in our consolidated statement of income;

our ability to attract deposits and other low-cost, short-term funding, our ability to manage levels of such deposits and the relative portion of our deposits that are determined to be operational under regulatory guidelines and our ability to deploy deposits in a profitable manner consistent with our liquidity requirements and risk profile;

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

adverse changes in the regulatory ratios that we are required or will be required to meet, whether arising under the Dodd-Frank Act or the Basel III final rule, or due to changes in regulatory positions, practices or regulations

in jurisdictions in which we engage in banking activities, including changes in internal or external data, formulae, models, assumptions or other advanced systems used in the calculation of our capital ratios that cause changes in those ratios as they are measured from period to period;

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 stock purchases, without which our growth plans, distributions to shareholders, share repurchase 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;

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

Table of Contents

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

or industry-wide factors, or other reputational harm;
our ability to control operational risks, data security breach risks and outsourcing risks, our ability to protect our intellectual property rights, the possibility of errors in the quantitative models we use to manage our business and the possibility that our controls will prove insufficient, fail or be circumvented;
our ability to expand our use of technology to enhance the efficiency, accuracy and reliability of our operations and our dependencies on information technology and our ability to control related risks, including cyber-crime and other threats to our information technology infrastructure and systems 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, manage expenses, attract and retain highly skilled people and raise the capital necessary to achieve our business goals and comply with regulatory requirements and expectations;
changes or potential changes to the competitive environment, including changes due to regulatory and technological changes, the effects of industry consolidation and perceptions of State Street as a suitable service provider or counterparty;
changes or potential changes in the amount of compensation we receive from clients for our services, and the mix of services provided by us that clients choose;
our ability to complete acquisitions, joint ventures and divestitures, including the ability to obtain regulatory approvals, the ability to arrange financing as required and the ability to satisfy closing conditions;
the risks that our acquired businesses and joint ventures will not achieve their anticipated financial and operational benefits or will not be integrated successfully, or that the integration will take longer than anticipated, that expected synergies will not be achieved or unexpected negative synergies or liabilities will be experienced, that client and deposit retention goals will not be met, that other regulatory or operational challenges will be experienced, and that disruptions from the transaction will harm our relationships with our clients, our employees or regulators;

our ability to recognize 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 2014 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, financial condition or cash flows.

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

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

TABLE 1: OVERVIEW OF FINANCIAL RESULTS

(Dollars in millions, except per share amounts)	Quarters Ended June 30,		% Change	
	2015	2014		%
Total fee revenue	\$2,082	\$2,039	2	)
Net interest revenue	535	561	(5	)
Gains (losses) related to investment securities, net	(3	(2	50	)
Total revenue	2,614	2,598	1	
Provision for loan losses	2	2		
Total expenses	2,134	1,850	15	
Income before income tax expense	478	746	(36	)
Income tax expense	56	124	(55	)
Net income	\$422	\$622	(32	)
Adjustments to net income:				
Dividends on preferred stock ⁽¹⁾	(29	(19	53	)
Earnings allocated to participating securities ⁽²⁾	—	(1		)
Net income available to common shareholders	\$393	\$602	(35	)
Earnings per common share:				
Basic	\$.96	\$1.41	(32	)
Diluted	.94	1.38	(32	)
Average common shares outstanding (in thousands):				
Basic	410,674	427,824		
Diluted	416,712	435,320		
Cash dividends declared per common share	\$.34	\$.30		
Return on average common equity	8.3	% 11.9	%	
(Dollars in millions, except per share amounts)	Six Months Ended June 30,		% Change	
	2015	2014		%
Total fee revenue	\$4,142	\$3,963	5	)
Net interest revenue	1,081	1,116	(3	)
Gains (losses) related to investment securities, net	(4	4	(200	)
Total revenue	5,219	5,083	3	
Provision for loan losses	6	4	50	
Total expenses	4,231	3,878	9	
Income before income tax expense	982	1,201	(18	)
Income tax expense	151	216	(30	)
Net income	\$831	\$985	(16	)
Adjustments to net income:				
Dividends on preferred stock ⁽¹⁾	(60	(25	140	)
Earnings allocated to participating securities ⁽²⁾	(1	(2	(50	)
Net income available to common shareholders	\$770	\$958	(20	)
Earnings per common share:				
Basic	\$1.87	\$2.23	(16	)
Diluted	1.84	2.19	(16	)
Average common shares outstanding (in thousands):				
Basic	411,445	429,215		
Diluted	417,643	436,958		
Cash dividends declared per common share	\$.64	\$.56		

Return on average common equity	8.1	%	9.6	%
---------------------------------	-----	---	-----	---

(1) Refer to note 10 to the consolidated financial statements included in this Form 10-Q for additional information regarding our preferred stock dividends.

(2) Refer to note 16 to the consolidated financial statements included in this Form 10-Q.

The following “Highlights” and “Financial Results” sections provide information related to significant events, as well as highlights of our consolidated financial results for the second quarter of 2015 presented in Table 1: Overview of Financial Results. More detailed information about our consolidated financial results, including comparisons of our financial results for the second quarter of 2015 to those for the second quarter of 2014 and for the six months ended June 30, 2015 to those for six months ended June 30, 2014, is provided under “Consolidated Results of Operations,” which follows these sections.

Highlights

Asset servicing and asset management fees increased 3% and 1%, respectively, in the second quarter of 2015 compared to the second quarter of 2014, both the result of net new business installed and stronger U.S. equity markets, partially offset by the impact of the stronger U.S. dollar.

In the second quarter of 2015, we secured new business of an estimated \$143 billion in assets to be serviced; of that total, approximately \$112 billion was installed prior to June 30, 2015, with the remaining balance expected to be installed in the remainder of 2015 or later.

Net new assets to be managed decreased approximately \$65 billion in the second quarter of 2015 primarily due to seasonal outflows from SPY, our Standard & Poor's, or S&P, 500 ETF. Approximately \$32 billion of new asset management business that was awarded to SSGA during the quarter was not installed as of June 30, 2015.

In the second quarter of 2015, we recorded a charge of \$250 million, or \$0.37 per share, to increase our legal accrual associated with our indirect foreign exchange business prior to 2010. This accrual reflects continued negotiations in connection with our intention to seek to resolve the outstanding claims asserted in the United States against us by governmental entities and civil litigants with regard to our indirect foreign exchange business. The total legal accrual associated with these matters as of the time of filing this Form 10-Q is \$585 million. The legal accrual is further discussed under "Legal and Regulatory Matters" in note 8 to the consolidated financial statements included in this Form 10-Q.

Table of Contents

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

- In the second quarter of 2015, we declared quarterly common stock dividends of \$0.34 per share, totaling approximately \$139 million which were paid in July 2015.
- In the second quarter of 2015, under a purchase program approved by our Board of Directors in March 2015 which authorizes us to purchase up to \$1.8 billion of our common stock through June 30, 2016, we purchased approximately 4.4 million shares of our common stock at an average per-share cost of \$78.79 and an aggregate cost of approximately \$350 million.
- Stock purchases may be made using various types of mechanisms, including open market purchases or transactions off market, and may be made under Rule 10b5-1 trading programs. The timing of stock purchases, types of transactions and number of shares purchased will depend on several factors, including, market conditions and State Street's capital positions, its financial performance and investment opportunities. The common stock purchase program does not have specific price targets and may be suspended at any time.
- Additional information with respect to our common stock purchase program and stock dividends is provided under "Financial Condition - Capital" in this Management's Discussion and Analysis.
- Financial Results
- Total revenue in the second quarter of 2015 increased 1% compared to the second quarter of 2014, primarily due to a 2% increase in total fee revenue, partially offset by a decline in net interest revenue. Total revenue in the second quarter of 2015 was negatively impacted by the stronger U.S. dollar by approximately \$88 million when compared to the second quarter of 2014.
- Total expenses in the second quarter of 2015 increased 15% compared to the second quarter of 2014, primarily driven by the increased legal accrual associated with indirect foreign exchange business, partially offset by a decrease in occupancy expenses.
- Total expenses in the second quarter of 2015 benefited from the stronger U.S. dollar by approximately \$71 million compared to the second quarter of 2014.
- Return on average common shareholders' equity in the second quarter of 2015 decreased to 8.3% from 11.9% in the second

quarter of 2014. The decrease was primarily driven by an increase in our legal accrual associated with indirect foreign exchange business, partially offset by an increase in total revenue for the same period.

CONSOLIDATED RESULTS OF OPERATIONS

This section discusses our consolidated results of operations for the second quarter and first six months of 2015 compared to the same periods in 2014, and should be read in conjunction with the consolidated financial statements and accompanying condensed notes to the consolidated financial statements included in this Form 10-Q.

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

Total Revenue

TABLE 2: TOTAL REVENUE

(Dollars in millions)	Quarters Ended June 30,		% Change	
	2015	2014		
Fee revenue:				
Servicing fees	\$1,325	\$1,288	3	%
Management fees	304	300	1	
Trading services:				
Foreign exchange trading	167	144	16	
Brokerage and other trading services	114	116	(2	)
Total trading services	281	260	8	
Securities finance	155	147	5	
Processing fees and other	17	44	(61	)
Total fee revenue	2,082	2,039	2	
Net interest revenue:				
Interest revenue	629	650	(3	)
Interest expense	94	89	6	
Net interest revenue	535	561	(5	)
Gains (losses) related to investment securities, net	(3	) (2	)	
Total revenue	\$2,614	\$2,598	1	

(Dollars in millions)	Six Months Ended June 30,		% Change	
	2015	2014		
Fee revenue:				
Servicing fees	\$2,598	\$2,526	3	%
Management fees	605	592	2	
Trading services:				
Foreign exchange trading	370	278	33	
Brokerage and other trading services	235	235	—	
Total trading services	605	513	18	
Securities finance	256	232	10	
Processing fees and other	78	100	(22	)
Total fee revenue	4,142	3,963	5	
Net interest revenue:				
Interest revenue	1,271	1,305	(3	)
Interest expense	190	189	1	
Net interest revenue	1,081	1,116	(3	)
Gains (losses) related to investment securities, net	(4	) 4		
Total revenue	\$5,219	\$5,083	3	

Fee Revenue

Servicing and management fees collectively comprised approximately 78% and 77%, of our total fee revenue in the second quarter and first six months of 2015, respectively, compared to approximately 78% and 79%, in the second quarter and first six months of 2014, respectively. 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, the geographical location in which services are provided 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, as a higher proportion of the underlying services provided, and the associated management fees earned, are dependent on equity and fixed-income security valuations. Additional factors, such as the relative mix of assets managed, may have a significant effect on our management fee revenue. While certain management fees are directly determined by the values of 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 which are recorded when the performance period is complete. Performance fees are generated when the performance of certain managed portfolios exceeds

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

benchmarks specified in the management agreements. Generally, we experience more volatility with performance fees than with more traditional management fees.

In light of the above, we estimate, using relevant information as of June 30, 2015 and assuming that all other factors remain constant, that: (1) a 10% increase or decrease in worldwide equity valuations, over the relevant periods for which our servicing and management fees are calculated, would result in a corresponding change in our total revenue of approximately 2%; and (2) a 10% increase or decrease in worldwide fixed income security valuations, over the relevant periods for or on which our servicing and management fees are calculated, would result in a corresponding change in our total revenue of approximately 1%.

See Table 3: Daily, Month-end and Year-end Indices for 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.

TABLE 3: DAILY, MONTH-END AND YEAR-END INDICES

	Daily Averages of Indices				Averages of Month-End Indices			Quarter-End Indices				
	Quarters Ended June 30,				Quarters Ended June 30,			As of June 30,				
	2015	2014	% Change		2015	2014	% Change	2015	2014	% Change		
S&P 500®	2,102	1,900	11	%	2,085	1,923	8	%	2,063	1,960	5	%
NASDAQ®	5,030	4,196	20		4,999	4,255	17		4,987	4,408	13	
MSCI EAFE®	1,905	1,942	(2	)	1,887	1,955	(3	)	1,842	1,972	(7	)
	Daily Averages of Indices				Averages of Month-End Indices							
	Six Months Ended June 30,				Six Months Ended June 30,							
	2015	2014	% Change		2015	2014	% Change					
S&P 500®	2,083	1,868	12	%	2,071	1,880	10	%				
NASDAQ®	4,929	4,203	17		4,916	4,229	16					
MSCI EAFE®	1,861	1,918	(3	)	1,863	1,926	(3	)				

FEE REVENUE

Table 2: Total Revenue provides the breakout of fee revenue for the second quarter and first six months of 2015 and 2014.

Servicing Fees

Servicing fees in both the second quarter and first six months of 2015 increased 3% compared to the same periods in 2014, primarily as a result of the positive revenue impact of net new business (revenue added from new servicing business installed less revenue lost from the removal of assets serviced) and stronger U.S. equity markets, partially offset by the impact of the stronger U.S. dollar. In both the second quarter and first six months of 2015, servicing fees generated outside the U.S. were approximately 41% of total servicing fees compared to 42% for both the second quarter and first six months of 2014.

The increase in total assets under custody and administration as of June 30, 2015 compared to December 31, 2014 primarily resulted from new business in assets to be serviced and stronger global equity markets. The increase in total assets under custody and administration as of June 30, 2015

compared to June 30, 2014 primarily resulted from stronger global equity markets, net shareholder subscriptions experienced by our custody clients and new business partially offset by losses of assets serviced. Asset levels as of

June 30, 2015 did not reflect the estimated \$143 billion of new business in assets to be serviced awarded to us in the second quarter of 2015 and prior periods but not installed prior to June 30, 2015. 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.

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.

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

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

assets under custody and administration from period to period do not necessarily result in proportional changes in our servicing fee revenue.

TABLE 4: COMPONENTS OF ASSETS UNDER CUSTODY AND ADMINISTRATION

(Dollars in billions)	June 30, 2015	December 31, 2014	June 30, 2014
Mutual funds	\$7,107	\$6,992	\$7,122
Collective funds	7,189	6,949	6,956
Pension products	5,830	5,746	5,613
Insurance and other products	8,524	8,501	8,709
Total	\$28,650	\$28,188	\$28,400

TABLE 5: COMPOSITION OF ASSETS UNDER CUSTODY AND ADMINISTRATION

(Dollars in billions)	June 30, 2015	December 31, 2014	June 30, 2014
Equities	\$16,006	\$15,876	\$15,607
Fixed-income	8,939	8,739	9,255
Short-term and other investments	3,705	3,573	3,538
Total	\$28,650	\$28,188	\$28,400

TABLE 6: GEORGRAPHIC MIX OF ASSETS UNDER CUSTODY AND ADMINISTRATION⁽¹⁾

(In billions)	June 30, 2015	December 31, 2014	June 30, 2014
North America	\$21,667	\$21,217	\$21,199
Europe/Middle East/Africa	5,621	5,633	5,923
Asia/Pacific	1,362	1,338	1,278
Total	\$28,650	\$28,188	\$28,400

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

Management Fees

Management fees in the second quarter and first six months of 2015 increased 1% and 2%, respectively, compared to the second quarter and first six months of 2014, primarily due to net new business and stronger U.S. equity markets, partially offset by the impact of the stronger U.S. dollar. Management fees generated outside the U.S. were approximately 36% and 35%, respectively, of total management fees for the second quarter and first six months of 2015, compared to 36% for both the second quarter and first six months of 2014.

TABLE 7: ASSETS UNDER MANAGEMENT BY ASSET CLASS AND INVESTMENT APPROACH

(Dollars in billions)	June 30, 2015	December 31, 2014	June 30, 2014
Equity:			
Active	\$36	\$39	\$42
Passive	1,386	1,436	1,390
Total Equity	1,422	1,475	1,432
Fixed-Income:			
Active	17	17	16
Passive	303	302	336
Total Fixed-Income	320	319	352
Cash ⁽¹⁾	376	399	413
Multi-Asset-Class Solutions:			
Active	29	30	34
Passive	89	97	116
Total Multi-Asset-Class Solutions	118	127	150
Alternative Investments ⁽²⁾ :			
Active	18	17	18

Edgar Filing: STATE STREET CORP - Form 10-Q

Passive	120	111	115
Total Alternative Investments	138	128	133
Total	\$2,374	\$2,448	\$2,480

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

(2) Includes real estate investment trusts, currency and commodities, including SPDR® Gold Fund, for which State Street is not the investment manager, but acts as distribution agent.

TABLE 8: EXCHANGE-TRADED FUNDS BY ASSET CLASS⁽¹⁾

(Dollars in billions)	June 30, 2015	December 31, 2014	June 30, 2014
Alternative Investments ⁽²⁾	\$37	\$38	\$43
Cash	2	1	1
Equity	342	388	331
Fixed-income	41	39	38
Total Exchange-Traded Funds	\$422	\$466	\$413

(1) ETFs 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.

Table of ContentsMANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS (Continued)TABLE 9: GEOGRAPHIC MIX OF ASSETS UNDER MANAGEMENT⁽¹⁾

(Dollars in billions)	June 30, 2015	December 31, 2014	June 30, 2014
North America	\$1,486	\$1,568	\$1,533
Europe/Middle East/Africa	563	559	589
Asia/Pacific	325	321	358
Total	\$2,374	\$2,448	\$2,480

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

In asset management, we experienced net outflows of approximately \$104 billion between

June 30, 2015 and December 31, 2014, primarily composed of approximately \$43 billion of net outflows from ETFs, approximately \$40 billion of net outflows from long-term institutional portfolios and approximately \$21 billion of outflows from money market funds. This decrease in total assets under management resulted primarily from seasonal outflows from SPY, our S&P 500 ETF and the strengthening U.S. dollar, partially offset by the stronger U.S. equity markets. The decrease in total assets under management as of June 30, 2015 compared to June 30, 2014 resulted from net business lost and the strengthening U.S. dollar offset by stronger U.S. equity markets.

TABLE 10: ACTIVITY IN ASSETS UNDER MANAGEMENT BY PRODUCT CATEGORY

(In billions)	Equity	Fixed-Income	Cash ⁽²⁾	Multi-Asset-Class	Alternative	Total
				Solutions	Investments ⁽³⁾	
Balance as of June 30, 2014	\$1,432	\$ 352	\$413	\$ 150	\$133	\$2,480
Long-term institutional inflows ⁽¹⁾	147	36	—	17	6	206
Long-term institutional outflows ⁽¹⁾	(144)	(66)	—	(17)	(5)	(232)
Long-term institutional flows, net	3	(30)	—	—	1	(26)
ETF flows, net	44	2	—	—	(2)	44
Cash fund flows, net	—	—	(9)	—	—	(9)
Total flows, net	47	(28)	(9)	—	(1)	9
Market appreciation	35	15	—	(17)	5	38
Foreign exchange impact	(39)	(20)	(5)	(6)	(9)	(79)
Total market/foreign exchange impact	(4)	(5)	(5)	(23)	(4)	(41)
Balance as of December 31, 2014	1,475	319	399	127	128	2,448
Long-term institutional inflows ⁽¹⁾	129	34	—	29	11	203
Long-term institutional outflows ⁽¹⁾	(166)	(30)	—	(38)	(9)	(243)
Long-term institutional flows, net	(37)	4	—	(9)	2	(40)
ETF flows, net	(47)	3	—	—	1	(43)
Cash fund flows, net	—	—	(21)	—	—	(21)
Total flows, net	(84)	7	(21)	(9)	3	(104)
Market appreciation	43	(1)	—	2	11	55
Foreign exchange impact	(12)	(5)	(2)	(2)	(4)	(25)
Total market/foreign exchange impact	31	(6)	(2)	—	7	30
Balance as of June 30, 2015	\$1,422	\$ 320	\$376	\$ 118	\$138	\$2,374

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

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

(3) Includes real estate investment trusts, currency and commodities, including SPDR® Gold Fund, for which State Street is not the investment manager, but acts as distribution agent.

The net outflows of approximately \$104 billion in assets under management between June 30, 2015 and December 31, 2014 presented in the preceding table did not include approximately \$32 billion of new asset management business, which was awarded to SSGA, but not installed as of June 30, 2015. 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 June 30, 2015 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.

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

Trading Services

TABLE 11: TRADING SERVICES REVENUE

(Dollars in millions)	Quarters Ended June 30,		% Change	
	2015	2014		
Foreign exchange trading:				
Direct sales and trading	\$88	\$79	11	%
Indirect foreign exchange trading	79	65	22	
Total foreign exchange trading	167	144	16	
Brokerage and other trading services:				
Electronic foreign exchange services	44	43	2	
Other trading, transition management and brokerage	70	73	(4	)
Total brokerage and other trading services	114	116	(2	)
Total trading services revenue	\$281	\$260	8	
(Dollars in millions)	Six Months Ended June 30,		% Change	
	2015	2014		
Foreign exchange trading:				
Direct sales and trading	\$223	\$150	49	%
Indirect foreign exchange trading	147	128	15	
Total foreign exchange trading	370	278	33	
Brokerage and other trading services:				
Electronic foreign exchange services	92	91	1	
Other trading, transition management and brokerage	143	144	(1	)
Total brokerage and other trading services	235	235	—	
Total trading services revenue	\$605	\$513	18	

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

We also offer a range of brokerage and other trading products tailored specifically to meet the needs of the global pension community, including transition management and commission recapture. 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.

Our FX trading revenue is influenced by multiple factors, including: the volume and type of client FX

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

Total FX trading revenue increased 16% and 33%, for the second quarter and first six months of 2015, respectively, compared to the same periods in 2014, primarily the result of higher volatility and client volumes.

We enter into FX transactions with clients and investment managers that contact our trading desk directly. These trades are all executed at negotiated rates. We refer to this activity, and our principal market-making activities, as “direct sales and trading” and it includes many transactions for funds serviced by third party custodians or prime brokers, as well as those funds under custody at State Street. Direct sales and trading revenue represented 53% and 60% of total foreign exchange trading revenue for the three and six month periods ended June 30, 2015, respectively, as compared to 55% and 54% in the same periods in 2014.

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 trading,” and, in all cases, we are the funds' custodian. We execute indirect FX trades as a principal at rates disclosed to our clients. Estimated indirect sales and trading revenue represented 47% and 40% of total foreign exchange trading revenue for the three and six month periods ended June 30, 2015, respectively, as compared to 45% and 46% in the same periods in 2014. We calculate revenue for indirect FX trading using an attribution methodology. This methodology takes into consideration estimated mark-ups/downs and observed client volumes. Direct sales and trading revenue is all other FX trading revenue other than the revenue attributed to indirect FX trading.

Our clients that utilize indirect FX trading can, in addition to executing their FX transactions through dealers not affiliated with us, transition from indirect FX trading to either direct sales and trading execution, including our “Street FX” service, or to one of our electronic trading platforms. Street FX, in which we continue to act as a principal market maker, enables our clients to define their FX execution strategy and automate the FX trade execution

Table of Contents

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

process, both for funds under custody with us as well as those under custody at another bank.

Our direct sales and trading revenue increased 11% and 49%, in the second quarter and first six months of 2015, respectively, as compared to the same periods of 2014. The increases primarily resulted from higher currency volatility, market making activities and client volumes. Our estimated indirect FX trading revenue increased 22% and 15%, in the second quarter and first six months of 2015, respectively, compared to the same periods of 2014. The increase mainly resulted from higher currency volatility and client volumes and spreads.

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

Total brokerage and other trading services revenue decreased 2% in the second quarter of 2015 compared to the second quarter of 2014, and was flat in the first six months of 2015 compared to the same period of 2014. Our clients may choose to execute FX transactions through one of our electronic trading platforms. These transactions generate revenue through a "click" fee. Revenue from such electronic FX services increased 2% and 1%, in the second quarter and first six months of 2015, respectively, compared to the same periods of 2014.

The 4% and 1% decrease in other trading, transition management and brokerage revenue for the second quarter and first six months of 2015, respectively, compared to the same periods of 2014 was primarily due to a decrease in other trading revenue, partially offset by an increase in transition management revenue. In recent years, our transition management revenue was adversely affected by compliance issues in our U.K. business. While the increase in revenue in the second quarter and first six months of 2015, relative to the second quarter and first six months of 2014, may not reflect a continuation of those effects, the reputational and regulatory impact of those compliance issues may adversely affect our transition management revenue in future periods.

Securities Finance

Our securities finance business consists of three components: (1) an agency lending program for SSGA-managed investment funds with a broad range of investment objectives, which we refer to as the SSGA lending funds, (2) an agency lending program

for third-party investment managers and asset owners, which we refer to as the agency lending funds and (3) security lending transactions which we enter into as principal, which we refer to as our enhanced custody business.

See Table 2: Total Revenue for the comparison of securities finance revenue for the quarters ended June 30 and first six months of 2015 and 2014.

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

As principal, our enhanced custody business borrows securities from the lending client and then lends such securities to the subsequent borrower, either a State Street client or a broker/dealer. We act as principal when the lending client is unable to, or elects not to, transact directly with the market and 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 increased 5% and 10%, in the second quarter and first six months of 2015, respectively, compared to the same periods of 2014. The increase was mainly the result of new business from enhanced custody and the impact of higher lending volumes associated with our agency lending program.

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, recently effective 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 includes diverse types of fees and revenue, including fees from our structured products business, fees from software licensing and maintenance, equity income from our joint venture investments, gains and losses on sales of leased equipment and other assets, and amortization of our tax-advantaged investments. Processing fees and other revenue decreased 61% and 22%, in the second quarter and first six

Table of Contents

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

months of 2015, respectively, compared to the same periods of 2014, as shown in Table 2: Total Revenue. The decreases were mainly due to higher amortization on our tax-advantaged investments, partly offset by higher revenue from our equity method investments and joint ventures.

NET INTEREST REVENUE

See Table 2: Total Revenue, for the breakout of interest revenue and interest expense for the quarters ended June 30, 2015 and 2014.

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

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

TABLE 12: AVERAGE BALANCES AND INTEREST RATES - FULLY TAXABLE-EQUIVALENT BASIS

(Dollars in millions; fully taxable-equivalent basis)	Quarters Ended June 30, 2015				2014			
	Average Balance	Interest Revenue/Expense	Rate		Average Balance	Interest Revenue/Expense	Rate	
Interest-bearing deposits with banks	\$79,435	\$54	.27	%	\$53,564	\$51	.38	%
Securities purchased under resale agreements	2,662	15	2.24		4,307	10	.94	
Trading account assets	1,243	—	—		953	—	—	
Investment securities	108,953	525	1.93		117,593	568	1.94	
Loans and leases	17,508	77	1.77		15,061	61	1.62	
Other interest-earning assets	23,610	2	.03		14,845	2	.06	
Average total interest-earning assets	\$233,411	\$673	1.16		\$206,323	\$692	1.34	
Interest-bearing deposits:								
U.S.	\$28,165	\$9	.13	%	\$20,698	\$4	.09	%
Non-U.S.	110,942	5	.02		109,290	14	.05	
Securities sold under repurchase agreements	10,155	1	.02		8,747	—	—	
Federal funds purchased	22	—	—		19	—	—	
Other short-term borrowings	4,400	2	.16		4,000	(12)	(1.20)	)
Long-term debt	9,154	61	2.67		9,340	64	2.73	
Other interest-bearing liabilities	8,609	16	.74		7,559	19	.99	
Average total interest-bearing liabilities	\$171,447	\$94	.22		\$159,653	\$89	.22	
Interest-rate spread			.94	%			1.12	%
Net interest revenue—fully taxable-equivalent basis		\$579				\$603		
Net interest margin—fully taxable-equivalent basis			1.00	%			1.17	%
Tax-equivalent adjustment		(44)	)			(42)	)	
Net interest revenue—GAAP basis		\$535				\$561		

(Dollars in millions; fully taxable-equivalent basis)	Six Months Ended June 30, 2015				2014			
	Average Balance	Interest Revenue/Expense	Rate		Average Balance	Interest Revenue/Expense	Rate	
Interest-bearing deposits with banks	\$75,523	\$108	.29	%	\$43,543	\$85	.40	%
Securities purchased under resale agreements	2,556	26	2.07		5,463	19	.69	
Trading account assets	1,181	—	—		927	—	—	
Investment securities	110,795	1,069	1.93		117,713	1,165	1.98	
Loans and leases	17,765	151	1.71		14,833	119	1.61	
Other interest-earning assets	22,085	5	.05		14,190	3	.04	
Average total interest-earning assets	\$229,905	\$1,359	1.19		\$196,669	\$1,391	1.42	
Interest-bearing deposits:								
U.S.	\$29,164	\$19	.13	%	\$16,409	\$5	.07	%
Non-U.S.	107,406	21	.04		105,308	28	.05	
Securities sold under repurchase agreements	9,757	—	—		8,586	—	—	
Federal funds purchased	23	—	—		20	—	—	
Other short-term borrowings	4,424	3	.15		3,955	3	.16	

Edgar Filing: STATE STREET CORP - Form 10-Q

Long-term debt	9,443	123	2.60	9,503	127	2.66
Other interest-bearing liabilities	8,040	24	.59	7,161	26	.73
Average total interest-bearing liabilities	\$168,257	\$190	.23	\$150,942	\$189	.25
Interest-rate spread			0.96	%		1.17
Net interest revenue—fully taxable-equivalent basis		\$1,169			\$1,202	
Net interest margin—fully taxable-equivalent basis			1.03	%		1.23
Tax-equivalent adjustment		(88	)		(86	)
Net interest revenue—GAAP basis		\$1,081			\$1,116	

Net interest revenue decreased 4% and 3%, on a fully taxable-equivalent basis in the second quarter and first six months of 2015 respectively, compared to the same periods of 2014. 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, partially offset by the benefit of higher levels of interest-earning assets and lower rates on interest paid.

Table of Contents

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

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.

Average total interest-earning assets were higher for the second quarter and first six months of 2015 compared to the same periods in 2014 as a result of elevated levels of client deposits invested in interest-bearing deposits with banks, higher average loans and leases and higher levels of cash collateral (included in other interest-earning assets in Table 12: Average Balances and Interest Rates - Fully Taxable-Equivalent Basis) provided in connection with our enhanced custody business.

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 central bank actions have resulted in high levels of liquidity and low global interest rates. We evaluate deposits as either inherent in our relationship with our custodial clients, which we generally invest in our investment portfolio, or transient, or excess, deposits, which we generally deposit with central banks. Deposits with central banks generate low returns.

Consequently, the elevated levels of these transient deposits have contributed to a reduction of our net interest margin relative to historical levels.

The deposits with central banks are also included in our total consolidated assets, and higher deposit levels also impact our regulatory leverage ratios. We are engaging in discussions with clients regarding deposit levels and are developing plans to better balance our clients' cash management needs with our economic and regulatory objectives. These efforts may not achieve their intended goals.

The effects of the recent stronger U.S. dollar relative to other currencies, particularly the Euro, also negatively impacted our net interest revenue as we maintain a portion of our investment portfolio in Euro denominated securities. If European Central Bank, or ECB, monetary policy continues to pressure European interest rates downward and the U.S. dollar remains strong or strengthens, the negative effects on our net interest revenue may continue or worsen.

Negative interest rates on assets generate negative interest income. Conversely, negative interest rates on liabilities generate negative interest

expense. These amounts are included within interest income and interest expense.

We recorded aggregate discount accretion in interest revenue of \$48 million in the first six months of 2015 related to the assets we consolidated onto our balance sheet in 2009 from our asset-backed commercial paper conduits.

Subsequent to the commercial paper conduit consolidation in 2009, we have recorded total discount accretion in interest revenue of \$2.07 billion (including \$48 million in the first six months of 2015, \$119 million for the twelve months ended December 31, 2014, \$137 million for the twelve months ended December 31, 2013, \$215 million for the twelve months ended December 31, 2012, \$220 million for the twelve months ended December 31, 2011, \$712 million for the twelve months ended December 31, 2010 and \$621 million for the twelve months ended December 31, 2009). 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 to our net interest revenue, though generally in declining amounts. 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 June 30, 2015 to generate discount accretion in future periods of approximately \$276 million over their remaining terms, with approximately half of this discount accretion to be recorded over the next four years.

Interest-bearing deposits with banks averaged \$79.44 billion and \$75.52 billion, for the second quarter and first six months of 2015, respectively, compared to \$53.56 billion and \$43.54 billion, respectively, for the same periods of 2014. These deposits reflected our maintenance of cash balances at the Federal Reserve, the ECB and other non-U.S. central banks both to satisfy regulatory reserve requirements, and due to the continued elevated levels of client deposits and our investment of the excess deposits with central banks.

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

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 decreased to \$108.95 billion, and \$110.80 billion, for the second quarter and first six months of 2015, respectively, compared to \$117.59 billion and \$117.71 billion, respectively, for the same periods of 2014, as we continue to optimize our balance sheet in light of the evolving regulatory environment. Detail with respect to our investment securities portfolio as of June 30, 2015 and December 31, 2014 is provided in note 3 to the consolidated financial statements included in this Form 10-Q.

Average loans and leases increased to \$17.51 billion and \$17.77 billion for the second quarter and first six months of 2015 compared to \$15.06 billion and \$14.83 billion for the same periods of 2014. The increase was mainly related to mutual fund lending and our continued investment in senior secured bank loans. Mutual fund lending and senior secured bank loans averaged approximately \$12.61 billion and \$12.78 billion, respectively, for the second quarter and first six months of 2015, compared to \$9.67 billion and \$9.62 billion, respectively, for the same periods of 2014.

Average loans and leases also include short-duration advances.

TABLE 13: U.S. AND NON-U.S. SHORT-DURATION ADVANCES

(In millions)	Quarters Ended June 30,			
	2015		2014	
Average U.S. short-duration advances	\$2,263		\$2,338	
Average non-U.S. short-duration advances	1,454		1,511	
Average total short-duration advances	\$3,717		\$3,849	
Average short-duration advances to average loans and leases	21	%	26	%

(In millions)	Six Months Ended June 30,			
	2015		2014	
Average U.S. short-duration advances	\$2,313		\$2,209	
Average non-U.S. short-duration advances	1,487		1,461	
Average total short-duration advances	\$3,800		\$3,670	
Average short-duration advances to average loans and leases	21	%	25	%

The decline in the proportion of the average daily short-duration advances to average loans and leases is primarily due to growth in the other segments of the loan and lease portfolio. Short-

duration advances provide liquidity to clients in support of their investment activities.

Although average short-duration advances decreased for the second quarter of 2015 and increased for the first six months of 2015 compared to the second quarter and first six months of 2014, respectively, such average short-duration advances provided by us remained low relative to historical levels, primarily the result of higher levels of liquidity, including excess deposits, held by our clients.

Average other interest-earning assets increased to \$23.61 billion and \$22.09 billion, for the second quarter and first six months of 2015, respectively, from \$14.85 billion and \$14.19 billion, for the second quarter and first six months of 2014, respectively. Our average other interest-earning assets, largely associated with our enhanced custody business, comprised approximately 10% of our average total interest-earning assets for both the second quarter and first six months of 2015, compared to approximately 7% of our average total interest-earning assets for both the second quarter and first six months of 2014, 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 income on the receivable associated with the cash collateral we provide is earned at a lower rate compared to our investment securities portfolio.

Aggregate average interest-bearing deposits increased to \$139.11 billion and \$136.57 billion, for the second quarter and first six months of 2015, respectively, from \$129.99 billion and \$121.72 billion, respectively, for the same periods of 2014. 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 \$4.40 billion and \$4.42 billion, for the second quarter and first six months of 2015, respectively, from \$4.00 billion and \$3.96 billion, respectively, for the same periods of 2014. The increase was the result of a higher level of client demand for our commercial paper. State Street plans to phase-out its commercial paper program by July 1, 2016, consistent with the objectives of its 2015 recovery and resolution plan developed pursuant to the requirements of the Dodd-Frank Act. The decline in interest rates paid from (1.20)% and 0.2%, in the second quarter and first six months of 2014, respectively, to 0.2% in both the second quarter and first six months of 2015, resulted from a

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

reclassification of certain derivative contracts in 2014 that hedge our interest-rate risk on certain assets and liabilities, which reduced interest revenue and interest expense.

Average long-term debt decreased to \$9.15 billion and \$9.44 billion, for the second quarter and first six months of 2015, respectively, from \$9.34 billion and \$9.50 billion, respectively, for the same periods of 2014. The decrease primarily reflected the issuance of \$1.0 billion of senior debt issued in December 2014 which was offset by a \$900 million extendible note called at the end of February 2015, the maturities 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 \$8.61 billion and \$8.04 billion, for the second quarter and first six months of 2015, respectively, from \$7.56 billion and \$7.16 billion, respectively, for the same periods of 2014, 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; the effectiveness of our efforts to reduce excess client deposits; 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, municipal securities, federal agency mortgage-backed securities and U.S. and non-U.S. mortgage- and asset-backed securities. The pace at which we continue to reinvest and the types of investment securities purchased will depend on the impact of market conditions 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.

Gains (Losses) Related to Investment Securities, Net

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.

TABLE 14: INVESTMENT SECURITIES GAINS (LOSSES), NET

(In millions)	Quarters Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net realized gains (losses) from sales of available-for-sale securities	\$(3	) \$—	\$(3	) \$15
Net impairment losses:				
Gross losses from other-than-temporary impairment	—	—	(1	) (1
Losses reclassified (from) to other comprehensive income	—	(2	) —	(10
Net impairment losses ⁽¹⁾	—	(2	) (1	) (11
Gains (losses) related to investment securities, net	\$(3	) \$(2	) \$(4	) \$4

⁽¹⁾ Net impairment losses, recognized in our consolidated statement of income, were composed of the following:

Impairment associated with expected credit losses	\$—	\$(1	) \$—	\$(10	)
	—	—	—	—	

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	—	(1	)	(1	)	(1	)
Net impairment losses	\$—	\$(2	)	\$(1	)	\$(11	)

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, to optimize our balance sheet for regulatory changes, or for other reasons. In the first six months of 2015, we sold approximately \$9.63 billion of such investment securities, compared to

approximately \$2.84 billion in the first six months of 2014. We recorded \$3 million of net realized losses and \$15 million of net realized gains in the first six months of 2015 and 2014, respectively, as presented in the preceding table.

PROVISION FOR LOAN LOSSES

We recorded a provision for loan losses of \$2 million and \$6 million in the second quarter and first

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

six months of 2015, respectively, compared to \$2 million and \$4 million, respectively, in the same periods in 2014. The provisions in both periods of 2014 and 2015 were recorded in connection with our exposure to non-investment-grade borrowers composed of senior secured bank loans, which we purchased in connection with our participation in loan syndications in the non-investment-grade lending market. The provisions remained flat in the second quarter of 2015 compared to the second quarter of 2014. Increases in the provisions in the year-to-date comparison reflected growth of the senior secured loan portfolio. Additional information about these senior secured bank loans is provided under "Financial Condition - Loans and Leases" in this Management's Discussion and Analysis and in note 4 to the consolidated financial statements included in this Form 10-Q.

EXPENSES

TABLE 15: EXPENSES

(Dollars in millions)	Quarters Ended June 30,		% Change	%
	2015	2014		
Compensation and employee benefits	\$984	\$978	1	
Information systems and communications	249	244	2	
Transaction processing services	201	193	4	
Occupancy	109	115	(5	)
Acquisition costs	3	15		
Restructuring charges, net	—	13		
Other:				
Professional services	136	116	17	
Amortization of other intangible assets	49	54	(9	)
Securities processing costs	14	8		
Regulatory fees and assessments	25	19		
Other	364	95	283	
Total other	588	292	101	
Total expenses	\$2,134	\$1,850	15	
Number of employees at quarter-end	31,070	29,420		

(Dollars in millions)	Six Months Ended June 30,		% Change	%
	2015	2014		
Compensation and employee benefits	\$2,071	\$2,135	(3	)%
Information systems and communications	496	488	2	
Transaction processing services	398	384	4	
Occupancy	222	229	(3	)
Acquisition costs	8	36		
Restructuring charges, net	1	25		
Other:				
Professional services	232	221	5	
Amortization of other intangible assets	99	108	(8	)
Securities processing costs	34	31		
Regulatory fees and assessments	58	38		
Other	612	183	234	
Total other	1,035	581	78	
Total expenses	\$4,231	\$3,878	9	

Compensation and employee benefits expenses increased 1% in the second quarter of 2015 compared to the same period in 2014, reflecting increased costs to support new business and regulatory initiatives, partially offset by the

benefit of the stronger U.S. dollar. Compensation and employee benefits expenses decreased 3% in the first six months of 2015 compared to the same period in 2014. The decrease was primarily the result of severance costs of \$76 million recorded in the first six months of 2014 associated with staffing reductions.

Compensation and employee benefits expenses in both the first six months of 2015 and 2014, included approximately \$137 million and \$146 million, respectively, associated with the seasonal first quarter deferred incentive compensation expense for retirement-eligible employees and payroll taxes.

Expenses for transaction processing services increased 4% in both the second quarter and first six months of 2015 compared to the same periods in 2014. The increase primarily relates to higher transaction volumes in the investment servicing business.

Other expenses increased 101% and 78% in the second quarter and first six months of 2015, respectively, compared to the same periods in 2014, primarily due to a first quarter 2015 legal accrual of \$150 million and a second quarter 2015 legal accrual of \$250 million, each in connection with our indirect foreign exchange business. In addition, higher levels of regulatory fees and assessments also contributed to these increases. The legal accrual is further discussed under "Legal and Regulatory Matters" in note 8 to the consolidated financial statements included in this Form 10-Q.

Table of Contents

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

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 global systemically important bank, or G-SIB, has also resulted in heightened prudential and conduct expectations of our U.S. and international regulators with respect to our capital and liquidity management and our compliance and risk oversight programs. These heightened expectations have increased our regulatory compliance costs, including personnel and systems, as well as significant additional implementation and related costs to enhance our regulatory compliance programs. We anticipate that these evolving 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 second quarter and first six months of 2015, we recorded acquisition costs of \$3 million and \$8 million, respectively, compared to \$15 million and \$36 million, respectively, in the same periods in 2014. These amounts related to previously disclosed acquisitions.

Restructuring Charges

In the second quarter of 2015, we recorded no net restructuring charges compared to \$13 million in the same period of 2014. In the first six months of 2015, we recorded net restructuring charges of \$1 million compared to \$25 million in the same period in 2014. The amounts recorded in the second quarter of 2014 mainly related to our recently completed Business Operations and Information Technology Transformation program.

Income Tax Expense

Income tax expense was \$56 million in the second quarter of 2015 compared to \$124 million in the second quarter of 2014. In the first six months of 2015 and 2014, income tax expense was \$151 million and \$216 million, respectively. The decreases in both periods of 2015 were primarily due to the effects of the legal accruals recorded during these periods

(\$150 million in the first quarter of 2015 and \$250 million in the second quarter of 2015). Our effective tax rate for the first six months of 2015 was 15.3% and included effects of the approval of a tax refund for prior years, partially offset by a change in New York tax law, compared to 18.0% in the same period of 2014.

LINE OF BUSINESS INFORMATION

We have two lines of business: Investment Servicing and Investment Management. 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 24 to the consolidated financial statements included in our 2014 Form 10-K.

The "Other" information presented below represents costs incurred that are not allocated to our business lines, including certain severance and restructuring costs, acquisition costs and certain provisions for legal contingencies.

"Other" for the second quarter and first six months of 2015 included net costs of \$3 million and \$8 million, respectively, composed of the following -

• Net acquisition and restructuring costs of \$3 million and \$9 million, respectively; and

• Net severance cost credit adjustment of \$1 million in the first six months of 2015.

"Other" for the second quarter and first six months of 2014 included costs of \$32 million and \$143 million, respectively, composed of the following -

• Net severance costs associated with staff reductions of \$4 million and \$76 million, respectively;

• Net acquisition and restructuring costs of \$28 million and \$61 million, respectively; and

• Provisions for legal contingencies of \$6 million in the first six months of 2014.

Prior reported results 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 2015.

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

Investment Servicing

TABLE 16: INVESTMENT SERVICING LINE OF BUSINESS RESULTS

	Quarters Ended June 30,			Six Months Ended June 30,			
(Dollars in millions, except where otherwise noted)	2015	2014	% Change	2015	2014	% Change	
Servicing fees	\$1,325	\$1,288	3	% \$2,598	\$2,526	3	%
Trading services	271	249	9	586	490	20	
Securities finance	155	147	5	256	232	10	
Processing fees and other	22	42	(48)	81	97	(16)	)
Total fee revenue	1,773	1,726	3	3,521	3,345	5	
Net interest revenue	534	558	(4)	1,079	1,109	(3)	)
Gains (losses) related to investment securities, net	(3)	(2)	50	(4)	4	(200)	)
Total revenue	2,304	2,282	1	4,596	4,458	3	
Provision for loan losses	2	2	—	6	4	50	
Total expenses	1,880	1,594	18	3,716	3,265	14	
Income before income tax expense	\$422	\$686	(38)	\$874	\$1,189	(26)	)
Pre-tax margin	18	% 30	%	19	% 27	%	

Total revenue in the second quarter and first six months of 2015 for our Investment Servicing line of business, presented in Table 16: Investment Servicing Line of Business Results, increased 1% and 3%, respectively, compared to the same periods in 2014. Total fee revenue increased 3% and 5%, respectively, compared to the same periods in 2014.

Servicing fees increased 3% in both the second quarter and first six months of 2015 compared to the same periods in 2014. The increases for both comparisons primarily resulted from the positive revenue impact of net new business (revenue added from new servicing business installed less revenue lost from the removal of assets serviced) and stronger global equity markets, partially offset by the impact of the stronger U.S. dollar.

Trading services revenue increased 9% and 20%, respectively, in the second quarter and first six months of 2015, compared to the same periods in 2014, primarily the result of higher currency volatility and client volumes, partially offset by a decline in transition management revenue.

Securities finance revenue increased 5% and 10%, respectively, in the second quarter and first six months of 2015, compared to the same periods in 2014. The increase in the second quarter primarily resulted from new business in enhanced custody, partially offset by lower loan volumes and spreads associated with our lending program. The increase in the first six months primarily resulted from new business in enhanced custody and higher loan volumes associated with our lending program.

Processing fees and other revenue decreased 48% and 16%, respectively, in the second quarter and first six months of 2015, compared to the same periods in 2014, primarily due to higher amortization of tax-advantaged investments, partially offset by

higher loan service fees due to higher average loan volumes.

Servicing fees, securities finance revenue and net gains (losses) related to investment securities for our Investment Servicing business line are consistent with 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 decreased 4% and 3%, respectively, in the second quarter and first six months of 2015, compared to the same periods in 2014, primarily the result of lower yields on interest earning assets, as lower global interest

rates affected our revenue from floating-rate assets, as well as the impact of the stronger U.S. dollar. The decreases were partially offset by the benefit of higher levels 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 increased 18% and 14%, respectively, in the second quarter and first six months of 2015, compared to the same periods in 2014. The increases in both comparisons primarily resulted from other expenses for a legal accrual recorded in connection with our indirect foreign exchange business, higher regulatory and compliance costs, increases in compensation and employee benefits due to additional staffing to support new business, and transaction processing services. Both comparisons were partially offset by the impact of the strong U.S. dollar.

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

Investment Management

TABLE 17: INVESTMENT MANAGEMENT LINE OF BUSINESS RESULTS

	Quarters Ended June 30,			Six Months Ended June 30,		
(Dollars in millions, except where otherwise noted)	2015	2014	% Change	2015	2014	% Change
Management fees	\$304	\$300	1 %	\$605	\$592	2 %
Trading services	10	11	(9)	19	23	(17)
Processing fees and other	(5)	2	nm	(3)	3	nm
Total fee revenue	309	313	(1)	621	618	—
Net interest revenue	1	3	(67)	2	7	(71)
Total revenue	310	316	(2)	623	625	—
Total expenses	251	224	12	507	470	8
Income before income tax expense	\$59	\$92	(36)	\$116	\$155	(25)
Pre-tax margin	19 %	29 %		19 %	25 %	

nm - not meaningful

Total revenue for our Investment Management line of business, presented in Table 17: Investment Management Line of Business Results, decreased 2% in the second quarter of 2015 compared to the same period in 2014, while total revenue in the first six months of 2015 remained flat compared to the same period in 2014. Total fee revenue decreased 1% in the second quarter of 2015 compared to the same period in 2014, while total fee revenue in the first six months of 2015 remained flat compared to the same period in 2014.

Management fees increased 1% and 2%, respectively, in the second quarter and first six months of 2015 compared to the same periods in 2014, primarily due to net new business and stronger U.S. equity markets, partially offset by the impact of the strong U.S. dollar. Trading services revenue declined 9% and 17%, respectively, in the second quarter and first six months of 2015 compared to the same periods in 2014, mainly due to favorable mark to market on seed capital in the second quarter of 2014, as well as lower distribution fees in 2015 associated with the SPDR® Gold ETF, which resulted from outflows in 2014 and a lower average gold price during the period.

Management fees for the Investment Management business line are consistent with 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 increased 12% and 8%, respectively, in the second quarter and first six months of 2015 compared to the same periods in 2014, primarily driven by higher transaction processing services, increases in compensation due to additional staffing to support business growth, and gains and recoveries associated with Lehman

Brothers-related assets recorded in 2014. Both comparisons were partially offset by the impact of the strong U.S. dollar.

FINANCIAL CONDITION

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

Deposits and other liabilities resulting from client initiated transactions are invested in assets that generally match the liquidity and interest-rate characteristics of the liabilities, although the weighted-average maturities of our assets are

significantly longer than the contractual maturities of our liabilities. Our assets consist primarily of securities held in our available-for-sale or held-to-maturity portfolios and short-duration financial instruments, such as interest-bearing deposits with banks and securities purchased under resale agreements. The actual mix of assets is determined by the characteristics of the client liabilities and our desire to maintain a well-diversified portfolio of high-quality assets.

Table of ContentsMANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS (Continued)TABLE 18: AVERAGE STATEMENT OF CONDITION⁽¹⁾

Six Months Ended June 30, (In millions)	2015 Average Balance	2014 Average Balance
Assets:		
Interest-bearing deposits with banks	\$75,523	\$43,543
Securities purchased under resale agreements	2,556	5,463
Trading account assets	1,181	927
Investment securities	110,795	117,713
Loans and leases	17,765	14,833
Other interest-earning assets	22,085	14,190
Average total interest-earning assets	229,905	196,669
Cash and due from banks	2,603	4,963
Other noninterest-earning assets	28,977	23,538
Average total assets	\$261,485	\$225,170
Liabilities and shareholders' equity:		
Interest-bearing deposits:		
U.S.	\$29,164	\$16,409
Non-U.S.	107,406	105,308
Total interest-bearing deposits	136,570	121,717
Securities sold under repurchase agreements	9,757	8,586
Federal funds purchased	23	20
Other short-term borrowings	4,424	3,955
Long-term debt	9,443	9,503
Other interest-bearing liabilities	8,040	7,161
Average total interest-bearing liabilities	168,257	150,942
Noninterest-bearing deposits	55,676	41,312
Other noninterest-bearing liabilities	16,232	11,786
Preferred shareholders' equity	2,129	979
Common shareholders' equity	19,191	20,151
Average total liabilities and shareholders' equity	\$261,485	\$225,170

⁽¹⁾ 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.

Investment Securities

TABLE 19: CARRYING VALUES OF INVESTMENT SECURITIES

(In millions)	June 30, 2015	December 31, 2014
Available for sale:		
U.S. Treasury and federal agencies:		
Direct obligations	\$12,902	\$10,655
Mortgage-backed securities	19,718	20,714
Asset-backed securities:		
Student loans ⁽¹⁾	9,139	12,460
Credit cards	1,569	3,053
Sub-prime	491	951
Other	3,005	4,145

Edgar Filing: STATE STREET CORP - Form 10-Q

Total asset-backed securities	14,204	20,609
Non-U.S. debt securities:		
Mortgage-backed securities	8,329	9,606
Asset-backed securities	2,933	3,226
Government securities	4,003	3,909
Other	5,118	5,428
Total non-U.S. debt securities	20,383	22,169
State and political subdivisions	10,449	10,820
Collateralized mortgage obligations	3,984	5,339
Other U.S. debt securities	3,336	4,109
U.S. equity securities	39	39
Non-U.S. equity securities	3	2
U.S. money-market mutual funds	282	449
Non-U.S. money-market mutual funds	8	8
Total	\$85,308	\$94,913

Held to Maturity:

U.S. Treasury and federal agencies:

Direct obligations	\$5,707	\$5,114
Mortgage-backed securities	52	62
Asset-backed securities:		
Student loans ⁽¹⁾	1,695	1,814
Credit cards	897	897
Other	500	577
Total asset-backed securities	3,092	3,288
Non-U.S. debt securities:		
Mortgage-backed securities	3,121	3,787
Asset-backed securities	2,061	2,868
Government securities	153	154
Other	68	72
Total non-U.S. debt securities	5,403	6,881
State and political subdivisions	3	9
Collateralized mortgage obligations	1,898	2,369
Total	\$16,155	\$17,723

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

Additional information about our investment securities portfolio is provided in note 3 to the

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

consolidated financial statements included in this Form 10-Q.

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

Approximately 91% of the carrying value of the portfolio rated "AAA" or "AA" as of June 30, 2015 and 90% as of December 31, 2014.

TABLE 20: INVESTMENT PORTFOLIO BY EXTERNAL CREDIT RATING

	June 30, 2015		December 31, 2014	
AAA ⁽¹⁾	77	%	73	%
AA	14		17	
A	6		6	
BBB	2		2	
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 June 30, 2015, the investment portfolio of 14,275 securities was diversified with respect to asset class.

Approximately 59% of the aggregate carrying value of the portfolio as of that date was composed of mortgage-backed and asset-backed securities, compared to 64% as of December 31, 2014. The asset-backed securities portfolio, of which approximately 93% and 96% of the carrying value as of June 30, 2015 and December 31, 2014, respectively, was floating-rate, consisted primarily of student loan-backed and credit card-backed securities. Mortgage-backed securities were composed of securities issued by the Federal National Mortgage Association and Federal Home Loan Mortgage Corporation, as well as U.S. and non-U.S. large-issuer collateralized mortgage obligations.

In December 2013, U.S. regulators issued final regulations to implement the Volcker rule. The Volcker rule will, over time, prohibit banking entities, including us and our affiliates, from engaging in certain prohibited proprietary trading activities, as defined in the final Volcker rule regulations, subject to exemptions for market making-related activities, risk-mitigating hedging, underwriting and certain other activities. The Volcker rule will also require banking entities to either restructure or divest certain

ownership interests in, and relationships with, covered funds (as such terms are defined in the final Volcker rule regulations).

In the absence of an applicable extension of the Volcker rule's general conformance period, we were required to bring our activities and investments into conformance with the Volcker rule and its final Volcker rule regulations on July 21, 2015. In December 2014, the Federal Reserve issued an order, the 2016 conformance period extension, extending the Volcker rule's general conformance period until July 21, 2016 for investments in and relationships with covered funds and certain foreign funds that were in place on or prior to December 31, 2013, referred to as legacy covered funds. Under the 2016 conformance period extension, all investments in and relationships related to investments in a covered fund made or entered into after that date by a banking entity and its affiliates, and all proprietary trading activities of those entities, were required to be in conformance with the Volcker rule and its final implementing regulations by July 21, 2015. The Federal Reserve stated in the 2016 conformance period extension that it intends to grant a final one-year extension of the general conformance period, to July 21, 2017, for banking entities to conform ownership interests in and relationships with legacy covered funds.

Whether certain types of investment securities or structures, such as collateralized loan obligations, or CLOs, constitute covered funds, as defined in the final Volcker rule regulations, 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 (1) market, and ultimately regulatory, interpretation, and (2) the specific terms and other characteristics relevant to such investment securities and structures.

As of June 30, 2015, we held approximately \$3.52 billion of investments in CLOs. As of the same date, these investments had an aggregate pre-tax net unrealized gain of approximately \$78 million, composed of gross unrealized gains of \$81 million and gross unrealized losses of \$3 million. Comparatively, as of December 31, 2014, we held approximately \$4.54 billion of investments in CLOs which had an aggregate pre-tax net unrealized gain of approximately \$97 million composed of gross unrealized gains of \$105 million and gross unrealized losses of \$8 million. In the event that we or our banking regulators conclude that such investments in CLOs, or other investments, are covered funds, we may be required to divest of such investments. If other banking entities reach similar conclusions with respect to similar investments held by them, the prices of such investments could decline significantly,

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

and we may be required to divest of 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 divestiture occurs or on our consolidated financial condition.

We are reviewing our activities that are affected by the final Volcker rule regulations and are taking steps to bring those activities into conformity with the Volcker rule. The final Volcker rule regulations also require banking entities to establish extensive programs designed to ensure compliance with the restrictions of the Volcker rule. We have established a compliance program which complies with the final Volcker rule regulations as currently in effect. Such compliance program will restrict our ability in the future to service certain types of funds, in particular covered funds for which SSGA acts as an advisor and certain types of trustee relationships. Consequently, Volcker rule compliance will entail both the cost of a compliance program and loss of certain revenue and future opportunities.

Non-U.S. Debt Securities

Approximately 25% of the aggregate carrying value of our investment securities portfolio was composed of non-U.S. debt securities as of June 30, 2015 compared to approximately 26% as of December 31, 2014.

TABLE 21: NON-U.S. DEBT SECURITIES

(In millions)	June 30, 2015	December 31, 2014
Available for Sale:		
United Kingdom	\$6,400	\$6,925
Australia	3,370	3,401
Canada	2,824	2,711
Netherlands	2,640	3,219
France	1,017	1,407
South Korea	900	920
Japan	842	860
Germany	671	810
Norway	555	438
Italy	402	464
Finland	305	513
Sweden	127	103
Belgium	111	120
Georgia	56	—
Other ⁽¹⁾	163	278
Total	\$20,383	\$22,169
Held to Maturity:		
United Kingdom	\$1,508	\$1,779
Australia	1,318	1,712
Germany	1,107	1,651
Netherlands	944	1,128
Singapore	153	154
Spain	114	155
Italy	66	79
Ireland	61	68
Other ⁽²⁾	132	155
Total	\$5,403	\$6,881

⁽¹⁾ Included approximately \$57 million and \$66 million as of June 30, 2015 and December 31, 2014, respectively, related to Portugal, Ireland and Spain, all of which were mortgage-backed securities.

⁽²⁾ Included approximately \$33 million and \$36 million as of June 30, 2015 and December 31, 2014, respectively, of securities related to Portugal, all of which were mortgage-backed securities.

Approximately 90% and 88% of the aggregate carrying value of these non-U.S. debt securities was rated “AAA” or “AA” as of June 30, 2015 and December 31, 2014, 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 June 30, 2015 and December 31, 2014, approximately 72% and 74%, respectively, of the aggregate carrying value of these non-U.S. debt securities was floating-rate, and accordingly, we consider these securities to have minimal interest-rate risk.

As of June 30, 2015, these non-U.S. debt securities had an average market-to-book ratio of 101.2%, and an aggregate pre-tax net unrealized gain of approximately \$297 million, composed of gross unrealized gains of \$330 million and gross unrealized losses of \$33 million. These unrealized amounts included a pre-tax net unrealized gain of \$170 million, composed of gross unrealized gains of \$181 million and gross unrealized losses of \$11

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

million, associated with non-U.S. debt securities available for sale.

As of June 30, 2015, the underlying collateral for non-U.S. 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 and covered bonds. The securities listed under "France" were composed of automobile loans, prime mortgages, and corporate debt and covered bonds. The securities listed under "Japan" were substantially composed of Japanese government securities. The securities listed under "South Korea" were composed of South Korean government securities.

Additional information on our exposures relating to Spain, Italy, Ireland and Portugal as of June 30, 2015 is provided under "Financial Condition - Cross-Border Outstandings" in this Management's Discussion and Analysis.

Municipal Obligations

We carried approximately \$10.45 billion of municipal securities classified as state and political subdivisions in our investment securities portfolio as of June 30, 2015 as shown in Table 19: Carrying Values of Investment Securities. Substantially all of these securities were classified as available for sale, with the remainder classified as held to maturity. As of the same date, we also provided approximately \$8.22 billion of credit and liquidity facilities to municipal issuers.

TABLE 22: STATE AND MUNICIPAL OBLIGORS⁽¹⁾

(Dollars in millions)	Total Municipal Securities	Credit and Liquidity Facilities ⁽²⁾	Total	% of Total Municipal Exposure
June 30, 2015				
State of Issuer:				
Texas	\$1,337	\$1,557	\$2,894	15 %
California	445	2,031	2,476	13
New York	853	1,046	1,899	10
Massachusetts	956	845	1,801	10
Maryland	480	416	896	5
Total	\$4,071	\$5,895	\$9,966	
December 31, 2014				
State of Issuer:				
Texas	\$1,326	\$1,405	\$2,731	15 %
California	458	1,837	2,295	12
New York	920	996	1,916	10
Massachusetts	989	847	1,836	10
Maryland	446	416	862	5
Total	\$4,139	\$5,501	\$9,640	

⁽¹⁾ Represented 5% or more of our aggregate municipal credit exposure of approximately \$18.67 billion and \$18.44 billion across our businesses as of June 30, 2015 and December 31, 2014, respectively.

⁽²⁾ Includes municipal loans which are also presented within table 24.

Our aggregate municipal securities exposure presented in Table 22: State and Municipal Obligors, was concentrated primarily with highly-rated counterparties, with approximately 87% of the obligors rated "AAA" or "AA" as of June 30, 2015. As of that date, approximately 59% and 39% of our aggregate municipal securities exposure was associated with general obligation and revenue bonds, respectively. In addition, we had no exposures associated with industrial development or land development bonds. The portfolios are also diversified geographically, with the states that represent our largest exposures widely dispersed across the U.S.

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).

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

The decrease in the net unrealized gain position as of June 30, 2015 from December 31, 2014, presented in Table 23: Amortized Cost, Fair Value and Net Unrealized Gains (Losses) of Investment Securities, was primarily attributable to both declining interest rates and narrowing spreads.

TABLE 23: AMORTIZED COST, FAIR VALUE AND NET UNREALIZED GAINS (LOSSES) OF INVESTMENT SECURITIES

(In millions)	June 30, 2015			December 31, 2014		
	Amortized Cost	Net Unrealized Gains(Losses)	Fair Value	Amortized Cost	Net Unrealized Gains(Losses)	Fair Value
Available for sale ⁽¹⁾	\$84,689	\$ 619	\$85,308	\$94,108	\$ 805	\$94,913
Held to maturity ⁽¹⁾	16,155	43	16,198	17,723	119	17,842
Total investment securities	\$100,844	\$ 662	\$101,506	\$111,831	\$ 924	\$112,755
Net after-tax unrealized gain (loss)		\$ 396			\$ 554	

⁽¹⁾ Securities available for sale are carried at fair value, with after-tax net unrealized gains and losses recorded in accumulated other comprehensive income, or AOCI. Securities held to maturity are carried at cost, and unrealized gains and losses are not recorded in our consolidated financial statements.

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 net losses from other-than-temporary impairment of \$1 million in the first six months of 2015 compared to losses of \$11 million in the first six months of 2014. Management considers the aggregate decline in fair value of the remaining investment securities and the resulting gross unrealized losses of \$600 million as of June 30, 2015 to be temporary and not the result of any material changes in the credit characteristics of the securities. Additional information with respect to other-than-temporary impairments, net impairment losses and gross unrealized losses is provided in note 3 to the consolidated financial statements included in this Form 10-Q.

Given our U.S. mortgage-backed securities exposure, our assessment of other-than-temporary impairment relies, in part, on our estimates of trends in the U.S. housing market in addition to trends in unemployment rates, interest rates and the timing of defaults. Overall, our evaluation of other-than-temporary impairment as of June 30, 2015 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. 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 June 30, 2015, that our investment securities portfolio was less exposed to the U.S. housing market outlook relative to other factors, including unemployment rates, interest rates and timing of default. The timeline to liquidate distressed loans continues to extend, but to a lesser degree as a result of strengthening in the national housing market. The timing of default may affect, among other things, 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.

Our evaluation of potential other-than-temporary impairment of mortgage-backed securities with collateral in Spain, Italy, Ireland, and Portugal takes into account slow economic growth, austerity measures, and government intervention in the corresponding mortgage markets and assumes a conservative baseline macroeconomic environment. Our baseline view assumes a recessionary period characterized by high unemployment and by additional

declines in housing prices between 10% and 15%. 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 analyses in order to assess the impact of more severe assumptions on potential other-than-temporary impairment. For example, based on our stress testing and sensitivity analyses, we estimate, using relevant information as of June 30, 2015 and

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

assuming that all other factors remain constant, that in more stressful scenarios in which unemployment, gross domestic product and housing prices deteriorate over the relevant periods more than we expected for Spain, Italy, Ireland and Portugal as of June 30, 2015, other-than-temporary impairment could increase by a range of approximately zero to \$20 million. This sensitivity estimate is based on a number of factors. To the extent that such factors differ significantly from management's current expectations, resulting loss estimates may differ materially from those stated. For information about the review of securities for impairment, refer to pages 73 to 75 in the 2014 Form 10-K.

Loans and Leases

TABLE 24: U.S. AND NON- U.S. LOANS AND LEASES

(In millions)	June 30, 2015	December 31, 2014
Institutional:		
U.S.	\$ 14,926	\$ 14,908
Non-U.S.	3,629	3,263
Commercial real estate:		
U.S.	35	28
Total loans and leases	\$ 18,590	\$ 18,199

The increase in loans in the institutional segment as of June 30, 2015 as compared to December 31, 2014 was primarily driven by higher levels of short-duration advances and increased investment in the non-investment-grade lending market through participations in loan syndications, specifically senior secured bank loans.

Short-duration advances to our clients included in the institutional segment were \$4.48 billion and \$3.54 billion as of June 30, 2015 and December 31, 2014, respectively. These short-duration advances provide liquidity to fund clients in support of their transaction flows associated with securities settlement activities.

As of June 30, 2015 and December 31, 2014, our investment in senior secured bank loans totaled approximately \$2.58 billion and \$2.07 billion, respectively. In addition, we had binding unfunded commitments as of June 30, 2015 and December 31, 2014 of \$365 million and \$337 million, respectively, to participate in such syndications.

These senior secured bank loans, which we have rated "speculative" under our internal risk-rating framework (refer to note 4 to the consolidated financial statements included this Form 10-Q), are externally rated "BBB," "BB" or "B," with approximately 94% of the loans rated "BB" or "B" as of June 30, 2015, compared to 95% as of December 31, 2014. Our investment strategy involves limiting our investment to larger, more liquid credits

underwritten by major global financial institutions, applying our internal credit analysis process to each potential investment, and diversifying our exposure by counterparty and industry segment. However, these loans have significant exposure to credit losses relative to higher-rated loans. As of June 30, 2015 and December 31, 2014, our allowance for loan losses included approximately \$31 million and \$26 million, respectively, related to these senior secured bank loans. As this portfolio grows and becomes more seasoned, our allowance for loan losses related to these loans may increase through additional provisions for credit losses.

As of June 30, 2015 and December 31, 2014, unearned income deducted from our investment in leveraged lease financing was \$105 million and \$109 million, respectively, for U.S. leases and \$244 million and \$261 million, respectively, for non-U.S. leases.

The commercial real estate, or 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. 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.

As of both June 30, 2015 and December 31, 2014 no CRE loans were modified in troubled debt restructurings. No loans were modified in troubled debt restructurings in 2015 or in 2014.

TABLE 25: ALLOWANCE FOR LOAN LOSSES

Six Months Ended June 30,

	2015	2014
(In millions)		
Allowance for loan losses:		
Beginning balance	\$37	\$28
Provision for loan losses:		
Institutional	6	4
Ending balance	\$43	\$32

The provision of \$6 million recorded in the second quarter of 2015 was associated with the secured bank loans as the portfolio continued to grow and become more seasoned. The senior secured bank loans are held in connection with our participation in loan syndications in the non-investment-grade lending market.

As of June 30, 2015, approximately \$31 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.

Table of ContentsMANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS (Continued)**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.

We place deposits with non-U.S. counterparties that have strong internal State Street risk ratings. Counterparties are approved and monitored by our Country Risk Committee. This process includes financial analysis of non-U.S. counterparties and the use of an internal risk-rating system. Each counterparty is reviewed at least annually and potentially more frequently based on deteriorating credit fundamentals or general market conditions. We also utilize risk mitigation and other facilities that may reduce our exposure through the use of cash collateral and/or balance sheet netting where we deem appropriate. In addition, the Country Risk Committee performs a country-risk analysis and monitors limits on country exposure.

The total cross-border outstandings presented in Table 26: Cross-Border Outstandings represented approximately 20% and 17% of our consolidated total assets as of June 30, 2015 and December 31, 2014, respectively.

TABLE 26: CROSS-BORDER OUTSTANDINGS⁽¹⁾

(In millions)	Investment Securities and Other Assets	Derivatives and Securities on Loan	Total Cross-Border Outstandings
June 30, 2015			
United Kingdom	\$19,259	\$1,842	\$21,101
Germany	11,175	513	11,688
Japan	10,455	198	10,653
Australia	5,460	314	5,774
Canada	3,770	830	4,600
Netherlands	3,733	125	3,858
December 31, 2014			
United Kingdom	\$15,288	\$1,769	\$17,057
Japan	9,465	644	10,109
Australia	5,981	1,039	7,020
Netherlands	4,425	330	4,755
Canada	3,227	974	4,201
Germany	3,075	792	3,867

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

As of June 30, 2015 and December 31, 2014, we had no cross-border exposure to Greece and there were no countries whose aggregate cross-border outstandings amounted to between 0.75% and 1% of our consolidated total assets.

TABLE 27: CROSS-BORDER OUTSTANDINGS (SPAIN, ITALY, IRELAND AND PORTUGAL)

(In millions)	Investment Securities and Other Assets	Derivatives and Securities on Loan	Total Cross-Border Outstandings
June 30, 2015			
Ireland	\$477	\$518	\$995

Edgar Filing: STATE STREET CORP - Form 10-Q

Italy	876	2	878
Spain	115	40	155
Portugal	60	—	60
December 31, 2014			
Ireland	\$510	\$1,253	\$1,763
Italy	907	11	918
Spain	155	71	226
Portugal	69	—	69

The aggregate cross-border exposures presented in Table 27: Cross-Border Outstandings (Spain, Italy, Ireland and Portugal), consisted primarily of interest-bearing deposits, investment securities, loans, including short-duration advances, and foreign exchange contracts. We did not record any provisions for loan losses with respect to any of our exposure in these countries as of June 30, 2015 and December 31, 2014.

Our aggregate exposure to Spain, Italy, Ireland and Portugal as of June 30, 2015 did not include any direct sovereign debt exposure to any of these

Table of Contents

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

countries. Our indirect exposure to these countries totaled approximately \$733 million of mortgage- and asset-backed securities composed of \$114 million in Spain, \$468 million in Italy, \$91 million in Ireland and \$60 million in Portugal as of June 30, 2015. These mortgage- and asset-backed securities had an aggregate pre-tax net unrealized gain of approximately \$87 million, composed of gross unrealized gains of \$88 million and gross unrealized losses of \$1 million as of June 30, 2015. We recorded no other-than-temporary impairment on these mortgage- and asset-backed securities in our consolidated statement of income in either the first six months of 2015 or first six months of 2014. Throughout the sovereign debt crisis, the major independent credit rating agencies have downgraded U.S. and non-U.S. financial institutions and sovereign issuers which have been, and may in the future be, significant counterparties to us, or whose financial instruments serve as collateral on which we rely for credit risk mitigation purposes, and may do so again in the future. As a result, we may be exposed to increased counterparty risk, leading to negative ratings volatility.

Risk Management

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

- credit and counterparty risk;
- liquidity risk, funding and management;
- operational risk;
- 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
- 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 2014 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. For additional information on our risk management, including our risk appetite framework and risk governance committee structure, refer to pages 78 to 83 in the 2014 Form 10-K.

Credit Risk Management

We define credit risk as the risk of financial loss if a counterparty, borrower or obligor, collectively referred to as counterparty, is either unable or unwilling to repay borrowings or settle a transaction in accordance with underlying contractual terms. We assume credit risk in our traditional non-trading lending activities, such as loans and contingent commitments, in our investment securities portfolio, where recourse to a counterparty exists, and in our direct and indirect trading activities, such as principal securities lending and foreign exchange and indemnified agency securities lending. We also assume credit risk in our day-to-day treasury and securities and other settlement operations, in the form of deposit placements and other cash balances, with central banks or private sector institutions. For additional information on our credit risk management, including our core policies and principles, structure and organization, credit ratings, risk parameter estimates, credit risk mitigation, credit limits, reporting, monitoring, controls and reserve for credit losses, refer to pages 83 to 88 in the 2014 Form 10-K.

Liquidity Risk Management

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

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

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

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 June 30, 2015, the value of parent company's net liquid assets totaled \$5.94 billion, compared with \$6.03 billion as of December 31, 2014. As of June 30, 2015, our parent company and State Street Bank have approximately \$1 billion and \$602 million, respectively, of senior and subordinated notes outstanding that will mature in the next twelve months.

For additional information on our liquidity risk management, as well as liquidity risk metrics, refer to pages 88 to 94 in the 2014 Form 10-K.

Liquidity Coverage Ratio

On September 3, 2014, U.S. banking regulators issued a final rule to implement the Basel Committee's liquidity coverage ratio, or 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 measures an institution's high-quality liquid assets, or HQLA, against its net cash outflows. The LCR is being phased in, beginning on January 1, 2015, at 80%, with full implementation beginning on January 1, 2017.

Beginning in January 2015, State Street was required to report its LCR to the Federal Reserve on a daily basis. As of June 30, 2015, our LCR was in excess of 100%.

Compliance with the LCR has required that we maintain an investment portfolio that contains an adequate amount of HQLA. In general, HQLA investments generate a lower investment return than other the types of investments, resulting in a negative impact on our net interest revenue and our net interest margin. In addition, the level of HQLA we are required to maintain under the LCR is dependent upon our client relationships and the nature of services we provide, which may change over time. For example, if the percentage of our operational deposits relative to deposits that are not maintained for operational purposes increases, we would expect to require less HQLA in order to maintain our LCR. Conversely, if the percentage of deposits that are not maintained for operational purposes increases relative to our operational deposits, we would expect to require additional HQLA in order to maintain our LCR.

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.

U.S. banking regulators have not yet issued a proposal to implement the NSFR. 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 as rules are proposed.

Asset Liquidity

Central to the management of our liquidity is asset liquidity, which consists primarily of unencumbered highly liquid securities, cash and cash equivalents reported on our consolidated statement of condition. We restrict the eligibility of securities 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 HQLA under the U.S. LCR, and our HQLA, under the LCR final rule definition, are estimated to be \$142.27 billion and \$115.58 billion as of June 30, 2015 and December 31, 2014, respectively.

TABLE 28: COMPONENTS OF HQLA BY TYPE OF ASSET

(In millions)	June 30, 2015	December 31, 2014
Excess Central Bank Balances	\$108,286	\$85,176
U.S. Treasuries	13,326	10,308

Edgar Filing: STATE STREET CORP - Form 10-Q

Other Investment securities	16,596	16,545
Foreign government	4,060	3,554
Total	\$142,268	\$115,583

With respect to highly liquid short-term investments presented in the preceding table, due to the continued elevated level of client deposits as of June 30, 2015, we maintained cash balances in excess of regulatory requirements governing deposits with the Federal Reserve of approximately \$108.29 billion at the Federal Reserve, the ECB and other non-U.S. central banks, compared to \$85.18 billion as

Table of Contents

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

of December 31, 2014. The increase in investment securities as of June 30, 2015 compared to December 31, 2014, presented in the table, was mainly associated with repositioning the investment portfolio in light of the liquidity requirements of the LCR.

Liquid securities carried in our asset liquidity include securities pledged without corresponding advances from the 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 June 30, 2015 and December 31, 2014, we 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 unencumbered investment securities. The aggregate fair value of those securities was \$44.09 billion as of June 30, 2015, compared to \$60.10 billion as of December 31, 2014. 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 \$23.32 billion and \$24.43 billion as of June 30, 2015 and December 31, 2014, respectively. These amounts do not reflect the value of any collateral. As of June 30, 2015, approximately 75% 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.

State Street Corporation, like other bank holding companies with total consolidated assets of \$50 billion or more, periodically submits a plan for rapid and orderly resolution in the event of material financial distress or failure--commonly referred to as a resolution plan or a living will--to the Federal Reserve

and the FDIC under Section 165(d) of the Dodd-Frank Act. State Street submitted its 2015 resolution plan to the Federal Reserve and the FDIC on July 1, 2015. Through resolution planning, State Street seeks, in the event of the insolvency of State Street, to maintain State Street Bank's role as a key infrastructure provider within the financial system, while minimizing risk to the financial system and maximizing value for the benefit of State Street's stakeholders. State Street has and will continue to focus management attention and resources to meet regulatory expectations with respect to resolution planning. As set out in its 2015 resolution plan, in the event of material financial distress or failure, State Street's preferred resolution strategy, referred to as the single point of entry strategy, provides for the recapitalization of State Street Bank by the parent company (for example, by forgiving inter-company indebtedness of State Street Bank owed to the parent company) prior to the parent company's entry into bankruptcy proceedings. The recapitalization is intended to enable State Street Bank and its material subsidiaries to continue operating. Under this single point of entry strategy, State Street Bank and its material entity subsidiaries would not themselves enter into resolution proceedings; they would instead be transferred to a newly organized holding company held by a reorganization trust for the benefit of the parent company's claimants. In the event that such recapitalization actions occur and were unsuccessful in stabilizing State Street Bank, the parent company's financial condition would be adversely impacted and equity and debt holders of the parent company, may, as a consequence, be in a worse position than if the recapitalization did not occur.

Funding

Deposits

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

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

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

TABLE 29: CLIENT DEPOSITS

(In millions)	June 30,		Average Balance	
	2015	2014	Quarters Ended June 30,	2014
Client deposits ⁽¹⁾	\$220,233	\$208,723	\$181,203	\$159,952

⁽¹⁾ Balance as of June 30, 2015 and June 30, 2014 excluded term wholesale certificates of deposit, or CDs, of \$10.36 billion and \$10.11 billion, respectively; average balances for the six months ended June 30, 2015 and June 30, 2014 excluded average CDs of \$11.04 billion and \$3.08 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 \$2.92 billion and \$2.48 billion of commercial paper outstanding as of June 30, 2015 and December 31, 2014, respectively. State Street plans to phase-out its commercial paper program by July 1, 2016, consistent with the objectives of its 2015 recovery and resolution plan developed pursuant to the requirements of the Dodd-Frank Act.

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

Short-term secured funding also comes in the form of securities lent or sold under agreements to repurchase. These transactions are short-term in nature, generally overnight, and are collateralized by high-quality investment securities. These balances were \$10.98 billion and \$8.93 billion as of June 30, 2015 and December 31, 2014, respectively.

State Street Bank currently maintains a line of credit with a financial institution of CAD \$800 million, or approximately \$641 million as of June 30, 2015, to support its Canadian securities processing operations. The line of credit has no stated termination date and is cancelable by either party with prior notice. As of June 30, 2015, there was no balance outstanding on this line of credit.

Long-Term Funding

As of June 30, 2015, State Street Bank had Board of Directors, or Board, authority to issue unsecured senior debt securities from time to time, provided that the aggregate principal amount of such unsecured senior debt outstanding at any one time does not exceed \$5 billion. As of June 30, 2015, \$5 billion was available for issuance pursuant to this authority. As of June 30, 2015, State Street Bank also had Board authority to issue an additional \$500 million of subordinated debt.

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

Agency Credit Ratings

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

enhance our liquidity by providing assurance for unsecured funding and depositors, increasing the potential market for our debt and improving our ability to offer products, 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

Table of Contents

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

arrangements by determining the collateral or termination payments that would be required assuming a downgrade by all rating agencies. The additional collateral or termination payments related to our net derivative liabilities under these arrangements that could have been called as of June 30, 2015 and December 31, 2014 by counterparties in the event of a one-notch or two-notch downgrade in our credit ratings was zero and \$19 million, respectively. Other funding sources, such as secured financing transactions and other margin requirements, for which there are no explicit triggers, could also be adversely affected.

During the second quarter of 2015, several rating actions were taken by the rating agencies at both the parent company and principal banking subsidiary, State Street Bank. First, on May 14, 2015, Moody's Investors Service concluded its review of State Street following the implementation of its new bank rating methodology. As a result, Moody's downgraded parent company senior debt to 'A2' from 'A1' and upgraded parent company perpetual preferred equity to 'Baa1' from 'Baa2'. Moody's also upgraded State Street Bank's long term deposit rating to 'Aa2' from 'Aa3' and long term senior debt was downgraded from 'Aa3' to 'A1'. Second, on May 19, 2015, Fitch Ratings announced the completion of its Support Rating review and as a result upgraded State Street Bank's long-term issuer default rating (IDR) to 'AA' from 'AA-'. At the same time, Fitch upgraded State Street Bank's long-term deposit rating to 'AA+'. There were no changes to Fitch's ratings for the parent company. Finally, on June 15, 2015, Standard & Poor's Rating Services affirmed all parent company and State Street Bank ratings following its annual committee meeting.

Operational Risk Management

Overview

We consider operational risk to be the risk of loss resulting from inadequate or failed internal processes and systems, human error, or from external events. Operational risk encompasses fiduciary risk and legal risk. Fiduciary risk is defined as the risk that State Street fails to properly exercise its fiduciary duties in its provision of products or services to clients. Such duties may require State Street, among other things, to place certain interests of its clients ahead of the interests of the company, to limit the manner in which State Street exercises discretion granted to it by clients, and to review and mitigate actual or perceived conflicts of interest. Legal risk is the risk of loss resulting from failure to comply with laws and contractual obligations as well as prudent ethical standards in business practices in addition to exposure to litigation from all aspects of State Street's activities.

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 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.

For additional information about our operational risk framework, see pages 94 to 97 in the 2014 Form 10-K.

Market Risk Management

Market risk is defined by U.S. banking regulators as the risk of loss that could result from broad market movements, such as changes in the general level of interest rates, credit spreads, foreign exchange rates or commodity prices. We are exposed to market risk in both our trading and certain of our non-trading, or asset-and-liability management, activities. For more information on our market risk associated with our trading activities, market risk governance and covered positions, see pages 97 to 104 in the 2014 Form 10-K.

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, as well as our

execution against those factors. For additional information about the market risk associated with our trading activities, see pages 97 to 98 in the 2014 Form 10-K.

As part of our trading activities, we assume positions in the foreign exchange and interest-rate markets by buying and selling cash instruments and entering into derivative instruments, including foreign exchange forward contracts, foreign exchange and interest-rate options and interest-rate swaps, interest-rate forward contracts, and interest-rate futures. As of June 30, 2015, the notional amount of these derivative contracts was \$1.37 trillion, of which \$1.34 trillion was composed of foreign exchange forward, swap and spot contracts. We seek to match positions closely with the objective of minimizing related

Table of Contents

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

currency and interest-rate risk. All foreign exchange contracts are valued daily at current market rates.

Value-at-Risk, Stress Testing and Stressed VaR

We use a variety of risk measurement tools and methodologies, including Value-at-Risk, or VaR, which is an estimate of potential loss for a given period within a stated statistical confidence interval. We use a risk measurement methodology to measure trading-related VaR daily. We have adopted standards for measuring trading-related VaR, and we maintain regulatory capital for market risk associated with our trading activities in conformity with currently applicable bank regulatory market risk requirements. For additional information about our VaR measurement tools and methodologies, refer to pages 98 to 99 of the 2014 Form 10-K.

Stress Testing and Stressed VaR

We have a corporate-wide stress-testing program in place that incorporates an array of techniques to measure the potential loss we could suffer in a hypothetical scenario of adverse economic and financial conditions. We also monitor concentrations of risk such as concentration by branch, risk component, and currency pairs. We conduct stress testing on a daily basis based on selected historical stress events that are relevant to our positions in order to estimate the potential impact to our current portfolio should similar market conditions recur, and we also perform stress testing as part of the Federal Reserve's Comprehensive Capital Analysis and Review, or 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 six month average of our stressed VaR-based measure was approximately \$63 million for the period ended June 30, 2015, compared to a six month average of approximately \$49 million for the period ended June 30, 2014. The increase in the six month average of our stressed VaR-based measure for the period ended June 30, 2015, compared to the period ended June 30, 2014, was primarily the result of an extension of the tenor of FX swaps used by Global Treasury designed to improve our liquidity position. The tenor extension gives rise to additional market risk in our stressed VaR calculation.

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

Validation and Back-Testing

We perform frequent back-testing to assess the accuracy of our VaR-based model in estimating loss at the stated confidence level. This back-testing involves the comparison of estimated VaR model outputs to daily, actual Profit-and-Loss, or P&L, outcomes observed from daily market movements. We back-test our VaR model using "clean" P&L, which excludes non-trading revenue such as fees, commissions and 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 for the first six months of 2015 and the full-year of 2014. For additional information on our validation and back-testing, see pages 99 to 101 in the 2014 Form 10-K.

The following tables present VaR and stressed VaR associated with our trading activities for covered positions held during the first six months ended June 30, 2015 and the first six months ended June 30, 2014, and as of June 30, 2015 and December 31, 2014, as measured by our VaR methodology. A covered position is generally defined by U.S. banking regulators as an on- or off-balance sheet position associated with the organization's trading

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

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.

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

	Six Months Ended June 30, 2015			Six Months Ended June 30, 2014			As of June 30, 2015	As of December 31, 2014
(In thousands)	Average	Maximum	Minimum	Average	Maximum	Minimum	VaR	VaR
Global Markets	\$5,538	\$17,649	\$3,245	\$6,547	\$12,327	\$2,273	\$4,315	\$4,566
Global Treasury	2,095	5,273	991	1,848	3,841	1,068	1,675	4,759
Total VaR	\$6,271	\$16,700	\$3,644	\$6,912	\$12,773	\$3,037	\$4,877	\$8,281

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

	Six Months Ended June 30, 2015			Six Months Ended June 30, 2014			As of June 30, 2015	As of December 31, 2014
(In thousands)	Average	Maximum	Minimum	Average	Maximum	Minimum	Stressed VaR	Stressed VaR
Global Markets	\$35,926	\$53,736	\$20,601	\$34,180	\$64,510	\$15,625	\$35,060	\$30,255
Global Treasury	31,368	47,929	22,188	17,670	29,251	11,210	39,262	39,050
Total Stressed VaR	\$62,528	\$87,551	\$36,956	\$48,587	\$78,151	\$20,316	\$74,323	\$58,945

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 increase in stressed VaR for the six month period ended June 30, 2015, as compared to June

30, 2014, is the result of Global Treasury's introduction of a tenor extension strategy using foreign exchange swaps that was designed to improve our liquidity position. The tenor extension gives raise to additional market risk in our stressed VaR calculation.

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

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

The following tables present the VaR and stressed VaR associated with our trading activities attributable to foreign exchange risk, interest rate risk and volatility risk as of June 30, 2015 and December 31, 2014. The totals of the VaR-based and stressed VaR-based 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.

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

(In thousands)	As of June 30, 2015			As of December 31, 2014		
	Foreign Exchange Risk	Interest Rate Risk	Volatility Risk	Foreign Exchange Risk	Interest Rate Risk	Volatility Risk
By component:						
Global Markets	\$3,451	\$3,453	\$ 144	\$5,584	\$3,230	\$ 349
Global Treasury	455	1,660	—	—	4,759	—
Total VaR	\$3,880	\$4,296	\$ 144	\$5,584	\$5,892	\$ 349

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

(In thousands)	As of June 30, 2015			As of December 31, 2014		
	Foreign Exchange Risk	Interest Rate Risk	Volatility Risk	Foreign Exchange Risk	Interest Rate Risk	Volatility Risk
By component:						
Global Markets	\$7,555	\$34,930	\$ 184	\$8,305	\$39,220	\$ 468
Global Treasury	915	39,416	—	—	39,050	—
Total Stressed VaR	\$6,985	\$68,741	\$ 184	\$8,305	\$62,923	\$ 468

⁽¹⁾ For purposes of risk attribution by component in both Tables 32 and 33, foreign exchange risk 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. The decline in the total 10-day VaR based measure for the period ended June 30, 2015, as compared to the period ended December 31, 2014, is the result of a small decline in exposure that arose from the tenor extension strategy initiated by Global Treasury late last year. Total stressed VaR in the six months ended June 30, 2015, as compared to December 31, 2014, was little changed.

Asset-and-Liability Management Activities

The primary objective of asset-and-liability management is to provide sustainable net interest revenue, or NIR, under varying economic conditions, while protecting the economic value of the assets and liabilities carried in our consolidated statement of condition from the adverse effects of changes in currency and 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. For additional information on our Asset-and-Liability Management Activities, see pages 101 to 104 of the 2014 Form 10-K.

To measure, monitor, and report on our interest-rate risk position, we use NIR simulation, or NIR-at-risk, and Economic Value of Equity, or 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. For additional information on our NIR-at-risk and EVE, refer to pages 103 to 104 of the 2014 Form 10-K.

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

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

sensitivity to limit declines to 15% or less from baseline NIR. Estimated 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.

TABLE 34: NIR ESTIMATED EXPOSURE

(Dollars in millions)	Estimated Exposure to Net Interest Revenue		December 31,	
	June 30, 2015		2014	
Rate change:	Exposure	% of Base NIR	Exposure	% of Base NIR
+100 bps shock	\$519	24.2	\$384	16.6
-100 bps shock	(311)	(14.5)	(328)	(14.2)
+100 bps ramp	235	11.0	149	6.5
-100 bps ramp	(183)	(8.5)	(192)	(8.3)

As of June 30, 2015, NIR sensitivity to an upward-100-basis-point shock in global interest rates increased compared to such sensitivity as of December 31, 2014, on a dollar exposure basis, reflecting slower client funding repricing expectations in the twelve-month forecast horizon beyond June 30, 2015. 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. As of June 30, 2015, NIR sensitivity to an upward-100-basis-point shock in global interest rates as represented on a percentage base of twelve-month forecasted NIR increased compared to such sensitivity as of December 31, 2014, reflecting higher NIR expected to result from such a rate shock.

NIR sensitivity to a downward-100-basis-point shock in global interest rates as of June 30, 2015 increased compared to such sensitivity as of December 31, 2014 on a percentage basis, due to larger deposit volumes forecasted for the twelve-month forecast as well as slower client funding repricing forecasted. Increased levels of forecast client deposits, while beneficial to baseline NIR, do not provide relief in the downward shock scenario, as the deposits have limited 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.

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.

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

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.

TABLE 35: ESTIMATED EVE EXPOSURES

(Dollars in millions)	Estimated Sensitivity of Economic Value of Equity		December 31,	
	June 30, 2015		2014	
Rate change:	Exposure	% of Tier 1/Tier 2 Capital	Exposure	% of Tier 1/Tier 2 Capital
+200 bps shock	\$(2,050)	(11.6)%	\$(2,291)	(12.8)%
-200 bps shock	1,017	5.7	942	5.3

The dollar measure of EVE sensitivity to an upward-200-basis-point shock as of June 30, 2015 improved compared to December 31, 2014, and the dollar measure of EVE sensitivity to a downward-200-basis-point shock as of June 30, 2015 declined compared to December 31, 2014, with both comparisons due primarily to portfolio decay.

EVE sensitivity to an upward-200-basis-point shock as of June 30, 2015, as a percentage of the total of tier 1 and tier 2 regulatory capital, declined compared to December 31, 2014. EVE sensitivity to a downward-200-basis-point shock as of June 30, 2015, as a percentage of the total of tier 1 and tier 2 regulatory capital, declined compared to December 31, 2014. These declines were primarily due to the above changes in the dollar measures of EVE sensitivity.

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 ours, 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 model risk management framework.

Our model risk management program has three principal components:

- 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 activities designed to test for robustness, stability, and sensitivity to assumptions; and

- A separate model validation function designed to verify that models are theoretically sound, performing as expected, and are in line with their design objectives.

Model Development and Usage

Models used in the regulatory capital calculation are developed 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.

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 submit models to the Model Validation Group for validation on a regular basis, as per existing policy. For additional information on our model risk management, including our governance and model validation, refer to pages 105 to 106 in the 2014 Form 10-K.

Capital

Managing our capital involves evaluating whether our actual and projected levels of capital are commensurate with our risk profile, are in compliance with all applicable regulatory requirements, and are sufficient to provide us with the

financial flexibility to undertake future strategic business initiatives. We assess capital adequacy based on relevant regulatory capital requirements, as well as our own internal capital targets and other relevant metrics.

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

The ongoing responsibility for capital management rests with our Treasurer. The Capital Planning group within Global Treasury is responsible for the Capital Policy and guidelines, development of the Capital Plan, the management of global capital, capital optimization, and business unit capital management.

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

Table of Contents

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

responsibilities related to the assessment and management of risk and capital.

Regulatory Capital

We are subject to risk-based regulatory capital requirements issued by the Federal Reserve. With the adoption of the Basel III rules by U.S. regulators, we became subject to the U.S. Basel III final rule as of January 1, 2014. The Basel III final rule incorporates several multi-year transition provisions for capital components and minimum ratio requirements for common equity tier 1 capital, tier 1 capital and total capital. The transition period started in January 2014 and is completed by January 1, 2019 which is concurrent with the full implementation of the Basel III final rule in the U.S.

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

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

In addition to introducing new capital ratios and buffers, the U.S. Basel III final rule revises the eligibility criteria for regulatory capital instruments and provides for the phase-out of existing capital instruments that do not satisfy the new criteria. For example, existing trust preferred capital securities are being phased out from tier 1 capital over a two-year period beginning on January 1, 2014 and ending on January 1, 2016, and subsequently, the qualification of these securities as tier 2 capital will be phased out over a multi-year transition period beginning on January 1, 2016 and ending on January 1, 2022. We had trust preferred capital securities of \$950 million outstanding as of June 30, 2015, \$237 million included in tier 1 capital and the remaining \$713 million included in tier 2 capital. For further information on our regulatory capital requirements, including the transitional provisions under the Basel

III final rule, see pages 107 to 108 in the 2014 Form 10-K.

The U.S. Basel III final rule also implemented certain provisions of the Dodd-Frank Act. The Dodd-Frank Act applies a "capital floor" to advanced approaches banking organizations such as State Street and State Street Bank. Beginning on January 1, 2015, the Basel III standardized approach acts as that capital floor, and we are subject to the more stringent of the risk-based capital ratios calculated under the standardized approach and those calculated under the advanced approaches in the assessment of our capital adequacy under the prompt corrective action framework.

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

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

Table of ContentsMANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS (Continued)TABLE 36: BASEL III FINAL RULES TRANSITION ARRANGEMENTS AND MINIMUM RISK-BASED CAPITAL RATIOS^{(1), (2)}

	2015	2016	2017	2018	2019	
Capital conservation buffer (Common Equity Tier 1)	—	% 0.625	% 1.250	% 1.875	% 2.500	%
GSIB surcharge (CTE1) ⁽¹⁾	—	% 0.375	% 0.750	% 1.125	% 1.500	%
Minimum common equity tier 1 ⁽³⁾	4.5	5.500	6.500	7.500	8.500	
Minimum tier 1 capital ⁽³⁾	6.0	7.000	8.000	9.000	10.000	
Minimum total capital ⁽³⁾	8.0	9.000	10.000	11.000	12.000	

⁽¹⁾ As part of the draft G-SIB Surcharge final rule, the Federal Reserve published estimated G-SIB surcharges for the eight U.S. G-SIBs based on relevant data from 2012-2014 and the estimated resulting G-SIB surcharge for State Street is 1.5%. Including the 1.5% surcharge, State Street's minimum risk-based capital ratio requirements, as of January 1, 2019 would be 8.5% for common equity tier 1, 10% for tier 1 capital and 12.0% for total capital.

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

⁽³⁾ Minimum Common Equity Tier 1 Capital, Minimum Tier 1 Capital and Minimum Total Capital presented include the transitional capital conservation buffer as well as the estimated transitional G-SIB buffer.

The specific calculation of State Street's and State Street Bank's risk-based capital ratios will change as the provisions of the Basel III final rule related to the numerator (capital) and denominator (risk-weighted assets) are phased in, and as our risk-weighted assets calculated using the advanced approaches change due to potential changes in methodology. These ongoing methodological changes will result in differences in our reported capital ratios from one reporting period to the next that are independent of applicable changes to our capital base, our asset composition, our off-balance sheet exposures or our risk profile.

Table of ContentsMANAGEMENT'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 are not directly comparable. Refer to the footnotes following the table.

TABLE 37: REGULATORY CAPITAL STRUCTURE AND RELATED REGULATORY CAPITAL RATIOS

(Dollars in millions)	State Street				State Street Bank			
	Basel III Advanced Approaches June 30, 2015 ⁽¹⁾	Basel III Standardized Approach June 30, 2015 ⁽²⁾	Basel III Advanced Approaches December 31, 2014 ⁽¹⁾	Basel III Transitional Approach December 31, 2014 ⁽³⁾	Basel III Advanced Approaches June 30, 2015 ⁽¹⁾	Basel III Standardized Approach June 30, 2015 ⁽²⁾	Basel III Advanced Approaches December 31, 2014 ⁽¹⁾	Basel III Transitional Approach December 31, 2014 ⁽³⁾
Common shareholders' equity:								
Common stock and related surplus	\$ 10,248	\$ 10,248	\$ 10,295	\$ 10,295	\$ 10,912	\$ 10,912	\$ 10,867	\$ 10,867
Retained earnings	15,390	15,390	14,882	14,882	10,299	10,299	9,416	9,416
Accumulated other comprehensive income (loss)	(1,055)	(1,055)	(641)	(641)	(929)	(929)	(535)	(535)
Treasury stock, at cost	(5,830)	(5,830)	(5,158)	(5,158)	—	—	—	—
Total	18,753	18,753	19,378	19,378	20,282	20,282	19,748	19,748
Regulatory capital adjustments:								
Goodwill and other intangible assets, net of associated deferred tax liabilities ⁽⁴⁾	(5,974)	(5,974)	(5,869)	(5,869)	(5,667)	(5,667)	(5,577)	(5,577)
Other adjustments	(66)	(66)	(36)	(36)	(109)	(109)	(128)	(128)
Common equity tier 1 capital	12,713	12,713	13,473	13,473	14,506	14,506	14,043	14,043
Preferred stock	2,703	2,703	1,961	1,961	—	—	—	—
Trust preferred capital securities subject to phase-out from tier 1 capital	237	237	475	475	—	—	—	—
Other adjustments	(98)	(98)	(145)	(145)	—	—	—	—
Tier 1 capital	15,555	15,555	15,764	15,764	14,506	14,506	14,043	14,043
Qualifying subordinated long-term debt	1,438	1,438	1,618	1,618	1,452	1,452	1,634	1,634
Trust preferred capital securities	713	713	475	475	—	—	—	—

Edgar Filing: STATE STREET CORP - Form 10-Q

phased out of tier 1 capital

Other adjustments	2	2	4	4	—	—	—	—		
Total capital	\$17,708	\$17,708	\$17,861	\$17,861	\$15,958	\$15,958	\$15,677	\$15,677		
Risk-weighted assets:										
Credit risk	\$56,154	\$107,003	\$66,874	\$87,502	\$51,190	\$101,955	\$59,836	\$84,433		
Operational risk	43,885	NA	35,866	NA	43,324	NA	35,449	NA		
Market risk ⁽⁵⁾	4,494	2,785	5,087	2,910	4,503	2,785	5,048	2,909		
Total risk-weighted assets	\$104,533	\$109,788	\$107,827	\$90,412	\$99,017	\$104,740	\$100,333	\$87,342		
Adjusted quarterly average assets	\$257,227	\$257,227	\$247,740	\$247,740	\$252,636	\$252,636	\$243,549	\$243,549		
Capital Ratios:	Minimum Requirements (6) 2013 2014									
Common equity tier 1 capital	4.5%	4.0%	12.2%	11.6%	12.5%	14.9%	14.7%	13.8%	14.0%	16.1%
Tier 1 capital	6.0	5.5	14.9	14.2	14.6	17.4	14.7	13.8	14.0	16.1
Total capital	8.0	8.0	16.9	16.1	16.6	19.8	16.1	15.2	15.6	17.9
Tier 1 leverage	4.0	4.0	6.0	6.0	6.4	6.4	5.7	5.7	5.8	5.8

NA: Not applicable.

⁽¹⁾ Common equity tier 1 capital, tier 1 capital and total capital ratios as of June 30, 2015 and December 31, 2014 were calculated in conformity with the advanced approaches provisions of the Basel III final rule. Tier 1 leverage ratio as of June 30, 2015 and December 31, 2014 were calculated in conformity with the Basel III final rule.

⁽²⁾ Common equity tier 1 capital, tier 1 capital and total capital ratios as of June 30, 2015 were calculated in conformity with the standardized approach provisions of the Basel III final rule. Tier 1 leverage ratio as of June 30, 2015 was calculated in conformity with the Basel III final rule.

⁽³⁾ Common equity tier 1 capital, tier 1 capital, total capital and tier 1 leverage ratios as of December 31, 2014 were calculated in conformity with the transitional provisions of the Basel III final rule. Specifically, these ratios reflect common equity tier 1, 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.

⁽⁴⁾ Amounts for State Street and State Street Bank as of June 30, 2015 consisted of goodwill, net of associated deferred tax liabilities, and 40% of other intangible assets, net of associated deferred tax liabilities. Amounts for State Street and State Street Bank as of December 31, 2014 consisted of goodwill, net of deferred tax liabilities and 20% of other intangible assets, net of associated deferred tax liabilities. Intangible assets, net of associated deferred tax liabilities is phased in as a deduction from capital, in conformity with the Basel III final rule.

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

⁽⁶⁾ Minimum requirements will be phased in up to full implementation beginning on January 1, 2019; minimum requirements listed are as of June 30, 2015. See Table 36: Basel III Final Rules Transition Arrangements and Minimum Risk Based Capital Ratios.

⁽⁷⁾ Minimum requirements will be phased in up to full implementation beginning on January 1, 2019; minimum requirements listed are as of December 31, 2014. See Table 36: Basel III Final Rules Transition Arrangements and Minimum Risk Based Capital Ratios.

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

The regulatory capital ratios for State Street and State Street Bank as of June 30, 2015, presented in Table 37: Regulatory Capital Structure and Related Regulatory Capital Ratios, differ from such ratios as of December 31, 2014. 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 total risk-weighted assets. As a result, the ratios presented in the table for each period are not directly comparable. As of January 1, 2015 we used the standardized provisions of the Basel III final rule in addition to the advanced approaches provisions which were previously implemented in the second quarter of 2014, and the lower of our regulatory capital ratios calculated under the advanced approaches and those ratios calculated under the standardized approach are applied in the assessment of our capital adequacy for regulatory capital purposes. Beginning in the second quarter of 2014, until January 1, 2015, we used the advanced approaches provisions in the Basel III final rule, and transitional provisions of the Basel III final rule, and the lower of our regulatory capital ratios calculated under the advanced approaches and those ratios calculated under the transitional provisions were applied in the assessment of our capital adequacy for regulatory capital purposes. Prior to the second quarter of 2014, we used the provisions of Basel I to calculate our risk-weighted assets.

State Street's common equity tier 1 capital decreased \$760 million as of June 30, 2015 compared to December 31, 2014, the result of purchases by us of our common stock of approximately \$820 million, the strengthening U.S. dollar's impact on accumulated other comprehensive income, declarations of common and preferred stock dividends of \$322 million and the impact of the phase-in provisions of the Basel III final rule related to other intangible assets, mostly offset by the positive effect of year-to-date net income. State Street's tier 1 and total capital decreased at a lower rate, \$209 million and \$153 million respectively, due to the issuance of \$750 million of preferred stock in the second quarter of 2015. State Street Bank's tier 1 and total capital increased \$463 million and \$281 million, respectively, as of June 30, 2015 compared to December 31, 2014, the result of year-to-date net income, partly offset by the previously-described impact to accumulated other comprehensive income and phase-in provisions of the Basel III final rule related to other intangible assets.

The table below presents a roll-forward of common equity tier 1 capital, tier 1 capital and total

capital for the six months ended June 30, 2015 and for the twelve months ended December 31, 2014.

TABLE 38: CAPITAL ROLL-FORWARD

(Dollars in millions)	State Street	
	Six Months Ended June 30, 2015	Twelve Months Ended December 31, 2014
Common equity tier 1 capital:		
Common equity tier 1 capital balance, beginning of period	\$ 13,473	\$ 12,454
Net income	831	2,037
Changes in treasury stock, at cost	(672)	(1,465)
Dividends declared	(322)	(551)
Goodwill and other intangible assets, net of associated deferred tax liabilities	(105)	1,874
Effect of certain items in accumulated other comprehensive income (loss)	(414)	(857)
Other adjustments	(78)	(19)
Changes in common equity tier 1 capital	(760)	1,019
Common equity tier 1 capital balance, end of period	12,713	13,473
Additional tier 1 capital:		
Tier 1 capital balance, beginning of period	15,764	13,895
Change in common equity tier 1 capital	(760)	1,019
Net issuance of preferred stock	742	1,470

Edgar Filing: STATE STREET CORP - Form 10-Q

Trust preferred capital securities phased out of tier 1 capital	(238	)	(475	)
Other adjustments	47		(145	)
Changes in tier 1 capital	(209	)	1,869	
Tier 1 capital balance, end of period	15,555		15,764	
Tier 2 capital:				
Tier 2 capital balance, beginning of period	2,097		1,892	
Net issuance and changes in long-term debt qualifying as tier 2	(180	)	(300	)
Trust preferred capital securities phased into tier 2 capital	238		475	
Change in other adjustments	(2	)	30	
Changes in tier 2 capital	56		205	
Tier 2 capital balance, end of period	2,153		2,097	
Total capital:				
Total capital balance, beginning of period	17,861		15,787	
Changes in tier 1 capital	(209	)	1,869	
Changes in tier 2 capital	56		205	
Total capital balance, end of period	\$17,708		\$17,861	

The following table presents a roll-forward of the Basel III advanced approaches risk-weighted assets for the six months ended June 30, 2015 and six months ended December 31, 2014.

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

TABLE 39: ADVANCED APPROACHES RWA ROLL-FORWARD

(Dollars in millions)	State Street Six Months Ended June 30, 2015	Six Months Ended December 31, 2014
Total risk-weighted assets, beginning of period	\$107,827	\$111,015
Changes in credit risk-weighted assets		
Net increase (decrease) in investment securities-wholesale	2	(1,082)
Net increase (decrease) in loans and leases	302	1,381
Net increase (decrease) in securitization exposures	(6,166)	(5,949)
Net increase (decrease) in all other ⁽¹⁾	(4,858)	1,431
Net increase (decrease) in credit risk-weighted assets	(10,720)	(4,219)
Net increase (decrease) in credit valuation adjustment	(468)	(80)
Net increase (decrease) in market risk-weighted assets	(125)	1,230
Net increase (decrease) in operational risk-weighted assets	8,019	(119)
Total risk-weighted assets, end of period	\$104,533	\$107,827

⁽¹⁾ Includes assets not in a definable category, non-material portfolio, other wholesale, cash and due from, and interest-bearing deposits with, banks, securities financing exposures, equity exposures, over-the-counter derivatives, and 6% credit risk supervisory charge.

As of June 30, 2015, total advanced approaches risk-weighted assets decreased \$3.29 billion compared to December 31, 2014, primarily the result of a reduction in credit risk due to sales, maturities and pay-downs of the securitized investment portfolio and the subsequent reinvestment in highly qualified liquid assets, a decrease associated with the usage of the alternative modified look through approach for investments in investment funds and a decline in over the counter foreign exchange derivatives mainly due to a decrease in market values. The decreases above were partly offset by a \$8.02 billion increase in operational risk which reflect adjustments to the model inputs. As of December 31, 2014, total risk-weighted assets decreased from June 30, 2014 balances primarily due to lower credit risk-weighted assets, partially offset by an increase in market risk-equivalent risk-weighted assets. The increase in market risk-equivalent risk weighted assets resulted from the increase in the sixty-day moving average of our stressed VaR-based measure. Our stressed VaR-based measure was impacted by the extension of the tenor of FX swaps by Global Treasury designed to improve our liquidity position. The decrease in credit risk-weighted assets primarily related to sales, maturities and pay-downs of both wholesale and

securitized investments, partially offset by an increase in loan activity.

The following table presents a roll-forward of the Basel III standardized approach risk-weighted assets for the six months ended June 30, 2015.

TABLE 40: STANDARDIZED APPROACH RWA ROLL-FORWARD

(Dollars in millions)	State Street Six Months Ended June 30, 2015
Total estimated risk-weighted assets, beginning of period ⁽¹⁾	\$125,011
Changes in credit risk-weighted assets:	
Net increase (decrease) in investment securities- wholesale	(1,128)
Net increase (decrease) in loans and leases	354
Net increase (decrease) in securitization exposures	(6,166)
Net increase (decrease) in all other ⁽²⁾	(8,158)
Net increase (decrease) in credit risk-weighted assets	(15,098)
Net increase (decrease) in market risk-weighted assets	(125)

Total risk-weighted assets, end of period

\$109,788

(1) Standardized approach risk-weighted assets as of December 31, 2014 were calculated using State Street's estimates, based on our then current interpretation of the Basel III final rule.

(2) Includes assets not in a definable category, cleared transactions, other wholesale, cash and due from, and interest-bearing deposits with, banks, securities financing exposures, equity exposures and over-the-counter derivatives.

As of June 30, 2015, total standardized approach risk-weighted assets decreased \$15.22 billion compared to December 31, 2014, primarily the result of a reduction in credit risk due to sales, maturities and pay-downs of both securitized and wholesale investment portfolio and the subsequent reinvestment in highly qualified liquid assets, a decrease associated with the usage of the alternative modified look through approach for investments in investment funds, a decline in over the counter foreign exchange derivatives mainly due to a decrease in mark values and a decrease in securities financing exposure.

The regulatory capital ratios as of June 30, 2015, presented in Table 37: Regulatory Capital Structure and Related Regulatory Capital Ratios, are calculated under the standardized approach and advanced approaches in conformity with the Basel III final rule. The advanced approaches-based ratios (actual and estimated pro forma) reflect calculations and determinations with respect to our capital and related matters as of June 30, 2015, based on State Street and external data, quantitative formulae, statistical models, historical correlations and assumptions, collectively referred to as "advanced systems," in effect and used by State Street for those purposes as of the time we first reported such ratios

Table of Contents

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

in a quarterly report on Form 10-Q. Significant components of these advanced systems involve the exercise of judgment by us and our regulators, and our advanced systems may not, individually or collectively, precisely represent or calculate the scenarios, circumstances, outputs or other results for which they are designed or intended.

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

Estimated Basel III Fully Phased-in Capital Ratios

Table 41: Regulatory Capital Structure and Related Regulatory Capital Ratios - State Street and Table 42: Regulatory Capital Structure and Related Regulatory Capital Ratios - State Street Bank present our capital ratios for State Street and State Street Bank as of June 30, 2015, calculated in conformity with the advanced approaches provisions and standardized approach of the Basel III final rule on an estimated, pro forma basis under the fully phased-in provisions of the Basel III final rule. Pro-forma fully phased-in capital ratios calculated in accordance with both approaches as of June 30, 2015, are preliminary estimates, based on our present interpretations of the Basel III final rule as applied to our businesses and operations as of June 30, 2015.

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

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

June 30, 2015 (Dollars in millions)	Basel III Advanced Approaches	Phase-In Provisions	Basel III Advanced Approaches Fully Phased-In Pro-Forma Estimate ⁽¹⁾	Basel III Standardized Approach	Phase-In Provisions	Basel III Standardized Approach Fully Phased-In Pro-Forma Estimate ⁽¹⁾
Total common shareholders' equity	\$18,753	\$44	\$18,797	\$18,753	\$44	\$18,797
Regulatory capital adjustments:						
Goodwill and other intangible assets, net of associated deferred tax liabilities	(5,974)	(792)	(6,766)	(5,974)	(792)	(6,766)
Other adjustments	(66)	(98)	(164)	(66)	(98)	(164)
Common equity tier 1 capital	12,713	(846)	11,867	12,713	(846)	11,867
Additional tier 1 capital:						
Preferred stock	2,703	—	2,703	2,703	—	2,703
Trust preferred capital securities	237	(237)	—	237	(237)	—
Other adjustments	(98)	98	—	(98)	98	—
Additional tier 1 capital	2,842	(139)	2,703	2,842	(139)	2,703
Tier 1 capital	15,555	(985)	14,570	15,555	(985)	14,570
Tier 2 capital:						
Qualifying subordinated long-term debt	1,438	—	1,438	1,438	—	1,438
Trust preferred capital securities	713	132	845	713	132	845
Other	2	(2)	—	2	(2)	—

Edgar Filing: STATE STREET CORP - Form 10-Q

Tier 2 capital	2,153	130	2,283	2,153	130	2,283
Total capital	\$17,708	\$(855)	\$16,853	\$17,708	\$(855)	\$16,853
Risk weighted assets ⁽²⁾	\$104,533	\$(481)	\$104,052	\$109,788	\$(453)	\$109,335
Adjusted average assets	257,227	(295)	256,932	257,227	(295)	256,932
Total assets for SLR	285,737	(792)	284,945	285,737	(792)	284,945

Capital ratios ⁽³⁾ :	Minimum Requirement 2015	Minimum Requirement 2019	Minimum Requirement Including Capital Conservation Buffer of 2.5% and GSIB 1.5% 2019								
Common equity tier 1 capital ⁽⁴⁾	4.5%	4.5%	8.5%	12.2	%	11.4	%	11.6	%	10.9	%
Tier 1 capital	6.0	6.0	10.0	14.9		14.0		14.2		13.3	
Total capital	8.0	8.0	12.0	16.9		16.2		16.1		15.4	
Tier 1 leverage	4.0	4.0	NA	6.0		5.7		6.0		5.7	
Supplementary leverage	NA	5.0	NA	5.4		5.1		5.4		5.1	

NA: Not applicable.

⁽¹⁾ As of June 30, 2015, represents State Street's estimates calculated in conformity with the fully phased-in provisions of the Basel III Final rule for both Basel III advanced and standardized approaches, based on our current interpretations of the Basel III final rule as applied to our businesses and operations as of June 30, 2015.

⁽²⁾ As of June 30, 2015, State Street's risk-weighted assets calculated in conformity with the standardized approach of the Basel III final rule exceeded risk-weighted assets calculated in conformity with the advanced approaches provisions of the Basel III final rule by \$5.3 billion (\$109.8 billion minus \$104.5 billion).

⁽³⁾ Common equity tier 1 ratio is calculated by dividing common equity tier 1 capital (numerator) by risk-weighted assets (denominator); tier 1 capital ratio is calculated by dividing tier 1 capital (numerator) by risk-weighted assets (denominator); total capital ratio is calculated by dividing total capital (numerator) by risk-weighted assets (denominator); tier 1 leverage ratio is calculated by dividing tier 1 capital (numerator) by adjusted average assets (denominator); and supplementary leverage ratio, or SLR, is calculated by dividing tier 1 capital (numerator) by total assets for SLR (denominator).

⁽⁴⁾ Common equity tier 1 ratios were calculated in conformity with the provisions of the Basel III final rule; refer to Table 37: Regulatory Capital Structure and Related Regulatory Capital Ratios.

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

TABLE 42: REGULATORY CAPITAL STRUCTURE AND RELATED REGULATORY CAPITAL RATIOS - STATE STREET BANK

June 30, 2015 (Dollars in millions)	Basel III Advanced Approaches	Phase-In Provisions	Basel III Advanced Approaches Fully Phased-In Pro-Forma Estimate ⁽¹⁾	Basel III Standardized Approach	Phase-In Provisions	Basel III Standardized Approach Fully Phased-In Pro-Forma Estimate ⁽¹⁾
Total common shareholders' equity	\$20,282	\$54	\$20,336	\$20,282	\$54	\$20,336
Regulatory capital adjustments:						
Goodwill and other intangible assets, net of associated deferred tax liabilities	(5,667)	(739)	(6,406)	(5,667)	(739)	(6,406)
Other adjustments	(109)	—	(109)	(109)	—	(109)
Common equity tier 1 capital	14,506	(685)	13,821	14,506	(685)	13,821
Additional tier 1 capital:						
Preferred stock	—	—	—	—	—	—
Trust preferred capital securities	—	—	—	—	—	—
Other adjustments	—	—	—	—	—	—
Additional tier 1 capital	—	—	—	—	—	—
Tier 1 capital	14,506	(685)	13,821	14,506	(685)	13,821
Tier 2 capital:						
Qualifying subordinated long-term debt	1,452	—	1,452	1,452	—	1,452
Trust preferred capital securities	—	—	—	—	—	—
Other	—	—	—	—	—	—

Edgar Filing: STATE STREET CORP - Form 10-Q

Tier 2 capital	1,452	—	1,452	1,452	—	1,452
Total capital	\$15,958	\$(685)	\$15,273	\$15,958	\$(685)	\$15,273
Risk weighted assets ⁽²⁾	\$99,017	\$(923)	\$98,094	\$104,740	\$(870)	\$103,870
Adjusted average assets	252,636	(247)	252,389	252,636	(247)	252,389
Total assets for SLR	281,075	(739)	280,336	281,075	(739)	280,336

Capital ratios ⁽³⁾ :	Minimum Requirement 2015	Minimum Requirement 2019	Minimum Requirement Including Capital Conservation Buffer of 2.5% and GSIB 1.5% 2019								
Common equity tier 1 capital ⁽⁴⁾	4.5%	4.5%	8.5%	14.7	%	14.1	%	13.8	%	13.3	%
Tier 1 capital	6.0	6.0	10.0	14.7		14.1		13.8		13.3	
Total capital	8.0	8.0	12.0	16.1		15.6		15.2		14.7	
Tier 1 leverage	4.0	4.0	NA	5.7		5.5		5.7		5.5	
Supplementary leverage	NA	5.0	NA	5.2		4.9		5.2		4.9	

NA: Not applicable.

⁽¹⁾ As of June 30, 2015, represents State Street Bank's estimates calculated in conformity with the fully phased-in provisions of the Basel III Final rule for both Basel III advanced and standardized approaches, based on our current interpretations of the Basel III final rule as applied to our businesses and operations as of June 30, 2015.

⁽²⁾ As of June 30, 2015, State Street Bank's risk-weighted assets calculated in conformity with the standardized approach of the Basel III final rule exceeded risk-weighted assets calculated in conformity with the advanced approaches provisions of the Basel III final rule by \$5.7 billion (\$104.7 billion minus \$99.0 billion).

⁽³⁾ Common equity tier 1 capital ratio is calculated by dividing common equity tier 1 capital (numerator) by risk-weighted assets (denominator); tier 1 capital ratio is calculated by dividing tier 1 capital (numerator) by risk-weighted assets (denominator); total capital ratio is calculated by dividing total capital (numerator) by risk-weighted assets (denominator); tier 1 leverage ratio is calculated by dividing tier 1 capital (numerator) by adjusted average assets (denominator); and supplementary leverage ratio is calculated by dividing tier 1 capital (numerator) by total assets for SLR (denominator).

⁽⁴⁾ Common equity tier 1 ratios were calculated in conformity with the provisions of the Basel III final rule; refer to Table 37: Regulatory Capital Structure and Related Regulatory Capital Ratios.

Table of Contents

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

Fully phased-in pro-forma estimates of common shareholders' equity include 100% of accumulated other comprehensive income, including accumulated other comprehensive income attributable to available-for-sale securities, cash flow hedges and defined benefit pension plans. Fully phased-in pro-forma estimates of common equity tier 1 capital reflect 100% of applicable deductions, including but not limited to, intangible assets net of deferred tax liabilities. For the second quarter of 2015, tier 1 capital includes 25% of trust preferred capital securities and the remaining 75% is included in tier 2 capital. Fully phased-in tier 1 capital reflects the transition of trust preferred capital securities from tier 1 capital to tier 2 capital. For both Basel III advanced and standardized approaches, fully phased-in pro-forma estimates of risk-weighted assets reflect the exclusion of intangible assets, offset by additions related to non-significant equity exposures and deferred tax assets related to temporary differences.

Global Systemically Important Bank

We are designated as 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 on Banking Supervision, or BCBS, as "global systemically important banks," or G-SIBs. Our designation as a G-SIB will require us to maintain an additional capital buffer above the Basel III final rule minimum common equity tier 1 capital ratio of 4.5%, based on a number of factors, as evaluated by banking regulators.

On July 20, 2015, the Federal Reserve released a draft final rule on the implementation of capital requirements for U.S. G-SIBs. The draft final rule will be phased in beginning on January 1, 2016 and be fully effective on January 1, 2019. The eight U.S. banks deemed to be G-SIBs are required to calculate the G-SIB surcharge according to two methods and be bound by the higher of the two:

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

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

As part of the draft final rule, the Federal Reserve published estimated G-SIB surcharges for the eight U.S. G-SIBs based on relevant data from 2012-2014. Method 2 is identified as the binding

methodology for State Street and the Federal Reserve estimated the resulting G-SIB surcharge to be 1.5%. The actual surcharge applicable on January 1, 2016 will depend on the application of the final rule utilizing relevant data from 2014 to 2015. Assuming completion of the phase-in period for the capital conservation buffer, and a countercyclical buffer of 0%, the minimum capital ratios as of January 1, 2019, including a capital conservation buffer of 2.5% and an estimated G-SIB capital surcharge of 1.5%, would be 10.0% for tier 1 risk-based capital, 12.0% for total risk-based capital, and 8.5% for common equity tier 1 capital, in order for State Street to make capital distributions and discretionary bonus payments without limitation. Not all of our competitors have similarly been designated as systemically important, and therefore some of our competitors may not be subject to the same additional capital requirements.

Supplementary Leverage Ratio

In 2014, U.S. banking regulators issued final rules implementing a supplementary leverage ratio, or SLR, for certain bank holding companies, like State Street, and their insured depository institution subsidiaries, like State Street Bank. We refer to these final rules as the SLR final rule. Under the SLR final rule, upon implementation as of January 1, 2018, (i) State Street Bank must maintain an SLR of at least 6% to be well capitalized under the U.S. banking regulators' Prompt Corrective Action framework and (ii) if State Street maintains an SLR of at least 5%, it is not subject to limitations on distribution and discretionary bonus payments under the SLR final rule. Beginning with reporting for June 30, 2015, State Street is required to include SLR disclosures, calculated on a transitional basis, with its other Basel disclosures.

Estimated pro forma fully phased-in supplementary leverage ratios as of June 30, 2015 are preliminary estimates by State Street, and are calculated based on our current interpretations of the SLR final rule and as applied to our

businesses and operations as of June 30, 2015.

50

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

TABLE 43: SUPPLEMENTARY LEVERAGE RATIO

June 30, 2015 (Dollars in millions)	Transitional SLR	Phase-In Provisions	Fully Phased-in Pro Forma SLR Estimate
State Street:			
Tier 1 capital	\$15,555	\$(985)	\$14,570
On- and off-balance sheet leverage exposure	291,875	—	291,875
Less: regulatory deductions	(6,138)	(792)	(6,930)
Total assets for SLR	\$285,737	\$(792)	\$284,945
Supplementary leverage ratio	5.4 %	(0.3)%	5.1 %
State Street Bank:			
Tier 1 capital	\$14,506	\$(685)	\$13,821
On- and off-balance sheet leverage exposure	286,851	—	286,851
Less: regulatory deductions	(5,776)	(739)	(6,515)
Total assets for SLR	\$281,075	\$(739)	\$280,336
Supplementary leverage ratio	5.2 %	(0.3)%	4.9 %
Capital Actions			
Preferred Stock			

In the second quarter of 2015, we issued 750 thousand depositary shares, each representing a 1/100th ownership interest in a share of State Street's fixed-to-floating-rate non-cumulative perpetual preferred stock, Series F, without par value per share, with a liquidation preference of \$100,000 per share (equivalent to \$1,000 per depositary share), 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 second quarter of 2015, we did not declare a dividend on our Series F preferred stock.

In the second quarter of 2015, we declared dividends on our Series E preferred stock of \$1,500 per share, or approximately \$0.38 per depositary share, totaling approximately \$11 million. In the first six months ended June 30, 2015, we declared dividends on our Series E preferred stock of \$3,333 per share, or approximately \$0.84 per depositary share, totaling approximately \$25 million.

In the second quarter of 2015, we declared aggregate dividends 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 six months ended June 30, 2015, we declared aggregate dividends on our Series D preferred stock of \$2,950 per share, or approximately \$0.74 per depositary share, totaling approximately \$22 million.

In the second quarter of 2015, we declared dividends on our Series C preferred stock of \$1,313 per share, or approximately \$0.33 per depositary share, totaling approximately \$7 million. In the first six months ended June 30, 2015, we declared aggregate dividends on our Series C preferred stock of \$2,626 per share, or approximately \$0.66 per depositary share, totaling approximately \$13 million.

Common Stock

In the second quarter of 2015, we declared aggregate quarterly common stock dividends of \$0.34 per share, totaling approximately \$139 million, which were paid in July 2015. In the six months ended June 30, 2015, we declared aggregate common stock dividends of \$0.64 per share, totaling approximately \$262 million, compared to aggregate common stock dividends of \$0.56 per share, totaling approximately \$240 million, declared in the first six months of 2014.

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 13 to the consolidated financial statements, included in our 2014 Form 10-K.

In March 2015, we received the results of the Federal Reserve's review of our 2015 capital plan in connection with its annual CCAR 2015 process. The Federal Reserve did not object to the capital actions we proposed in our 2015 capital plan and, in March 2015, our Board approved a new common stock purchase program authorizing the purchase of up to \$1.8 billion of our common stock through June 30, 2016. In the second quarter of 2015, we purchased approximately 4.4 million shares of our common stock at an average per-share cost of \$78.79 and an aggregate cost of approximately \$350 million under this program.

In the first quarter of 2015, we completed the \$1.7 billion common stock purchase program authorized by the Board in March 2014 with the purchase of approximately 6.3 million shares of our common stock at an average per-share cost of \$74.88 and an aggregate cost of approximately \$470 million.

Under both programs, in the six months ended June 30, 2015, we purchased in the aggregate approximately 10.7 million shares of our common stock at an average per-share cost of \$76.50 and an aggregate cost of approximately \$820 million. Shares acquired in connection with our common stock

Table of Contents

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

purchase programs which remained unissued as of June 30, 2015 were recorded as treasury stock in our consolidated statement of condition as of June 30, 2015.

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

OFF-BALANCE SHEET ARRANGEMENTS

On behalf of clients enrolled in our securities lending program, we lend securities to banks, broker/dealers and other institutions. In most circumstances, we indemnify our clients for the fair market value of those securities against a failure of the borrower to return such securities. Though these transactions are collateralized, the substantial volume of these activities necessitates detailed credit-based underwriting and monitoring processes. The aggregate amount of indemnified securities on loan totaled \$331.55 billion as of June 30, 2015, compared to \$349.77 billion as of December 31, 2014. 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 \$345.18 billion and \$364.41 billion as collateral for indemnified securities on loan as of June 30, 2015 and December 31, 2014, 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 \$345.18 billion and \$364.41 billion, referenced above, \$77.89 billion and \$85.31 billion was invested in indemnified repurchase agreements as of June 30, 2015 and

December 31, 2014, respectively. We or our agents held \$82.71 billion and \$90.82 billion as collateral for indemnified investments in repurchase agreements as of June 30, 2015 and December 31, 2014, 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.

Table of Contents

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information provided under “Financial Condition - Market Risk Management” in Management’s Discussion and Analysis, included in this Form 10-Q, is incorporated by reference herein. For more information on our market risk associated with our trading activities, market risk governance, covered positions, VaR, stress testing and stressed VaR see pages 97 to 104 in the 2014 Form 10-K.

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 June 30, 2015, State Street's management carried out an evaluation, with the participation of the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of State Street's disclosure controls and procedures. Based on the evaluation of these disclosure controls and procedures, the Chief Executive Officer and Chief Financial Officer concluded that State Street's disclosure controls and procedures were effective as of June 30, 2015.

State Street has also established and maintains internal control over financial reporting as a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in conformity with GAAP. In the ordinary course of business, State Street routinely enhances its internal controls and procedures for financial reporting by either upgrading its current systems or implementing new systems. Changes have been made and may be made to State Street's internal controls and procedures for financial reporting as a result of these efforts. During the quarter ended June 30, 2015, 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 June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
(Dollars in millions, except per share amounts)				
Fee revenue:				
Servicing fees	\$1,325	\$1,288	\$2,598	\$2,526
Management fees	304	300	605	592
Trading services	281	260	605	513
Securities finance	155	147	256	232
Processing fees and other	17	44	78	100
Total fee revenue	2,082	2,039	4,142	3,963
Net interest revenue:				
Interest revenue	629	650	1,271	1,305
Interest expense	94	89	190	189
Net interest revenue	535	561	1,081	1,116
Gains (losses) related to investment securities, net:				
Net gains (losses) from sales of available-for-sale securities	(3)	) —	(3)	) 15
Losses from other-than-temporary impairment	—	—	(1)	) (1)
Losses reclassified (from) to other comprehensive income	—	(2)	) —	(10)
Gains (losses) related to investment securities, net	(3)	) (2)	) (4)	) 4
Total revenue	2,614	2,598	5,219	5,083
Provision for loan losses	2	2	6	4
Expenses:				
Compensation and employee benefits	984	978	2,071	2,135
Information systems and communications	249	244	496	488
Transaction processing services	201	193	398	384
Occupancy	109	115	222	229
Acquisition and restructuring costs	3	28	9	61
Professional services	136	116	232	221
Amortization of other intangible assets	49	54	99	108
Other	403	122	704	252
Total expenses	2,134	1,850	4,231	3,878
Income before income tax expense	478	746	982	1,201
Income tax expense	56	124	151	216
Net income	\$422	\$622	\$831	\$985
Net income available to common shareholders	\$393	\$602	\$770	\$958
Earnings per common share:				
Basic	\$.96	\$1.41	\$1.87	\$2.23
Diluted	.94	1.38	1.84	2.19
Average common shares outstanding (in thousands):				
Basic	410,674	427,824	411,445	429,215
Diluted	416,712	435,320	417,643	436,958

Edgar Filing: STATE STREET CORP - Form 10-Q

Cash dividends declared per common share	\$.34	\$.30	\$.64	\$.56
--	--------	--------	--------	--------

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

54

STATE STREET CORPORATION
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(UNAUDITED)

	Three Months Ended June 30,	
(In millions)	2015	2014
Net income	\$422	\$622
Other comprehensive income (loss), net of related taxes:		
Foreign currency translation, net of related taxes of \$39 and \$29, respectively	289	46
Net unrealized gains (losses) on available-for-sale securities, net of reclassification adjustment and net of related taxes of (\$198) and \$193, respectively	(337)	) 306
Net unrealized gains (losses) on available-for-sale securities designated in fair value hedges, net of related taxes of \$15 and (\$9), respectively	22	(13)
Other-than-temporary impairment on held-to-maturity securities related to factors other than credit, net of related taxes of \$1 and \$3, respectively	3	4
Net unrealized gains (losses) on cash flow hedges, net of related taxes of \$30 and \$2, respectively	8	(54)
Net unrealized gains (losses) on retirement plans, net of related taxes of \$(3) and (\$8), respectively	10	12
Other comprehensive income (loss)	(5)	) 301
Total comprehensive income	\$417	\$923
	Six Months Ended June 30,	
(In millions)	2015	2014
Net income	\$831	\$985
Other comprehensive income (loss), net of related taxes:		
Foreign currency translation, net of related taxes of (\$25) and \$37, respectively	(410)	) 73
Net unrealized gains (losses) on available-for-sale securities, net of reclassification adjustment and net of related taxes of (\$75) and \$355, respectively	(143)	) 565
Net unrealized gains (losses) on available-for-sale securities designated in fair value hedges, net of related taxes of \$5 and (\$15), respectively	7	(23)
Other-than-temporary impairment on held-to-maturity securities related to factors other than credit, net of related taxes of \$4 and \$8, respectively	7	12
Net unrealized gains (losses) on cash flow hedges, net of related taxes of \$22 and (\$3), respectively	20	(61)
Net unrealized gains on retirement plans, net of related taxes of \$1 and (\$5), respectively	15	18
Other comprehensive income (loss)	(504)	) 584
Total comprehensive income	\$327	\$1,569

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

55

STATE STREET CORPORATION
CONSOLIDATED STATEMENT OF CONDITION
(UNAUDITED)

	June 30, 2015	December 31, 2014
(Dollars in millions, except per share amounts)	(Unaudited)	
Assets:		
Cash and due from banks	\$3,084	\$1,855
Interest-bearing deposits with banks	116,728	93,523
Securities purchased under resale agreements	4,447	2,390
Trading account assets	1,373	924
Investment securities available for sale	85,308	94,913
Investment securities held to maturity (fair value of \$16,198 and \$17,842)	16,155	17,723
Loans and leases (less allowance for losses of \$43 and \$38)	18,547	18,161
Premises and equipment (net of accumulated depreciation of \$4,780 and \$4,599)	2,035	1,937
Accrued interest and fees receivable	2,385	2,242
Goodwill	5,729	5,826
Other intangible assets	1,871	2,025
Other assets	36,909	32,600
Total assets	\$294,571	\$274,119
Liabilities:		
Deposits:		
Noninterest-bearing	\$83,120	\$70,490
Interest-bearing—U.S.	32,839	33,012
Interest-bearing—non-U.S.	114,632	105,538
Total deposits	230,591	209,040
Securities sold under repurchase agreements	10,978	8,925
Federal funds purchased	15	21
Other short-term borrowings	4,756	4,381
Accrued expenses and other liabilities	17,646	20,237
Long-term debt	9,085	10,042
Total liabilities	273,071	252,646
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	742
Series E, 7,500 shares issued and outstanding	728	728
Series F, 7,500 shares issued and outstanding	742	—
Common stock, \$1 par, 750,000,000 shares authorized:		
503,879,642 and 503,880,120 shares issued	504	504
Surplus	9,744	9,791
Retained earnings	15,390	14,882
Accumulated other comprehensive income (loss)	(1,011)	(507)
Treasury stock, at cost (96,125,524 and 88,684,969 shares)	(5,830)	(5,158)
Total shareholders' equity	21,500	21,473
Total liabilities and shareholders' equity	\$294,571	\$274,119

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

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, 2013	\$ 491	503,883	\$504	\$9,776	\$13,395	\$ (95)	69,754	\$(3,693)	\$20,378
Net income					985				985
Other comprehensive income						584			584
Preferred stock issued	742								742
Cash dividends declared:									
Common stock - \$.56 per share					(240)				(240)
Preferred stock					(25)				(25)
Common stock acquired							12,380	(830)	(830)
Common stock awards and options exercised, including income tax benefit of \$46		(2)		(11)			(3,221)	118	107
Other					(1)		(3)		(1)
Balance as of June 30, 2014	\$ 1,233	503,881	\$504	\$9,765	\$14,114	\$ 489	78,910	\$(4,405)	\$21,700
Balance as of December 31, 2014	\$ 1,961	503,880	\$504	\$9,791	\$14,882	\$ (507)	88,685	\$(5,158)	\$21,473
Net income					831				831
Other comprehensive loss						(504)			(504)
Preferred stock issued	742								742
Cash dividends declared:									
Common stock - \$.64 per share					(262)				(262)
Preferred stock					(60)				(60)
Common stock acquired							10,719	(820)	(820)
Common stock awards and options exercised, including income tax benefit of \$44				(41)			(3,274)	148	107
Other				(6)	(1)		(4)		(7)
Balance as of June 30, 2015	\$ 2,703	503,880	\$504	\$9,744	\$15,390	\$ (1,011)	96,126	\$(5,830)	\$21,500

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

57

STATE STREET CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOWS
(UNAUDITED)

	Six Months Ended June 30,	
	2015	2014
(In millions)		
Operating Activities:		
Net income	\$831	\$985
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred income tax expense	52	(27)
Amortization of other intangible assets	99	108
Other non-cash adjustments for depreciation, amortization and accretion, net	283	228
Losses (gains) related to investment securities, net	4	(4)
Change in trading account assets, net	(449)	(98)
Change in accrued interest and fees receivable, net	(143)	(98)
Change in collateral deposits, net	(7,544)	(2,416)
Change in unrealized losses (gains) on foreign exchange derivatives, net	829	(121)
Change in other assets, net	30	(475)
Change in accrued expenses and other liabilities, net	1,323	2,140
Other, net	158	178
Net cash provided by (used in) operating activities	(4,527)	400
Investing Activities:		
Net decrease (increase) in interest-bearing deposits with banks	(23,205)	(34,129)
Net (increase) decrease in securities purchased under resale agreements	(2,057)	2,549
Proceeds from sales of available-for-sale securities	9,634	2,842
Proceeds from maturities of available-for-sale securities	13,440	18,402
Purchases of available-for-sale securities	(14,991)	(19,624)
Proceeds from maturities of held-to-maturity securities	1,889	1,350
Purchases of held-to-maturity securities	(622)	(2,220)
Net increase in loans	(370)	(3,327)
Purchases of equity investments and other long-term assets	(298)	(133)
Purchases of premises and equipment	(301)	(234)
Other, net	44	46
Net cash used in investing activities	(16,837)	(34,478)
Financing Activities:		
Net decrease in time deposits	1,026	9,841
Net increase in all other deposits	20,525	26,725
Net increase in short-term borrowings	2,422	1,752
Payments for long-term debt and obligations under capital leases	(930)	(763)
Proceeds from issuance of preferred stock	742	742
Proceeds from exercises of common stock options	4	9
Purchases of common stock	(783)	(830)
Excess tax benefit related to stock-based compensation	46	46
Repurchases of common stock for employee tax withholding	(151)	(166)
Payments for cash dividends	(308)	(251)
Net cash provided by financing activities	22,593	37,105
Net increase	1,229	3,027
Cash and due from banks at beginning of period	1,855	3,220
Cash and due from banks at end of period	\$3,084	\$6,247

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

58

Table of Contents

STATE STREET CORPORATION

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note 1. Summary of Significant Accounting Policies

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.

The accompanying Consolidated Financial Statements should be read in conjunction with the financial and risk factor information included in our 2014 Annual Report on Form 10-K (2014 Form 10-K), which we previously filed with the Securities and Exchange Commission, or SEC.

The consolidated financial statements accompanying these condensed notes are unaudited. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, which are necessary for a fair statement of the consolidated results of operations in these financial statements, have been made. Certain previously reported amounts presented in this Form 10-Q have been reclassified to conform to current-period presentation. Events occurring subsequent to the date of our consolidated statement of condition were evaluated for potential recognition or disclosure in our consolidated financial statements through the date we filed this Form 10-Q with the SEC.

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions in the application of certain of our significant accounting policies that may materially affect the reported amounts of assets, liabilities, equity, revenue, and expenses. As a result of unanticipated events or circumstances, actual results could differ from those estimates. These accounting estimates reflect the best judgment of management, but actual results could differ.

Our consolidated statement of condition as of December 31, 2014 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.

Recent Accounting Developments:

In July 2015, the Financial Accounting Standards Board, or the FASB, decided to delay the effective date of the new revenue standard by one year. The deferral results in the new revenue standard being effective for State Street beginning on January 1, 2018.

In May 2015, the FASB published an amendment, which makes certain technical corrections to the FASB Accounting Standards Codification that affect a wide variety of topics to clarify the codification, correct unintended application of the guidance, or make minor improvements that are not expected to have a significant effect on current accounting practice or create a significant administrative cost to entities. The amendments that require transition guidance are effective for State Street beginning on January 1, 2016 and all other amendments are effective immediately. Our adoption of this amendment does not have a material impact on our consolidated financial statements.

In May 2015, the FASB issued an amendment to GAAP which removes from the fair value hierarchy, investments for which the practical expedient is used to measure fair value at net asset value (NAV). Instead, an entity is required to include those investments as a reconciling line item so that the total fair value amount of investments in the disclosure is consistent with the amount on the balance sheet. The amendment is effective for State Street beginning on January 1, 2016. Our adoption of this amendment is not expected to have a material effect on our consolidated financial statements.

In April 2015, the FASB issued an amendment to GAAP which will assist entities in evaluating the accounting for fees paid by a customer in a cloud computing arrangement. The amendment, which allows for early adoption, is

effective for State Street beginning on January 1, 2016. Our adoption of this amendment is not expected to have a material effect on our consolidated financial statements.

In April 2015, the FASB issued an amendment to GAAP that requires debt issuance costs to be presented in the consolidated balance sheet as a direct deduction from the carrying value of the associated debt liability, consistent with the presentation of a debt discount. The amendment, which allows for early adoption, is effective for State Street beginning on January 1, 2016.

Our debt issuance costs that are currently classified as deferred credits and have a balance of approximately \$27 million as of June 30, 2015 will be reclassified as contra liabilities upon adoption.

Table of Contents

STATE STREET CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In February 2015, the FASB issued an amendment to GAAP that updates the consolidation model used to evaluate whether a legal entity is required to be consolidated. The amendment, which allows for early adoption, is effective for State Street beginning on January 1, 2016, and may be applied retrospectively or via a modified retrospective approach. Although we are currently assessing the potential impact of this amendment on our consolidated financial statements, we do not expect our adoption of this amendment to have a material effect on our consolidated financial statements.

In February 2015, the FASB issued an amendment to GAAP to remove the concept of "extraordinary items," which are defined as items that are unusual and infrequent in nature. The amendment, which allows for early adoption, is effective for State Street beginning on January 1, 2016. Our adoption of this amendment is not expected to have a material effect 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. For information about our valuation techniques for financial assets and financial liabilities measured at fair value and the fair value hierarchy, refer to note 2 to the consolidated financial statements on pages 130 to 141 of the 2014 Form 10-K.

The following tables present information with respect to our financial assets and liabilities carried at fair value in our consolidated statement of condition on a recurring basis as of the dates indicated. No transfers of financial assets or liabilities between levels 1 and 2 occurred in the six months ended June 30, 2015 or the year ended December 31, 2014.

Table of Contents

STATE STREET CORPORATION

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

(In millions)	Fair-Value Measurements on a Recurring Basis as of June 30, 2015				Total Net Carrying Value in Consolidated Statement of Condition
	Quoted Market Prices in Active Markets (Level 1)	Pricing Methods with Significant Observable Market Inputs (Level 2)	Pricing Methods with Significant Unobservable Market Inputs (Level 3)	Impact of Netting ⁽¹⁾	
Assets:					
Trading account assets:					
U.S. government securities	\$29	\$ —	\$ —		\$29
Non-U.S. government securities	789	—	—		789
Other	19	536	—		555
Total trading account assets	837	536	—		1,373
Investment securities available for sale:					
U.S. Treasury and federal agencies:					
Direct obligations	12,346	556	—		12,902
Mortgage-backed securities	—	19,718	—		19,718
Asset-backed securities:					
Student loans	—	8,905	234		9,139
Credit cards	—	1,569	—		1,569
Sub-prime	—	491	—		491
Other ⁽²⁾	—	72	2,933		3,005
Total asset-backed securities	—	11,037	3,167		14,204
Non-U.S. debt securities:					
Mortgage-backed securities	—	8,232	97		8,329
Asset-backed securities	—	2,740	193		2,933
Government securities	—	4,003	—		4,003
Other ⁽³⁾	—	4,854	264		5,118
Total non-U.S. debt securities	—	19,829	554		20,383
State and political subdivisions	—	10,413	36		10,449
Collateralized mortgage obligations	—	3,769	215		3,984
Other U.S. debt securities	—	3,327	9		3,336
U.S. equity securities	—	39	—		39
Non-U.S. equity securities	—	3	—		3
U.S. money-market mutual funds	—	282	—		282
Non-U.S. money-market mutual funds	—	8	—		8
Total investment securities available for sale	12,346	68,981	3,981		85,308
Other assets:					
Derivative instruments:					
Foreign exchange contracts	—	10,479	60	\$ (5,373)	5,166
Interest-rate contracts	—	49	—	(48)	1
Other derivative contracts	—	4	—	(3)	1
Total derivative instruments	—	10,532	60	(5,424)	5,168
Total assets carried at fair value	\$13,183	\$ 80,049	\$ 4,041	\$ (5,424)	\$91,849

Liabilities:

Accrued expenses and other liabilities:

Trading account liabilities:

U.S. government securities	\$9	\$ —	\$ —	\$ —	\$9
Non-U.S. government securities	193	—	—	—	193
Other	—	4	—	—	4
Derivative instruments:					
Foreign exchange contracts	—	9,953	50	(5,918)	4,085
Interest-rate contracts	—	219	—	(42)	177
Other derivative contracts	—	107	—	(3)	104
Total derivative instruments	—	10,279	50	(5,963)	4,366
Total liabilities carried at fair value	\$202	\$ 10,283	\$ 50	\$ (5,963)	\$ 4,572

⁽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 \$701 million and \$1.24 billion, respectively, for cash collateral received from and provided to derivative counterparties.

⁽²⁾ As of June 30, 2015 the fair value of other asset-backed securities was primarily composed of \$2.9 billion of collateralized loan obligations and approximately \$72 million of automobile loan securities.

⁽³⁾ As of June 30, 2015 the fair value of other non-U.S. debt securities was primarily composed of \$3.3 billion of covered bonds and \$863 million of corporate bonds.

Table of Contents

STATE STREET CORPORATION

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

(In millions)	Fair-Value Measurements on a Recurring Basis as of December 31, 2014				Total Net Carrying Value in Consolidated Statement of Condition
	Quoted Market Prices in Active Markets (Level 1)	Pricing Methods with Significant Observable Market Inputs (Level 2)	Pricing Methods with Significant Unobservable Market Inputs (Level 3)	Impact of Netting ⁽¹⁾	
Assets:					
Trading account assets:					
U.S. government securities	\$20	\$ —	\$ —		\$20
Non-U.S. government securities	378	—	—		378
Other	20	506	—		526
Total trading account assets	418	506	—		924
Investment securities available for sale:					
U.S. Treasury and federal agencies:					
Direct obligations	10,056	599	—		10,655
Mortgage-backed securities	—	20,714	—		20,714
Asset-backed securities:					
Student loans	—	12,201	259		12,460
Credit cards	—	3,053	—		3,053
Sub-prime	—	951	—		951
Other ⁽²⁾	—	365	3,780		4,145
Total asset-backed securities	—	16,570	4,039		20,609
Non-U.S. debt securities:					
Mortgage-backed securities	—	9,606	—		9,606
Asset-backed securities	—	2,931	295		3,226
Government securities	—	3,909	—		3,909
Other ⁽³⁾	—	5,057	371		5,428
Total non-U.S. debt securities	—	21,503	666		22,169
State and political subdivisions	—	10,782	38		10,820
Collateralized mortgage obligations	—	4,725	614		5,339
Other U.S. debt securities	—	4,100	9		4,109
U.S. equity securities	—	39	—		39
Non-U.S. equity securities	—	2	—		2
U.S. money-market mutual funds	—	449	—		449
Non-U.S. money-market mutual funds	—	8	—		8
Total investment securities available for sale	10,056	79,491	5,366		94,913
Other assets:					
Derivatives instruments:					
Foreign exchange contracts	—	15,054	81	\$ (7,211)	7,924
Interest-rate contracts	—	77	—	(68)	9
Other derivative contracts	—	2	—	(1)	1
Total derivative instruments	—	15,133	81	(7,280)	7,934

Edgar Filing: STATE STREET CORP - Form 10-Q

Total assets carried at fair value	\$10,474	\$ 95,130	\$5,447	\$ (7,280)	\$103,771
Liabilities:					
Accrued expenses and other liabilities:					
Derivative instruments:					
Foreign exchange contracts	\$—	\$ 14,851	\$74	\$ (8,879)	\$6,046
Interest-rate contracts	—	239	—	(46)	193
Other derivative contracts	—	61	9	(1)	69
Total derivative instruments	—	15,151	83	(8,926)	6,308
Total liabilities carried at fair value	\$—	\$ 15,151	\$83	\$ (8,926)	\$6,308

(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 \$983 million and \$2.63 billion, respectively, for cash collateral received from and provided to derivative counterparties.

(2) As of December 31, 2014, the fair value of other asset-backed securities was primarily composed of \$3.8 billion of collateralized loan obligations and approximately \$315 million of automobile loan securities.

(3) As of December 31, 2014, the fair value of other non-U.S. debt securities was primarily composed of \$3.3 billion of covered bonds and \$1.2 billion of corporate bonds.

Table of Contents

STATE STREET CORPORATION

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

The following tables present activity related to our level-3 financial assets and liabilities during the three and six months ended June 30, 2015 and 2014, respectively. Transfers into and out of level 3 are reported as of the beginning of the period presented. In the three and six months ended June 30, 2015 and 2014, transfers out of level 3 were mainly related to certain mortgage- and asset-backed securities, including non-U.S. debt securities, for which fair value was measured using prices for which observable market information became available.

Fair-Value Measurements Using Significant Unobservable Inputs

Three Months Ended June 30, 2015

(In millions)	Fair Value as of March 31, 2015	Total Realized and Unrealized Gains (Losses)								Change in Unrealized Gains (Losses) Related to Financial Instruments Held as of June 30, 2015	
		Recorded in Revenue	Recorded in Other Comprehensive Income	Purchases	Sales	Settlements	Transfers into Level 3	Transfers out of Level 3			
Assets:											
Investment securities available for sale:											
Asset-backed securities:											
Student loans	\$257	\$ —	\$ —	\$ —	\$—	\$ (1)	\$ —	\$ (22)	\$234		
Other	3,633	13	(6)	—	(420)	(287)	—	—	2,933		
Total asset-backed securities	3,890	13	(6)	—	(420)	(288)	—	(22)	3,167		
Non-U.S. debt securities:											
Mortgage-backed securities	43	—	—	—	—	—	97	(43)	97		
Asset-backed securities	228	—	—	—	—	(18)	—	(17)	193		
Other	442	—	—	—	—	9	—	(187)	264		
Total Non-U.S. equity securities	713	—	—	—	—	(9)	97	(247)	554		
State and political subdivisions	37	—	—	—	—	(1)	—	—	36		
Collateralized mortgage obligations	522	—	(1)	—	(88)	(29)	—	(189)	215		
Other U.S. debt securities	9	—	—	—	—	—	—	—	9		
	5,171	13	(7)	—	(508)	(327)	97	(458)	3,981		

Total investment
securities available
for sale

Other assets:

Derivative
instruments:

Foreign exchange contracts	185	(96	)	—	10	—	(39	)	—	—	60	\$ (30	)
----------------------------	-----	-----	---	---	----	---	-----	---	---	---	----	--------	---

Total derivative instruments	185	(96	)	—	10	—	(39	)	—	—	60	(30	)
------------------------------	-----	-----	---	---	----	---	-----	---	---	---	----	-----	---

Total assets carried at fair value	\$5,356	\$ (83	)	\$ (7	)	\$ 10	\$ (508)	\$ (366	)	\$ 97	\$ (458)	\$4,041	\$ (30	)
------------------------------------	---------	--------	---	-------	---	-------	----------	---------	---	-------	----------	---------	--------	---

Fair-Value Measurements Using Significant Unobservable Inputs
Three Months Ended June 30, 2015

(In millions)	Total Realized and Unrealized (Gains) Losses						Change in Unrealized (Gains) Losses Related to Financial Instruments Held as of June 30, 2015
	Fair Value as of March 31, 2015	Recorded in Revenue		Issuances	Settlements	Fair Value as of June 30, 2015 ⁽¹⁾	

Liabilities:

Accrued expenses and
other liabilities:

Derivative instruments:

Foreign exchange contracts	\$172	\$ (90	)	\$8	\$ (40	)	\$50	\$ (26	)
----------------------------	-------	--------	---	-----	--------	---	------	--------	---

Other	9	—		—	(9	)	—	—	
-------	---	---	--	---	----	---	---	---	--

Total derivative instruments	181	(90	)	8	(49	)	50	(26	)
------------------------------	-----	-----	---	---	-----	---	----	-----	---

Total liabilities carried at fair value	\$181	\$ (90	)	\$8	\$ (49	)	\$50	\$ (26	)
---	-------	--------	---	-----	--------	---	------	--------	---

⁽¹⁾ There were no transfers of liabilities into or out of level 3 during the three months ended June 30, 2015.

Table of Contents

STATE STREET CORPORATION

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

Fair Value Measurements Using Significant Unobservable Inputs										
Six months ended June 30, 2015										
(In millions)	Total Realized and Unrealized Gains (Losses)									Change in Unrealized Gains (Losses) Related to Financial Instruments Held as of June 30, 2015
	Fair Value as of December 31, 2014	Recorded in Revenue	Recorded in Other Comprehensive Income	Purchases	Sales	Settlements	Transfers into Level 3	Transfers out of Level 3	Fair Value as of June 30, 2015	
Assets:										
Investment securities available for sale:										
Asset-backed securities:										
Student loans	\$259	\$ —	\$ 1	\$ —	—	\$ (5)	\$ —	\$ (21)	\$234	
Other	3,780	25	(18)	—	(420)	(434)	—	—	2,933	
Total asset-backed securities	4,039	25	(17)	—	(420)	(439)	—	(21)	3,167	
Non-U.S. debt securities:										
Mortgage-backed securities	—	—	—	43	—	—	97	(43)	97	
Asset-backed securities	295	1	—	—	—	(86)	—	(17)	193	
Other	371	—	1	111	—	(32)	—	(187)	264	
Total non-U.S. debt securities	666	1	1	154	—	(118)	97	(247)	554	
State and political subdivisions	38	—	(1)	—	—	(1)	—	—	36	
Collateralized mortgage obligations	614	—	(1)	293	(88)	(65)	—	(538)	215	
Other U.S. debt securities	9	—	—	—	—	—	—	—	9	
Total investment securities available for sale	5,366	26	(18)	447	(508)	(623)	97	(806)	3,981	
Other assets:										
Derivative instruments:										

Derivative instruments, Foreign exchange contracts	81	45		29		(95)		60	\$ 12
Total derivative instruments	81	45	—	29	—	(95)	—	60	12
Total assets carried at fair value	\$5,447	\$ 71	\$ (18)	\$ 476	\$(508)	\$ (718)	\$ 97	\$ (806)	\$4,041 \$ 12

Fair-Value Measurements Using Significant Unobservable Inputs

Six months ended June 30, 2015

(In millions)	Total Realized and Unrealized (Gains) Losses						Change in Unrealized (Gains) Losses Related to Financial Instruments Held as of June 30, 2015
	Fair Value as of December 31, 2014	Recorded in Revenue	Issuances	Settlements	Fair Value as of June 30, 2015 ⁽¹⁾		
Liabilities:							
Accrued expenses and other liabilities:							
Derivative instruments:							
Foreign exchange contracts	\$74	\$ 19	\$33	\$ (76)	\$50		\$1
Other	9	—	—	(9)	—		—
Total derivative instruments	83	19	33	(85)	50		1
Total liabilities carried at fair value	\$83	\$ 19	\$33	\$ (85)	\$50		\$1

⁽¹⁾ There were no transfers of liabilities into or out of level 3 during the six months ended June 30, 2015.

Table of Contents

STATE STREET CORPORATION

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

Fair-Value Measurements Using Significant Unobservable Inputs
Three Months Ended June 30, 2014

(In millions)	Total Realized and Unrealized Gains (Losses)								Change in Unrealized Gains (Losses) Related to Financial Instruments Held as of June 30, 2014
	Fair Value as of March 31, 2014	Recorded in Revenue	Recorded in Other Comprehensive Income	Purchases	Sales	Settlements	Transfers out of Level 3	Fair Value as of June 30, 2014 ⁽¹⁾	
Assets:									
Investment securities available for sale:									
U.S. Treasury and federal agencies, mortgage-backed securities	\$ 100	\$ —	\$ —	\$ —	\$ —	\$ (4)	\$ —	\$ 96	
Asset-backed securities:									
Student loans	333	1	2	—	—	(14)	—	322	
Other	4,304	13	(1)	—	—	(255)	—	4,061	
Total asset-backed securities	4,637	14	1	—	—	(269)	—	4,383	
Non-U.S. debt securities:									
Asset-backed securities	612	1	1	—	—	(56)	(52)	506	
Other	462	—	1	55	—	(3)	—	515	
Total non-U.S. debt securities	1,074	1	2	55	—	(59)	(52)	1,021	
State and political subdivisions	42	—	—	—	—	(1)	—	41	
Collateralized mortgage obligations	202	—	—	—	—	(6)	—	196	
Other U.S. debt securities	8	—	1	—	—	—	—	9	
Total investment securities available for sale	6,063	15	4	55	—	(339)	(52)	5,746	
Other assets:									
Derivative instruments:									
Derivative instruments, Foreign exchange contracts	6	(6)	—	11	—	(1)	—	10	\$ (4)
Total derivative instruments	6	(6)	—	11	—	(1)	—	10	(4)

Edgar Filing: STATE STREET CORP - Form 10-Q

Total assets carried at fair value \$6,069 \$ 9 \$ 4 \$ 66 \$— \$ (340) \$ (52) \$5,756 \$(4)

Fair-Value Measurements Using Significant Unobservable Inputs
Three Months Ended June 30, 2014

	Fair Value as of March 31, 2014	Total Realized and Unrealized Gains (Losses) Recorded in Revenue	Issuances	Settlements	Fair Value as of June 30, 2014 ⁽¹⁾	Change in Unrealized (Gains) Losses Related to Financial Instruments Held as of June 30, 2014
(In millions)						

Liabilities:

Accrued expenses and other liabilities:

Derivative instruments:

Foreign exchange contracts	\$8	\$ (5)	\$8	\$ (1)	\$10	\$(3)
Other	9	—	—	—	9	—
Total derivative instruments	17	(5)	8	(1)	19	(3)
Total liabilities carried at fair value	\$17	\$ (5)	\$8	\$ (1)	\$19	\$(3)

⁽¹⁾ There were no transfers of assets into level 3 during the three months ended June 30, 2014.

⁽²⁾ There were no transfers of liabilities into or out of level 3 in the three months ended June 30, 2014.

Table of Contents

STATE STREET CORPORATION

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

Fair-Value Measurements Using Significant Unobservable Inputs

Six Months Ended June 30, 2014

Total Realized and
Unrealized Gains (Losses)

(In millions)	Fair Value Measurements Using Significant Unobservable Inputs							Change in Unrealized Gains (Losses) Related to Financial Instruments Held as of June 30, 2014	
	Fair Value as of December 31, 2013	Recorded in Revenue	Recorded in Other Comprehensive Income	Purchases	Sales	Settlements	Transfers out of Level 3	Fair Value as of June 30, 2014 ⁽¹⁾	
Assets:									
Investment securities available for sale:									
U.S. Treasury and federal agencies, mortgage-backed securities	\$716	\$ —	\$ —	\$ —	\$ —	\$ (9	) \$(611	) \$96	
Asset-backed securities:									
Student loans	423	1	3	—	—	(26	) (79	) 322	
Credit cards	24	—	—	—	—	(24	) —	—	
Other	4,532	29	(6	) 6	—	(500	) —	4,061	
Total asset-backed securities	4,979	30	(3	) 6	—	(550	) (79	) 4,383	
Non-U.S. debt securities:									
Mortgage-backed securities	375	—	—	—	—	—	(375	) —	
Asset-backed securities	798	3	1	—	—	(120	) (176	) 506	
Other	464	—	1	54	(1	) (3	) —	515	
Total non-U.S. debt securities	1,637	3	2	54	(1	) (123	) (551	) 1,021	
State and political subdivisions	43	—	(1	) —	—	(1	) —	41	
Collateralized mortgage obligations	162	—	—	80	(6	) (13	) (27	) 196	
Other U.S. debt securities	8	—	1	—	—	—	—	9	
Total investment securities available for sale	7,545	33	(1	) 140	(7	) (696	) (1,268	) 5,746	

Other assets:

Derivative instruments:

Derivative instruments,

Foreign exchange contracts	19	(15)	—	15	—	(9)	—	10	\$(7)
Total derivative instruments	19	(15)	—	15	—	(9)	—	10	(7)
Total assets carried at fair value	\$7,564	\$ 18	\$ (1)	\$ 155	\$(7)	\$ (705)	\$(1,268)	\$5,756	\$(7)

Fair-Value Measurements Using Significant Unobservable Inputs
Six Months Ended June 30, 2014

(In millions)	Total Realized and Unrealized (Gains) Losses				Change in Unrealized (Gains) Losses Related to Financial Instruments Held as of June 30, 2014	
	Fair Value as of December 31, 2013	Recorded in Revenue	Issuances	Settlements	Fair Value as of June 30, 2014 ⁽²⁾	

Liabilities:

Accrued expenses and other liabilities:

Derivative instruments:

Foreign exchange contracts	\$17	\$ (14)	\$14	\$(7)	\$10	\$(5)
Other	9	—	—	—	9	—
Total derivative instruments	26	(14)	14	(7)	19	(5)
Total liabilities carried at fair value	\$26	\$ (14)	\$14	\$(7)	\$19	\$(5)

⁽¹⁾ There were no transfers of assets into level 3 during the six months ended June 30, 2014.

⁽²⁾ There were no transfers of liabilities into or out of level 3 in the six months ended June 30, 2014.

Table of Contents

STATE STREET CORPORATION

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

The following table presents total realized and unrealized gains and losses for our level-3 financial assets and liabilities and where they are presented in our consolidated statement of income for the periods indicated:

	Three Months Ended June 30,				Six Months Ended June 30,			
	Total Realized and Unrealized Gains (Losses) Recorded in Revenue		Change in Unrealized Gains (Losses) Related to Financial Instruments Held as of June 30,		Total Realized and Unrealized Gains (Losses) Recorded in Revenue		Change in Unrealized Gains (Losses) Related to Financial Instruments Held as of June 30,	
(In millions)	2015	2014	2015	2014	2015	2014	2015	2014
Fee revenue:								
Trading services	\$(6)	\$(1)	\$(4)	\$(1)	\$26	\$(1)	\$11	\$(2)
Total fee revenue	(6)	(1)	(4)	(1)	26	(1)	11	(2)
Net interest revenue	13	15	—	—	26	33	—	—
Total revenue	\$7	\$14	\$(4)	\$(1)	\$52	\$32	\$11	\$(2)

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

(Dollars in millions)	Quantitative Information about Level-3 Fair-Value Measurements						
	Fair Value		Valuation Technique	Significant Unobservable Input ⁽¹⁾	Weighted-Average		
	As of June 30, 2015	As of December 31, 2014			As of June 30, 2015	As of December 31, 2014	
Significant unobservable inputs readily available to State Street:							
Assets:							
Asset-backed securities, other	\$47	\$59	Discounted cash flows	Credit spread	0.1	%	0.2 %
State and political subdivisions	35	38	Discounted cash flows	Credit spread	2.2		2.1
Derivative instruments, foreign exchange contracts	60	81	Option model	Volatility	12.0		9.1
Total	\$142	\$178					
Liabilities:							
Derivative instruments, foreign exchange contracts	\$50	\$74	Option model	Volatility	12.3		9.0
Derivative instruments, other ⁽²⁾	—	9	Discounted cash flows	Participant redemptions	—		5.2
Total	\$50	\$83					

⁽¹⁾ Significant changes in these unobservable inputs would result in significant changes in fair value measure.

⁽²⁾ Relates to stable value wrap contracts; refer to the sensitivity discussion following the tables presented below, and to note 7.

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 following table. Accordingly, changes in these unobservable inputs may have a significant impact on fair value.

Table of Contents

STATE STREET CORPORATION

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

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:

June 30, 2015	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:			
Asset-backed securities, student loans	\$—	\$234	\$234
Asset-backed securities, other	47	2,886	2,933
Non-U.S. debt securities, mortgage-backed securities	—	97	97
Non-U.S. debt securities, asset-backed securities	—	193	193
Non-U.S. debt securities, other	—	264	264
State and political subdivisions	35	1	36
Collateralized mortgage obligations	—	215	215
Other U.S. debt securities	—	9	9
Derivative instruments, foreign exchange contracts	60	—	60
Total	\$142	\$3,899	\$4,041
Liabilities:			
Derivative instruments, foreign exchange contracts	\$50	\$—	\$50
Total	\$50	\$—	\$50

⁽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, 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:			
Asset-backed securities, student loans	\$—	\$259	\$259
Asset-backed securities, other	59	3,721	3,780
Non-U.S. debt securities, asset-backed securities	—	295	295
Non-U.S. debt securities, other	—	371	371
State and political subdivisions	38	—	38
Collateralized mortgage obligations	—	614	614
Other U.S. debt securities	—	9	9
Derivative instruments, foreign exchange contracts	81	—	81
Total	\$178	\$5,269	\$5,447
Liabilities:			
Derivative instruments, foreign exchange contracts	\$74	\$—	\$74

Edgar Filing: STATE STREET CORP - Form 10-Q

Derivative instruments, other	9	—	9
Total	\$83	\$—	\$83

(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.

Fair Value Estimates:

Estimates of fair value for financial instruments not carried at fair value on a recurring basis in our consolidated statement of condition are generally subjective in nature, and are determined as of a

specific point in time based on the characteristics of the financial instruments and relevant market information.

Table of Contents

STATE STREET CORPORATION

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

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

June 30, 2015	Reported Amount	Estimated Fair Value	Fair-Value Hierarchy		
			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	\$3,084	\$3,084	\$3,084	\$ —	\$ —
Interest-bearing deposits with banks	116,728	116,728	—	116,728	—
Securities purchased under resale agreements	4,447	4,447	—	4,447	—
Investment securities held to maturity	16,155	16,198	—	16,198	—
Net loans (excluding leases)	17,617	17,606	—	17,451	155
Financial Liabilities:					
Deposits:					
Noninterest-bearing	\$83,120	\$83,120	\$—	\$ 83,120	\$ —
Interest-bearing - U.S.	32,839	32,839	—	32,839	—
Interest-bearing - non-U.S.	114,632	114,632	—	114,632	—
Securities sold under repurchase agreements	10,978	10,978	—	10,978	—
Federal funds purchased	15	15	—	15	—
Other short-term borrowings	4,756	4,756	—	4,756	—
Long-term debt	9,085	9,257	—	8,451	806
December 31, 2014	Reported Amount	Estimated Fair Value	Fair-Value Hierarchy		
			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	\$1,855	\$1,855	\$1,855	\$ —	\$ —
Interest-bearing deposits with banks	93,523	93,523	—	93,523	—
Securities purchased under resale agreements	2,390	2,390	—	2,390	—
Investment securities held to maturity	17,723	17,842	—	17,842	—
Net loans (excluding leases)	17,158	17,131	—	16,964	167
Financial Liabilities:					
Deposits:					
Noninterest-bearing	\$70,490	\$70,490	\$—	\$ 70,490	\$ —
Interest-bearing - U.S.	33,012	33,012	—	33,012	—
Interest-bearing - non-U.S.	105,538	105,538	—	105,538	—
	8,925	8,925	—	8,925	—

Securities sold under repurchase
agreements

Federal funds purchased	21	21	—	21	—
Other short-term borrowings	4,381	4,381	—	4,381	—
Long-term debt	10,042	10,229	—	9,382	847

69

Table of Contents

STATE STREET CORPORATION

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

Note 3. Investment Securities

Investment securities held by us are classified as either trading, available-for-sale or held-to-maturity at the time of purchase and reassessed periodically, based on management's intent.

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

needs or other factors. Securities held to maturity are debt securities that management has the intent and the ability to hold to maturity.

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

Table of Contents

STATE STREET CORPORATION

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

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

(In millions)	June 30, 2015			Fair Value	December 31, 2014			Fair Value
	Amortized Cost	Gross Unrealized Gains	Losses		Amortized Cost	Gross Unrealized Gains	Losses	
Available for sale:								
U.S. Treasury and federal agencies:								
Direct obligations	\$12,777	\$127	\$2	\$12,902	\$10,573	\$83	\$1	\$10,655
Mortgage-backed securities	19,655	192	129	19,718	20,648	193	127	20,714
Asset-backed securities:								
Student loans ⁽¹⁾	9,159	73	93	9,139	12,478	106	124	12,460
Credit cards	1,599	—	30	1,569	3,077	10	34	3,053
Sub-prime	520	2	31	491	1,005	2	56	951
Other ⁽²⁾	2,932	76	3	3,005	4,055	100	10	4,145
Total asset-backed securities	14,210	151	157	14,204	20,615	218	224	20,609
Non-U.S. debt securities:								
Mortgage-backed securities	8,210	125	6	8,329	9,442	168	4	9,606
Asset-backed securities	2,926	7	—	2,933	3,215	11	—	3,226
Government securities	3,993	10	—	4,003	3,899	10	—	3,909
Other ⁽³⁾	5,084	39	5	5,118	5,383	52	7	5,428
Total non-U.S. debt securities	20,213	181	11	20,383	21,939	241	11	22,169
State and political subdivisions	10,271	252	74	10,449	10,532	325	37	10,820
Collateralized mortgage obligations	3,959	39	14	3,984	5,280	71	12	5,339
Other U.S. debt securities	3,280	67	11	3,336	4,033	88	12	4,109
U.S. equity securities	31	9	1	39	29	10	—	39
Non-U.S. equity securities	3	—	—	3	2	—	—	2
U.S. money-market mutual funds	282	—	—	282	449	—	—	449
Non-U.S. money-market mutual funds	8	—	—	8	8	—	—	8
Total	\$84,689	\$1,018	\$399	\$85,308	\$94,108	\$1,229	\$424	\$94,913
Held to maturity:								
U.S. Treasury and federal agencies:								
Direct obligations	\$5,707	\$2	\$162	\$5,547	\$5,114	\$—	\$147	\$4,967
Mortgage-backed securities	52	3	—	55	62	4	—	66
Asset-backed securities:								
Student loans ⁽¹⁾	1,695	3	4	1,694	1,814	2	4	1,812
Credit cards	897	2	—	899	897	2	—	899
Other	500	3	—	503	577	3	1	579
Total asset-backed securities	3,092	8	4	3,096	3,288	7	5	3,290
Non-U.S. debt securities:								
Mortgage-backed securities	3,121	140	22	3,239	3,787	177	22	3,942

Edgar Filing: STATE STREET CORP - Form 10-Q

Asset-backed securities	2,061	9	—	2,070	2,868	14	1	2,881
Government securities	153	—	—	153	154	—	—	154
Other	68	—	1	67	72	—	—	72
Total non-U.S. debt securities	5,403	149	23	5,529	6,881	191	23	7,049
State and political subdivisions	3	—	—	3	9	—	—	9
Collateralized mortgage obligations	1,898	82	12	1,968	2,369	107	15	2,461
Total	\$16,155	\$244	\$201	\$16,198	\$17,723	\$309	\$190	\$17,842

(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.

(2) As of June 30, 2015 and December 31, 2014, the fair value of other asset-backed securities was primarily composed of \$2.9 billion and \$3.8 billion, respectively, of collateralized loan obligations and approximately \$72 million and approximately \$315 million, respectively, of automobile loan securities.

(3) As of both June 30, 2015 and December 31, 2014, the fair value of other non-U.S. debt securities was primarily composed of \$3.3 billion of covered bonds and \$863 million and \$1.2 billion, as of June 30, 2015 and December 31, 2014, respectively, of corporate bonds.

Table of Contents

STATE STREET CORPORATION

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

Aggregate investment securities with carrying values of \$38.12 billion and \$44.02 billion as of June 30, 2015 and December 31, 2014, 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:

June 30, 2015 (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	\$405	\$1	\$112	\$1	\$517	\$2
Mortgage-backed securities	5,106	37	4,128	92	9,234	129
Asset-backed securities:						
Student loans	1,693	12	3,319	81	5,012	93
Credit cards	60	—	1,281	30	1,341	30
Sub-prime	11	—	446	31	457	31
Other	310	1	357	2	667	3
Total asset-backed securities	2,074	13	5,403	144	7,477	157
Non-U.S. debt securities:						
Mortgage-backed securities	909	4	210	2	1,119	6
Other	918	4	411	1	1,329	5
Total non-U.S. debt securities	1,827	8	621	3	2,448	11
State and political subdivisions	2,319	34	779	40	3,098	74
Collateralized mortgage obligations	1,297	9	161	5	1,458	14
Other U.S. debt securities	304	3	145	8	449	11
U.S. equity securities	6	1	—	—	6	1
Total	\$13,338	\$106	\$11,349	\$293	\$24,687	\$399
Held to maturity:						
U.S. Treasury and federal agencies:						
Direct obligations	\$1,952	\$50	\$2,993	\$112	\$4,945	\$162
Asset-backed securities:						
Student loans	671	3	243	1	914	4
Total asset-backed securities	671	3	243	1	914	4
Non-U.S. mortgage-backed securities:						
Mortgage-backed securities	466	2	532	20	998	22
Other	—	—	44	1	44	1
Total non-U.S. debt securities	466	2	576	21	1,042	23
Collateralized mortgage obligations	403	4	421	8	824	12
Total	\$3,492	\$59	\$4,233	\$142	\$7,725	\$201

Table of Contents

STATE STREET CORPORATION

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

December 31, 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	\$—	\$—	\$167	\$1	\$167	\$1
Mortgage-backed securities	2,569	9	6,466	118	9,035	127
Asset-backed securities:						
Student loans	1,473	15	5,025	109	6,498	124
Credit cards	344	1	1,270	33	1,614	34
Sub-prime	—	—	896	56	896	56
Other	547	1	791	9	1,338	10
Total asset-backed securities	2,364	17	7,982	207	10,346	224
Non-U.S. debt securities:						
Mortgage-backed securities	1,350	2	170	2	1,520	4
Other	581	4	328	3	909	7
Total non-U.S. debt securities	1,931	6	498	5	2,429	11
State and political subdivisions	610	3	1,315	34	1,925	37
Collateralized mortgage obligations	731	2	311	10	1,042	12
Other U.S. debt securities	327	2	244	10	571	12
Total	\$8,532	\$39	\$16,983	\$385	\$25,515	\$424
Held to maturity:						
U.S. Treasury and federal agencies:						
Direct obligations	\$76	\$1	\$4,891	\$146	\$4,967	\$147
Asset-backed securities:						
Student Loans	780	3	192	1	972	4
Other	124	1	—	—	124	1
Total asset-backed securities	904	4	192	1	1,096	5
Non-U.S. debt securities:						
Mortgage-backed securities	507	3	590	19	1,097	22
Asset-backed securities	699	1	—	—	699	1
Total non-U.S. debt securities	1,206	4	590	19	1,796	23
Collateralized mortgage obligations	422	4	547	11	969	15
Total	\$2,608	\$13	\$6,220	\$177	\$8,828	\$190

Table of Contents

STATE STREET CORPORATION

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

The following table presents contractual maturities of debt investment securities as of June 30, 2015:

(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	\$2	\$9,322	\$3,087	\$493
Mortgage-backed securities	88	2,273	3,812	13,545
Asset-backed securities:				
Student loans	448	4,091	3,248	1,351
Credit cards	176	310	1,083	—
Sub-prime	8	6	4	472
Other	46	548	900	1,510
Total asset-backed securities	678	4,955	5,235	3,333
Non-U.S. debt securities:				
Mortgage-backed securities	1,778	3,194	625	2,732
Asset-backed securities	355	2,481	70	26
Government securities	2,941	1,049	13	—
Other	1,270	3,122	726	—
Total non-U.S. debt securities	6,344	9,846	1,434	2,758
State and political subdivisions	684	2,600	4,926	2,239
Collateralized mortgage obligations	262	546	660	2,516
Other U.S. debt securities	907	2,167	226	35
Total	\$8,965	\$31,709	\$19,380	\$24,919
Held to maturity:				
U.S. Treasury and federal agencies:				
Direct obligations	\$—	\$492	\$5,104	\$111
Mortgage-backed securities	3	5	10	33
Asset-backed securities:				
Student loans	—	194	328	1,174
Credit cards	—	375	522	—
Other	60	289	148	4
Total asset-backed securities	60	858	998	1,178
Non-U.S. debt securities:				
Mortgage-backed securities	474	869	121	1,656
Asset-backed securities	106	1,783	172	—
Government securities	153	—	—	—
Other	24	45	—	—
Total non-U.S. debt securities	757	2,697	293	1,656
State and political subdivisions	3	—	—	—
Collateralized mortgage obligations	409	188	496	804
Total	\$1,232	\$4,240	\$6,901	\$3,782

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

Table of Contents

STATE STREET CORPORATION

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

The following tables present gross realized gains and 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:

(In millions)	Three Months Ended June 30,	
	2015	2014
Gross realized gains from sales of available-for-sale securities	\$41	\$1
Gross realized losses from sales of available-for-sale securities	(44)	(1)
Net impairment losses:		
Losses reclassified (from) to other comprehensive income, or OCI	—	(2)
Net impairment losses ⁽¹⁾	—	(2)
Gains related to investment securities, net	\$(3)	\$(2)
⁽¹⁾ Net impairment losses, recognized in our consolidated statement of income, were composed of the following:		
Impairment associated with expected credit losses	\$—	\$(1)
Impairment associated with adverse changes in timing of expected future cash flows	—	(1)
Net impairment losses	\$—	\$(2)

(In millions)	Six Months Ended June 30,	
	2015	2014
Gross realized gains from sales of available-for-sale securities	\$41	\$16
Gross realized losses from sales of available-for-sale securities	(44)	(1)
Net impairment losses:		
Gross losses from other-than-temporary impairment	(1)	(1)
Losses reclassified (from) to other comprehensive income, or OCI	—	(10)
Net impairment losses ⁽¹⁾	(1)	(11)
Gains related to investment securities, net	\$(4)	\$4
⁽¹⁾ Net impairment losses, recognized in our consolidated statement of income, were composed of the following:		
Impairment associated with expected credit losses	\$—	\$(10)
Impairment associated with adverse changes in timing of expected future cash flows	(1)	(1)
Net impairment losses	\$(1)	\$(11)

The following table presents a roll-forward with respect to net impairment losses that have been recognized in income for the periods indicated. The beginning balance represents the amount related to credit losses on debt securities held by the us at the beginning of the period for which a portion of an

other-than-temporary impairment was recognized in other comprehensive income. Additions represent increases to the amount related to the credit loss for which an other-than-temporary impairment was previously recognized.

Deductions represent previously recognized losses related to securities sold or matured and losses related to securities intended or required to be sold.

(In millions)	Six Months Ended June 30,	
	2015	2014
Balance, beginning of period	\$115	\$122
Additions:	1	11

Losses for which other-than-temporary impairment was previously recognized

Reductions:

Previously recognized losses related to securities sold or matured	(15	)	(2	)
Losses related to securities intended or required to be sold	—		(6	)
Balance, end of period	\$101		\$125	

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

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

For certain debt securities acquired which are considered to be beneficial interests in securitized financial assets, the excess of our estimate of undiscounted future cash flows from these securities over their initial recorded investment is accreted into interest revenue on a level-yield basis over the securities' estimated remaining terms. Subsequent decreases in these securities' expected future cash

Table of Contents

STATE STREET CORPORATION

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

flows are either recognized prospectively through an adjustment of the yields on the securities over their remaining terms, or are evaluated for other-than-temporary impairment. Increases in expected future cash flows are recognized prospectively over the securities' estimated remaining terms through the recalculation of their yields.

Impairment:

We conduct periodic reviews of individual securities to assess whether other-than-temporary impairment exists. For information about the review of securities for impairment, refer to pages 147 to 150 within note 3 of the 2014 Form 10-K.

In the three months ended June 30, 2015, no other-than-temporary impairment was recorded as compared to \$2 million in the three months ended June 30, 2014. In the six months ended June 30, 2015 we recorded \$1 million of other-than-temporary impairment compared to \$11 million, in the six months ended June 30, 2014:

Three and six months ended June 30, 2015:

zero and \$1 million (non-U.S. mortgage-backed securities), respectively, resulted from adverse changes in the timing of expected future cash flows from the securities.

Three and six months ended June 30, 2014:

\$1 million in both periods in non-U.S. residential mortgage-backed securities resulted from adverse changes in the timing of expected future cash flows from the securities.

\$1 million and \$10 million (U.S. non-agency commercial mortgage-backed securities), respectively, were both associated with expected credit losses.

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 six months ended June 30, 2015, management considers the aggregate decline in fair value of the investment securities portfolio and the resulting gross pre-tax unrealized losses of \$600 million as of June 30, 2015, related to 1,447 securities, to be temporary, and not the result of any material changes in the credit characteristics of the securities.

Note 4. Loans and Leases

We segregate our loans and leases into two segments: institutional and commercial real estate, or

CRE. Within the institutional and CRE segments, we further segregate the receivables into classes based on their risk characteristics, their initial measurement attributes and the methods we use to monitor and assess credit risk. For additional information on our loans and leases, including our internal risk-rating system used to assess our risk of credit loss for each loan or lease, refer to note 4 on pages 150 to 154 of the 2014 Form 10-K.

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

(In millions)	June 30, 2015	December 31, 2014
Institutional:		
Investment funds:		
U.S.	\$11,126	\$11,388
Non-U.S.	2,686	2,333
Commercial and financial:		
U.S.	3,358	3,061
Non-U.S.	334	256
Purchased receivables:		
U.S.	107	124
Non-U.S.	2	6

Lease financing:

U.S.	335	335
Non-U.S.	607	668
Total institutional	18,555	18,171
Commercial real estate:		
U.S.	35	28
Total loans and leases	18,590	18,199
Allowance for loan losses	(43	) (38
Loans and leases, net of allowance for loan losses	\$18,547	\$18,161

Short-duration advances to our clients included in the institutional segment were \$4.48 billion and \$3.54 billion as of June 30, 2015 and December 31, 2014, respectively. These short-duration advances provide liquidity to fund clients in support of their transaction flows associated with securities settlement activities.

The commercial-and-financial class in the institutional segment presented in the preceding table included approximately \$2.58 billion and \$2.07 billion of senior secured bank loans as of June 30, 2015 and December 31, 2014, respectively. These senior secured bank loans are included in the “speculative” category in the credit-quality-indicator tables presented below. As of June 30, 2015 and December 31, 2014, our allowance for loan losses included approximately \$31 million and \$26 million, respectively, related to these loans.

Table of Contents

STATE STREET CORPORATION

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

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		
June 30, 2015	Investment	Commercial	Purchased	Lease	Property	Other	Total
(In millions)	Funds	and Financial	Receivables	Financing	Development		Loans and Leases
Investment grade ⁽¹⁾	\$13,353	\$1,049	\$109	\$915	\$—	\$28	\$15,454
Speculative ⁽²⁾	438	2,618	—	27	7	—	3,090
Special mention ⁽³⁾	21	25	—	—	—	—	46
Total	\$13,812	\$3,692	\$109	\$942	\$7	\$28	\$18,590
	Institutional				Commercial Real Estate		
December 31, 2014	Investment	Commercial	Purchased	Lease	Property	Other	Total
(In millions)	Funds	and Financial	Receivables	Financing	Development		Loans and Leases
Investment grade ⁽¹⁾	\$13,304	\$1,011	\$130	\$976	\$—	\$—	\$15,421
Speculative ⁽²⁾	417	2,306	—	27	—	28	2,778
Total	\$13,721	\$3,317	\$130	\$1,003	\$—	\$28	\$18,199

⁽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.

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

	June 30, 2015			December 31, 2014		
(In millions)	Institutional	Commercial Real Estate	Total Loans and Leases	Institutional	Commercial Real Estate	Total Loans and Leases
Loans and leases:						
Collectively evaluated for impairment ⁽¹⁾	\$18,555	\$ 35	\$18,590	\$18,171	\$ 28	\$18,199
Total	\$18,555	\$ 35	\$18,590	\$18,171	\$ 28	\$18,199

⁽¹⁾ For those portfolios where there are a small number of loans each with a large balance, we review each loan annually for indicators of impairment. For those loans where no such indicators are identified, the loans are collectively evaluated for impairment. As of June 30, 2015 and December 31, 2014, all of the allowance for loan losses of \$43 million and \$38 million, respectively, related to institutional loans collectively evaluated for impairment.

The following table presents information related to our recorded investment in impaired loans and leases as of the dates indicated:

	June 30, 2015	December 31, 2014
(In millions)	Unpaid	Unpaid

Edgar Filing: STATE STREET CORP - Form 10-Q

	Recorded Investment	Principal Balance ⁽¹⁾	Recorded Investment	Principal Balance ⁽¹⁾
With no related allowance recorded:				
CRE—property development—acquired credit-impaired	\$—	\$34	\$—	\$34
CRE—other—acquired credit-impaired	—	22	—	22
Total CRE	\$—	\$56	\$—	\$56

⁽¹⁾ As of June 30, 2015 and December 31, 2014, all of the allowance for loan losses of \$43 million and \$38 million, respectively, related to institutional and CRE loans collectively evaluated for impairment.

In certain circumstances, we restructure troubled loans by granting concessions to borrowers

experiencing financial difficulty. Once restructured, the loans are generally considered impaired until their

Table of Contents

STATE STREET CORPORATION

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

maturity, regardless of whether the borrowers perform under the modified terms of the loans. No loans were modified in troubled debt restructurings in the six months ended June 30, 2015 and the year ended December 31, 2014.

As of June 30, 2015 and December 31, 2014, no institutional loans or leases and no CRE loans were on non-accrual status or 90 days or more contractually past due.

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

	Three Months Ended June 30,	
	2015	2014
(In millions)	Total Loans and Leases	Total Loans and Leases
Allowance for loan losses ⁽¹⁾ :		
Beginning balance	\$41	\$30
Provisions	2	2
Ending balance	\$43	\$32
	Six Months Ended June 30,	
	2015	2014
(In millions)	Total Loans and Leases	Total Loans and Leases
Allowance for loan losses ⁽¹⁾ :		
Beginning balance	\$37	\$28
Provisions	6	4
Ending balance	\$43	\$32

⁽¹⁾ As of June 30, 2015, approximately \$31 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 \$6 million recorded in the six months ended June 30, 2015 included an additional provision of \$2 million, recorded in the three months ended June 30, 2015, associated with the secured bank loans as the portfolio continue to grow and become more seasoned. The senior secured bank loans are held in connection with our participation in loan syndications in the non-investment-grade lending market.

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:

	Six Months Ended June 30,			2014		
	Investment Servicing	Investment Management	Total	Investment Servicing	Investment Management	Total
(In millions)						
Goodwill:						
Beginning balance	\$5,793	\$33	\$5,826	\$5,999	\$37	\$6,036
Foreign currency translation	(95)	(2)	(97)	1	—	1
Ending balance	\$5,698	\$31	\$5,729	\$6,000	\$37	\$6,037

Table of Contents

STATE STREET CORPORATION

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

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

(In millions)	Six Months Ended June 30, 2015			2014		
	Investment Servicing	Investment Management	Total	Investment Servicing	Investment Management	Total
Other intangible assets:						
Beginning balance	\$1,998	\$27	\$2,025	\$2,321	\$39	\$2,360
Amortization	(95	) (4	) (99	) (104	) (4	) (108
Foreign currency translation and other, net	(54	) (1	) (55	) (5	) —	) (5
Ending balance	\$1,849	\$22	\$1,871	\$2,212	\$35	\$2,247

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

(In millions)	June 30, 2015			December 31, 2014		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Client relationships	\$2,512	\$(1,144	) \$1,368	\$2,569	\$(1,088	) \$1,481
Core deposits	671	(231	) 440	688	(219	) 469
Other	158	(95	) 63	214	(139	) 75
Total	\$3,341	\$(1,470	) \$1,871	\$3,471	\$(1,446	) \$2,025

Note 6. Other Assets

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

(In millions)	June 30, 2015	December 31, 2014
Collateral deposits, net	\$23,438	\$18,134
Unrealized gains on derivative financial instruments, net	5,168	7,934
Bank-owned life insurance	3,037	2,402
Investments in joint ventures and other unconsolidated entities	2,022	1,798
Accounts receivable	836	513
Receivable for securities settlement	757	218
Prepaid expenses	333	259
Income taxes receivable	319	396
Deferred tax assets, net of valuation allowance	192	214
Deposits with clearing organizations	175	197
Other ⁽¹⁾	632	535
Total	\$36,909	\$32,600

- ⁽¹⁾ Includes other real estate owned of approximately \$64 million and \$62 million as of June 30, 2015 and December 31, 2014, respectively.

Note 7. Commitments and Guarantees

For additional information regarding our commitments and guarantees, refer to note 10 on pages 159 to 160 of the 2014 Form 10-K.

Commitments:

We had unfunded off-balance sheet commitments to extend credit totaling \$23.32 billion and \$24.43 billion as of June 30, 2015 and December 31, 2014, respectively. The potential losses associated with these commitments equal the gross contractual amounts, and do not consider the value of any collateral. As of June 30, 2015, approximately 75% 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.

Table of Contents

STATE STREET CORPORATION

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

Guarantees:

Off-balance sheet guarantees comprise indemnified securities financing, stable value protection, unfunded commitments to purchase assets, and standby letters of credit. The following table, which presents the aggregate gross contractual amounts of our off-balance sheet guarantees as of the dates indicated, does not consider the value of any collateral, which may mitigate any potential loss. Amounts presented do not reflect participations to independent third parties.

(In millions)	June 30, 2015	December 31, 2014
Indemnified securities financing	\$331,552	\$349,766
Stable value protection	23,280	23,409
Asset purchase agreements	4,210	4,107
Standby letters of credit	4,966	4,720
Indemnified Securities Financing		

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

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

(In millions)	June 30, 2015	December 31, 2014
Fair value of indemnified securities financing	\$331,552	\$349,766
Fair value of cash and securities held by us, as agent, as collateral for indemnified securities financing	345,178	364,411
Fair value of collateral for indemnified securities financing invested in indemnified repurchase agreements	77,889	85,309
Fair value of cash and securities held by us or our agents as collateral for investments in indemnified repurchase agreements	82,709	90,819

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 June 30, 2015 and December 31, 2014, we had approximately \$21.95 billion and \$15.94 billion,

respectively, of collateral provided and approximately \$4.24 billion and \$6.48 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

Table of Contents

STATE STREET CORPORATION

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

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 June 30, 2015, our aggregate accruals for legal loss contingencies and regulatory matters totaled approximately \$611 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 more than \$125 million, plus prejudgment interest and other enhanced damages, 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 June 30, 2015, 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 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 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.

Table of Contents

STATE STREET CORPORATION

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

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 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.

If these matters were to proceed to trial, we expect that plaintiffs would 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
Twelve Months Ended December 31, 2008	\$462
Twelve Months Ended December 31, 2009	369
Twelve Months Ended December 31, 2010	336
Twelve Months Ended December 31, 2011	331
Twelve Months Ended December 31, 2012	248
Twelve Months Ended December 31, 2013	285
Twelve Months Ended December 31, 2014	246
Six Months Ended June 30, 2015	147

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.

As of June 30, 2015, we have accrued a total of \$585 million associated with indirect foreign exchange business. This accrual reflects the current status of continued negotiations in connection with our intention to seek to resolve the outstanding claims asserted in the United States against us by federal governmental entities and U.S. civil litigants with regard to our indirect foreign exchange business. Although we believe these recorded legal accruals will address the financial demands associated with these claims, significant non-financial terms remain outstanding and settlement

agreements have not been finalized. In addition, there can be no assurance that other claims will not be asserted in the future. Consequently, there can be no assurance that we will enter into these settlements, that the cost of any settlements or other resolutions of any such matters will not materially exceed our accruals or that other, potentially material, claims relating to our indirect foreign exchange business will not be asserted against us. An adverse outcome with respect to one or more claims, whether or not currently asserted, relating to our indirect foreign exchange business could have a material adverse effect on our reputation, on our consolidated results of operations for the period in which the adverse outcome occurs (or an accrual is determined to be required), or on our consolidated financial condition.

Table of Contents

STATE STREET CORPORATION

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

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 June 30, 2015, we had remaining accruals of approximately \$2.6 million for indemnification costs associated with this matter.

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. In July 2015, we entered in an agreement to resolve the last of these matters. Our existing reserve will be sufficient to satisfy our obligations in connection with this settlement.

Public Retirement Plans

On June 18, 2015, State Street announced that the enforcement staff of the U.S. Securities and Exchange Commission had provided it with a “Wells” notice. The notice relates to an SEC investigation into our solicitation of asset servicing business for public retirement plans during a period ending in 2011. The investigation includes our use of consultants and lobbyists and, in at least one instance, political contributions by one of our consultants during and after a public bidding process. The Wells notice informs State Street that the SEC staff intends to ask the Commission for permission to bring a civil enforcement action that would allege violations of the securities laws (i.e., Section 17(a) of the Securities Act of 1933 and Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder). The issuance of a Wells notice provides State Street with the opportunity to make a submission to the Commission in response to the SEC staff’s position. State Street intends to submit such a response.

Federal Reserve/Massachusetts Division of Banks Written Agreement

On June 1, 2015, State Street entered into a written agreement with the Federal Reserve and the Massachusetts Division of Banks relating to deficiencies identified in its compliance programs with the requirements of the Bank Secrecy Act, anti-money laundering (AML) regulations and US economic sanctions regulations promulgated by the Office of Foreign Assets Control (OFAC). As part of this enforcement action, State Street is required to, among other things, implement improvements to our compliance programs and to retain an independent firm to conduct a review of account and transaction activity covering a prior three-month period to evaluate whether any suspicious activity not previously reported should have been identified and reported in accordance with applicable regulatory requirements. If deficiencies in our historical reporting are identified as a result of the transaction review or if we fail to comply with the terms of the written agreement, we may become subject to fines and other regulatory sanctions, which may have a material adverse effect on us.

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 have decreased from approximately \$163 million as of December 31, 2014 to \$52 million as of June 30, 2015 due to the approval of a tax refund.

We are presently under audit by a number of tax authorities. The earliest tax year open to examination in jurisdictions where we have material operations is 2009. Management believes that we have sufficiently accrued liabilities as of

June 30, 2015 for tax exposures.

Note 9. Variable Interest Entities

For additional information on our variable interest entities, or VIEs, refer to note 12 on pages 162 to 164 of the 2014 Form 10-K.

Table of Contents

STATE STREET CORPORATION

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

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. As of June 30, 2015 and December 31, 2014, we carried investment securities available for sale, composed of securities related to state and political subdivisions, with a fair value of \$2.18 billion and \$2.27 billion, respectively, and other short-term borrowings of \$1.83 billion and \$1.87 billion, respectively, in our consolidated statement of condition in connection with these trusts. The interest revenue and interest expense generated by the investments and certificated interests, respectively, are recorded as components of net interest revenue when earned or incurred.

The trusts had a weighted-average life of approximately 5.5 years as of June 30, 2015, compared to approximately 5.9 years as of December 31, 2014.

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 \$1.83 billion and \$639 million, respectively, as of June 30, 2015, none of which was utilized as of that date.

Interests in Sponsored Investment Funds:

As of June 30, 2015, the aggregate assets and liabilities of our consolidated sponsored investment fund totaled \$768 million and \$716 million, respectively. As of December 31, 2014, the aggregate assets and liabilities of our consolidated sponsored investment fund totaled \$65 million and \$13 million, respectively.

As of June 30, 2015 our potential maximum total exposure associated with the consolidated sponsored investment fund totaled \$52 million and represented the value of our economic ownership interest in the fund.

As of June 30, 2015 and December 31, 2014, 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 \$70 million and \$45 million as of June 30, 2015 and December 31, 2014, 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:

Preferred Stock, Series F

In May 2015, we issued 750 thousand depositary shares, each representing a 1/100th ownership interest in a share of State Street's fixed-to-floating-rate non-cumulative perpetual preferred stock, Series F, without par value per share, with a liquidation preference of \$100,000 per share (equivalent to \$1,000 per depositary share), in a public offering. The aggregate proceeds from the offering, net of underwriting discounts, commissions and other issuance costs, were approximately \$742 million.

On September 15, 2020, or any dividend payment date thereafter, the Series F 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 \$1,000 per depositary share) plus any declared and unpaid dividends, without accumulation of any undeclared dividends. The Series F preferred stock and corresponding depositary shares may be redeemed at our option in whole, but not in part, prior to September 15, 2020, upon the occurrence of a regulatory capital treatment event, as defined in the certificate of designation with respect to the Series F preferred stock, at a redemption price equal to \$100,000 per share (equivalent to \$1,000 per depositary share) plus any declared and unpaid dividends,

without accumulation of any undeclared dividends.

Preferred Stock, Series E

In the three months ended June 30, 2015, we declared dividends on our Series E preferred stock of \$1,500 per share, or approximately \$0.38 per depositary share, totaling approximately \$11 million. In the six months ended June 30, 2015, we declared dividends on our Series E preferred stock of \$3,333 per share, or approximately \$0.84 per depositary share, totaling approximately \$25 million. We did not declare a dividend on the Series E preferred stock in the first six months of June 30, 2014.

Table of Contents

STATE STREET CORPORATION

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

Preferred Stock, Series D

In the three months ended June 30, 2015, we declared aggregate dividends on our Series D preferred stock of \$1,475 per share, or approximately \$0.37 per depositary share, totaling approximately \$11 million. In the six months ended June 30, 2015, we declared aggregate dividends on our Series D preferred stock of \$2,950 per share, or approximately \$0.74 per depositary share, totaling approximately \$22 million. In the three months ended June 30, 2014, we declared aggregate dividends on our Series D preferred stock of \$1,655 per share, or approximately \$0.41 per depositary share, totaling approximately \$12 million.

Preferred Stock, Series C

In the three months ended June 30, 2015, we declared aggregate dividends on our Series C preferred stock of \$1,313 per share, or approximately \$0.33 per depositary share, totaling approximately \$7 million. In the six months ended June 30, 2015, we declared aggregate dividends on our Series C preferred stock of \$2,626 per share, or approximately \$0.66 per depositary share, totaling approximately \$13 million. In the three months ended June 30, 2014, we declared aggregate dividends on our Series C preferred stock of \$1,313 per share, or approximately \$0.33 per depositary share, totaling approximately \$7 million. In the six months ended June 30, 2014, we declared aggregate dividends on our Series C preferred stock of \$2,626 per share, or approximately \$0.66 per depositary share, totaling approximately \$13 million.

Common Stock:

In March 2015 our Board of Directors, or Board, approved a common stock purchase program authorizing the purchase of up to \$1.8 billion of our

common stock through June 30, 2016. In the three months ended June 30, 2015, we purchased approximately 4.4 million shares of our common stock at an average per-share cost of \$78.79 and an aggregate cost of approximately \$350 million were purchased by us under this program.

In the three months ended March 31, 2015, we purchased approximately 6.3 million shares of our common stock at an average per-share cost of \$74.88 and an aggregate cost of approximately \$470 million under a previous program approved by the Board in March 2014. As of March 31, 2015, no shares remained available for purchases of our common stock under the program.

Under both programs, in the six months ended June 30, 2015, we purchased in the aggregate approximately 10.7 million shares of our common stock at an average per-share cost of \$76.50 and an aggregate cost of \$820 million. Shares acquired under the programs which remained unissued as of June 30, 2015 were recorded as treasury stock in our consolidated statement of condition as of June 30, 2015.

In the three months ended June 30, 2015, we declared aggregate common stock dividends of \$0.34 per share, totaling approximately \$139 million. In the three months ended June 30, 2014, we declared aggregate common stock dividends of \$0.30 per share, totaling approximately \$128 million. In the six months ended June 30, 2015, we declared aggregate common stock dividends of \$0.64 per share, totaling approximately \$262 million, compared to aggregate common stock dividends of \$0.56 per share, totaling approximately \$240 million, declared in the six months ended June 30, 2014.

Accumulated Other Comprehensive Income (Loss):

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

(In millions)	June 30, 2015	December 31, 2014
Net unrealized gains on cash flow hedges	\$296	\$276
Net unrealized gains (losses) on available-for-sale securities portfolio	139	273
Net unrealized gains (losses) related to reclassified available-for-sale securities	30	39

Edgar Filing: STATE STREET CORP - Form 10-Q

Net unrealized gains (losses) on available-for-sale securities	169	312	
Net unrealized losses on available-for-sale securities designated in fair value hedges	(113	) (121	)
Other-than-temporary impairment on available-for-sale securities related to factors other than credit	—	1	
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	(22	) (29	)
Net unrealized losses on retirement plans	(257	) (272	)
Foreign currency translation	(1,070	) (660	)
Total	\$(1,011	) \$(507	)

85

Table of Contents

STATE STREET CORPORATION

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

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

Six Months Ended June 30, 2015

(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 Foreign Losses on Retirement Plans	Currency Translation	Total
Balance as of December 31, 2014	\$276	\$ 192	\$ (14)	\$ (29)	\$ (272)	\$ (660)	\$(507)
Other comprehensive income (loss) before reclassifications	19	(134)	—	8	—	(410)	(517)
Amounts reclassified into earnings	1	(2)	—	(1)	15	—	13
Other comprehensive income (loss)	20	(136)	—	7	15	(410)	(504)
Balance as of June 30, 2015	\$296	\$ 56	\$ (14)	\$ (22)	\$ (257)	\$ (1,070)	\$(1,011)

Six Months Ended June 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 Foreign Losses on Retirement Plans	Currency Translation	Total
Balance as of December 31, 2013	\$161	\$ (221)	\$ (14)	\$ (47)	\$ (203)	\$ 229	\$(95)
Other comprehensive income (loss) before reclassifications	(62)	551	—	11	1	73	574
Amounts reclassified into earnings	1	(9)	—	1	17	—	10
Other comprehensive income (loss)	(61)	542	—	12	18	73	584
Balance as of June 30, 2014	\$100	\$ 321	\$ (14)	\$ (35)	\$ (185)	\$ 302	\$489

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

(In millions)	Three Months Ended June 30, 2015	2014	Amounts Reclassified into Earnings	Affected Line Item in Consolidated Statement of
---------------	-------------------------------------	------	---------------------------------------	--

			Income
Available-for-sale securities:			
Net realized gains from sales of available-for-sale securities, net of related tax benefit of \$1 in 2015	\$(2	) \$—	Net gains (losses) from sales of available-for-sale securities
Held-to-maturity securities:			
Other-than-temporary impairment on held-to-maturity securities related to factors other than credit	—	1	Losses reclassified (from) to other comprehensive income
Retirement plans:			
Amortization of actuarial losses, net of tax benefit of \$3 and related taxes of (\$8), respectively	10	12	Compensation and employee benefits expenses
Total reclassifications out of AOCI	\$8	\$13	

Table of Contents

STATE STREET CORPORATION

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

(In millions)	Six Months Ended June 30,		Affected Line Item in Consolidated Statement of Income
	2015	2014	
	Amounts Reclassified into Earnings		
Cash flow hedges:			
Interest-rate contracts, net of related tax benefit of \$1 and \$1, respectively	\$ 1	\$ 1	Net interest revenue
Available-for-sale securities:			
Net realized gains from sales of available-for-sale securities, net of related tax benefit of \$1 and related taxes of (\$6), respectively	(2	) (9	) Net gains (losses) from sales of available-for-sale securities
Held-to-maturity securities:			
Other-than-temporary impairment on held-to-maturity securities related to factors other than credit	(1	) 1	Losses reclassified (from) to other comprehensive income
Retirement plans:			
Amortization of actuarial losses, net of related taxes of (\$1) and (\$5), respectively	15	17	Compensation and employee benefits expenses
Total reclassifications out of AOCI	\$ 13	\$ 10	

Table of Contents

STATE STREET CORPORATION

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

Note 11. Regulatory Capital

We are subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum regulatory capital requirements can initiate certain mandatory and discretionary actions by regulators that, if undertaken, could have a direct material effect on our consolidated financial condition. Under current regulatory capital adequacy guidelines, we must meet specified capital requirements that involve quantitative measures of our consolidated assets, liabilities and off-balance sheet exposures calculated in conformity with regulatory accounting practices. Our capital components and their classifications are subject to qualitative judgments by regulators about components, risk weightings and other factors. For additional information on regulatory capital, and the requirements to which we are subject, refer to note 15, Regulatory Capital on pages 170 to 173 in the 2014 Form 10-K.

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, 2015, we are required to calculate our risk-based capital ratios using both the advanced approaches and the

standardized approach. As a result, from January 1, 2015 going forward, our risk-based capital ratios for regulatory assessment purposes will be the lower of each ratio calculated under the standardized approach and the advanced approaches.

The methods for the calculation of our and State Street Bank's risk-based capital ratios will change as the provisions of the Basel III final rule related to the numerator (capital) and denominator (risk-weighted assets) are phased in, and as we begin calculating our risk-weighted assets using the advanced approaches. These ongoing methodological changes will result in differences in our reported capital ratios from one reporting period to the next that are independent of applicable changes to our capital base, our asset composition, our off-balance sheet exposures or our risk profile. As of June 30, 2015, State Street and State Street Bank exceeded all regulatory capital adequacy requirements to which they were subject. As of June 30, 2015, State Street Bank was categorized as "well capitalized" under the applicable regulatory capital adequacy framework, and exceeded all "well capitalized" ratio guidelines to which it was subject. Management believes that no conditions or events have occurred since June 30, 2015 that have changed the capital categorization of State Street Bank.

Table of Contents

STATE STREET CORPORATION

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

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

(Dollars in millions)	State Street				State Street Bank			
	Basel III Advanced Approaches June 30, 2015 ⁽¹⁾	Basel III Standardized Approach June 30, 2015 ⁽²⁾	Basel III Advanced Approaches December 31, 2014 ⁽¹⁾	Basel III Transitional Approach December 31, 2014 ⁽³⁾	Basel III Advanced Approaches June 30, 2015 ⁽¹⁾	Basel III Standardized Approach June 30, 2015 ⁽²⁾	Basel III Advanced Approaches December 31, 2014 ⁽¹⁾	Basel III Transitional Approach December 31, 2014 ⁽³⁾
Common shareholders' equity:								
Common stock and related surplus	\$ 10,248	\$ 10,248	\$ 10,295	\$ 10,295	\$ 10,912	\$ 10,912	\$ 10,867	\$ 10,867
Retained earnings	15,390	15,390	14,882	14,882	10,299	10,299	9,416	9,416
Accumulated other comprehensive income (loss)	(1,055)	(1,055)	(641)	(641)	(929)	(929)	(535)	(535)
Treasury stock, at cost	(5,830)	(5,830)	(5,158)	(5,158)	—	—	—	—
Total	18,753	18,753	19,378	19,378	20,282	20,282	19,748	19,748
Regulatory capital adjustments:								
Goodwill and other intangible assets, net of associated deferred tax liabilities ⁽⁴⁾	(5,974)	(5,974)	(5,869)	(5,869)	(5,667)	(5,667)	(5,577)	(5,577)
Other adjustments	(66)	(66)	(36)	(36)	(109)	(109)	(128)	(128)
Common equity tier 1 capital	12,713	12,713	13,473	13,473	14,506	14,506	14,043	14,043
Preferred stock	2,703	2,703	1,961	1,961	—	—	—	—
Trust preferred capital securities subject to phase-out from tier 1 capital	237	237	475	475	—	—	—	—
Other adjustments	(98)	(98)	(145)	(145)	—	—	—	—
Tier 1 capital	15,555	15,555	15,764	15,764	14,506	14,506	14,043	14,043
Qualifying subordinated	1,438	1,438	1,618	1,618	1,452	1,452	1,634	1,634

long-term debt										
Trust preferred capital securities phased out of tier 1 capital	713	713	475	475	—	—	—	—		
Other adjustments	2	2	4	4	—	—	—	—		
Total capital	\$17,708	\$17,708	\$17,861	\$17,861	\$15,958	\$15,958	\$15,677	\$15,677		
Risk-weighted assets:										
Credit risk	\$56,154	\$107,003	\$66,874	\$87,502	\$51,190	\$101,955	\$59,836	\$84,433		
Operational risk	43,885	NA	35,866	NA	43,324	NA	35,449	NA		
Market risk ⁽⁵⁾	4,494	2,785	5,087	2,910	4,503	2,785	5,048	2,909		
Total risk-weighted assets	\$104,533	\$109,788	\$107,827	\$90,412	\$99,017	\$104,740	\$100,333	\$87,342		
Adjusted quarterly average assets	\$257,227	\$257,227	\$247,740	\$247,740	\$252,636	\$252,636	\$243,549	\$243,549		
Capital Ratios:	Minimum Requirements	Minimum Requirements	Minimum Requirements	Minimum Requirements	Minimum Requirements	Minimum Requirements	Minimum Requirements	Minimum Requirements		
Common equity tier 1 capital	4.5%	4.0%	12.2%	11.6%	12.5%	14.9%	14.7%	13.8%	14.0%	16.1%
Tier 1 capital	6.0%	5.5%	14.9%	14.2%	14.6%	17.4%	14.7%	13.8%	14.0%	16.1%
Total capital	8.0%	8.0%	16.9%	16.1%	16.6%	19.8%	16.1%	15.2%	15.6%	17.9%
Tier 1 leverage	4.0%	4.0%	6.0%	6.0%	6.4%	6.4%	5.7%	5.7%	5.8%	5.8%

NA: Not applicable.

⁽¹⁾ Common equity tier 1 capital, tier 1 capital and total capital ratios as of June 30, 2015 and December 31, 2014 were calculated in conformity with the advanced approaches provisions of the Basel III final rule. Tier 1 leverage ratio as of June 30, 2015 and December 31, 2014 were calculated in conformity with the Basel III final rule.

⁽²⁾ Common equity tier 1 capital, tier 1 capital and total capital ratios as of June 30, 2015 were calculated in conformity with the standardized approach provisions of the Basel III final rule. Tier 1 leverage ratio as of June 30, 2015 was calculated in conformity with the Basel III final rule.

⁽³⁾ Common equity tier 1 capital, tier 1 capital, total capital and tier 1 leverage ratios as of December 31, 2014 were calculated in conformity with the transitional provisions of the Basel III final rule. Specifically, these ratios reflect common equity tier 1, 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.

⁽⁴⁾ Amounts for State Street and State Street Bank as of June 30, 2015 consisted of goodwill, net of associated deferred tax liabilities, and 40% of other intangible assets, net of associated deferred tax liabilities. Amounts for State Street and State Street Bank as of December 31, 2014 consisted of goodwill, net of deferred tax liabilities and 20% of other intangible assets, net of associated deferred tax liabilities. Intangible assets, net of associated deferred tax liabilities is phased in as a deduction from capital, in conformity with the Basel III final rule.

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

simple CVA approach in conformity with the Basel III advanced approaches.

⁽⁶⁾ Minimum requirements will be phased in up to full implementation beginning on January 1, 2019; minimum requirements listed are as of June 30, 2015.

⁽⁷⁾ Minimum requirements will be phased in up to full implementation beginning on January 1, 2019; minimum requirements listed are as of December 31, 2014.

Table of Contents

STATE STREET CORPORATION

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

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. For information on our derivative instruments, including the related accounting policies, refer to note 16 on pages 173 to 179 in the 2014 10-K.

Derivative financial instruments are also subject to credit and counterparty risk, which we manage by performing credit reviews, maintaining individual counterparty limits, entering into netting arrangements and requiring the receipt of collateral. Cash collateral received from and provided to counterparties in connection with derivative financial instruments is recorded in accrued expenses and other liabilities and other assets, respectively, in our consolidated statement of condition. As of June 30, 2015 and December 31, 2014, we had recorded approximately \$1.52 billion and \$1.79 billion, respectively, of cash collateral received from counterparties and approximately \$2.71 billion and \$4.79 billion, respectively, of cash collateral provided to counterparties in connection with derivative financial instruments in our consolidated statement of condition.

Certain of our derivative assets and liabilities as of June 30, 2015 and December 31, 2014 are subject to master netting agreements with our derivative counterparties. Certain of these agreements contain credit risk-related contingent features in which the counterparty has the right to declare us in default and accelerate cash settlement of our net derivative liabilities with the counterparty in the event that our credit rating falls below specified levels. The aggregate fair value of all derivative instruments with credit risk-related contingent features that were in a net liability position as of June 30, 2015 totaled approximately \$1.09 billion, against which we had \$19 million underlying collateral, due to timing differences with respect to the market-to market valuation of the collateral. If our credit rating were downgraded below levels specified in the agreements, the maximum additional amount of payments related to termination events that could have been required pursuant to these contingent features as of June 30, 2015 was approximately \$1.07 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. Refer to pages 174 to 175 within note 16 in the 2014 Form 10-K for information on derivatives not designated as hedging instruments.

Derivatives Designated as Hedging Instruments:

In connection with our asset-and-liability management activities, we use derivative financial instruments to manage our interest-rate risk and foreign currency risk. Interest-rate risk, defined as the sensitivity of income or financial condition to 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. We use forward and swap foreign exchange contracts to hedge foreign exchange exposure to various foreign currencies with respect to certain assets and liabilities. Our hedging

relationships are formally designated, and qualify for hedge accounting, as fair value or cash flow hedges. Refer to pages 175 to 179 within note 16 in the 2014 Form 10-K for information on derivatives designated as hedging instruments.

Fair Value Hedges

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 trusts had a weighted-average life of approximately 5.5 years as

Table of Contents

STATE STREET CORPORATION

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

of June 30, 2015, compared to 5.9 years as of December 31, 2014.

We have entered into interest-rate swap agreements to modify our interest expense on five senior notes and two subordinated notes from fixed rates to floating rates. The senior notes mature in 2017, 2018, 2021, 2023 and 2024 and pay fixed interest at annual rates of 5.38%, 1.35%, 4.38%, 3.70% and 3.30%, respectively. The subordinated notes matures in 2018, and 2023 and pays fixed interest at annual rates of 4.96% and 3.10%, respectively. 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.

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.

Cash Flow Hedges

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.

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

(In millions)	June 30, 2015	December 31, 2014
Derivatives not designated as hedging instruments:		
Interest-rate contracts:		
Swap agreements and forwards	\$266	\$645
Options and caps purchased	2	7
Options and caps written	2	7
Futures	12,225	3,939
Foreign exchange contracts:		
Forward, swap and spot	1,331,780	1,231,344
Options purchased	2,433	2,767
Options written	2,309	2,404
Credit derivative contracts:		
Credit swap agreements	229	191
Commodity and equity contracts:		
Commodity ⁽¹⁾	77	26
Equity ⁽¹⁾	52	2
Other:		
Stable value contracts	23,280	23,409
Deferred value awards ⁽²⁾	386	210
Derivatives designated as hedging instruments:		
Interest-rate contracts:		
Swap agreements	6,961	6,077
Foreign exchange contracts:		
Forward and swap	9,570	2,705

- (1) Primarily composed of positions held by a consolidated sponsored investment fund, more fully described in note 9.
- (2) Represents grants of deferred value awards to employees; refer to discussion in this note under "Derivatives Not Designated as Hedging Instruments."

Table of Contents

STATE STREET CORPORATION

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

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:

	June 30, 2015 ⁽¹⁾
(In millions)	Fair Value Hedges
Investment securities available for sale	\$1,761
Long-term debt ⁽²⁾	5,200
Total	\$6,961
	December 31, 2014
(In millions)	Fair Value Hedges
Investment securities available for sale	\$2,577
Long-term debt ⁽²⁾	3,500
Total	\$6,077

⁽¹⁾ As of June 30, 2015 there were no interest-rate contracts designated as cash flow hedges.

⁽²⁾ As of June 30, 2015, these fair value hedges increased the carrying value of long-term debt presented in our consolidated statement of condition by \$47 million. As of December 31, 2014, these fair value hedges decreased the carrying value of long-term debt presented in our consolidated statement of condition by \$76 million.

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 June 30, 2015				2014			
	Contractual Rates		Rate Including Impact of Hedges		Contractual Rates		Rate Including Impact of Hedges	
Long-term debt	3.70	%	2.67	%	3.53	%	2.73	%
	Six Months Ended June 30, 2015				2014			
	Contractual Rates		Rate Including Impact of Hedges		Contractual Rates		Rate Including Impact of Hedges	
Long-term debt	3.61	%	2.60	%	3.46	%	2.66	%

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.

Derivative Assets⁽¹⁾

	Fair Value	
(In millions)	June 30, 2015	December 31, 2014
Derivatives not designated as hedging instruments:		

Edgar Filing: STATE STREET CORP - Form 10-Q

Foreign exchange contracts	\$10,030	\$14,626
Interest-rate contracts	4	15
Other derivative contracts	4	2
Total	\$10,038	\$14,643
Derivatives designated as hedging instruments:		
Foreign exchange contracts	\$509	\$509
Interest-rate contracts	45	62
Total	\$554	\$571

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

Derivative Liabilities⁽¹⁾

(In millions)	Fair Value	
	June 30, 2015	December 31, 2014
Derivatives not designated as hedging instruments:		
Foreign exchange contracts	\$9,976	\$14,922
Other derivative contracts	107	70
Interest-rate contracts	4	16
Total	\$10,087	\$15,008
Derivatives designated as hedging instruments:		
Interest-rate contracts	\$215	\$223
Foreign exchange contracts	27	3
Total	\$242	\$226

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

Table of Contents

STATE STREET CORPORATION

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

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

		Location of Gain (Loss) on Derivative in Consolidated Statement of Income		Amount of Gain (Loss) on Derivative Recognized in Consolidated Statement of Income			
				Three Months Ended June 30,		Six Months Ended June 30,	
				2015	2014	2015	2014
(In millions)							
Derivatives not designated as hedging instruments:							
Foreign exchange contracts		Trading services revenue		\$ 165	\$ 144	\$ 369	\$ 278
Interest-rate contracts		Trading services revenue		(1	) (1	) (1	) (1
Other derivative contracts		Trading services revenue		1	—	3	—
Other derivative contracts		Processing fees and other revenue		—	—	—	(1
Total				\$ 165	\$ 143	\$ 371	\$ 276
		Location of (Gain) Loss on Derivative in Consolidated Statement of Income		Amount of (Gain) Loss on Derivative Recognized in Consolidated Statement of Income			
				Three Months Ended June 30,		Six Months Ended June 30,	
				2015	2014	2015	2014
(In millions)							
Derivatives not designated as hedging instruments:							
Other derivative contracts		Compensation and employee benefits		\$ 33	\$(22	) \$92	\$(70
Total				\$ 33	\$(22	) \$92	\$(70
		Location of Gain (Loss) on Derivative in Consolidated Statement of Income	Amount of Gain (Loss) on Derivative Recognized in Consolidated Statement of Income	Hedged Item in Fair Value Hedging Relationship	Location of Gain (Loss) on Hedged Item in Consolidated Statement of Income	Amount of Gain (Loss) on Hedged Item Recognized in Consolidated Statement of Income	
			Three Months Ended June 30, 2015	Six Months Ended June 30, 2015		Three Months Ended June 30, 2015	Six Months Ended June 30, 2015
(In millions)							
Derivatives designated as fair value hedges:							
Foreign exchange contracts	Processing fees and other revenue	\$ 12	\$(52	) Investment securities	Processing fees and other revenue	\$(12	) \$52
Foreign exchange contracts	Processing fees and other revenue	(13	) (13	) FX deposit	Processing fees and other revenue	13	13
	Processing fees and	37	12		Processing fees and	(38	) (12

Edgar Filing: STATE STREET CORP - Form 10-Q

Interest-rate contracts	other revenue			Available-for-sale securities	other revenue ⁽¹⁾		
Interest-rate contracts	Processing fees and other revenue	(85)	(17)	Long-term debt	Processing fees and other revenue	82	17
Total		\$ (49)	\$ (70)			\$ 45	\$ 70
	Location of Gain (Loss) on Derivative in Consolidated Statement of Income	Amount of Gain (Loss) on Derivative Recognized in Consolidated Statement of Income		Hedged Item in Fair Value Hedging Relationship	Location of Gain (Loss) on Hedged Item in Consolidated Statement of Income	Amount of Gain (Loss) on Hedged Item Recognized in Consolidated Statement of Income	
		Three Months Ended June 30, 2014	Six Months Ended June 30, 2014			Three Months Ended June 30, 2014	Six Months Ended June 30, 2014
(In millions)							
Derivatives designated as fair value hedges:							
Foreign exchange contracts	Processing fees and other revenue	\$ 47	96	Investment securities	Processing fees and other revenue	\$ (44)	\$ (89)
Interest-rate contracts	Processing fees and other revenue	(24)	(41)	Available-for-sale securities	Processing fees and other revenue ⁽¹⁾	22	38
Interest-rate contracts	Processing fees and other revenue	18	60	Long-term debt	Processing fees and other revenue	(18)	(60)
Total		\$ 41	\$ 115			\$ (40)	\$ (111)

⁽¹⁾ Represents amounts reclassified out of or into other comprehensive income, or OCI. For the three and six months ended June 30, 2015, \$22 million and \$7 million, respectively, of unrealized gains on available-for-sale securities designated in fair value hedges were recognized in OCI. For the three and six months ended June 30, 2014, \$13 million and \$23 million, respectively, of unrealized losses on available-for-sale securities designated in fair value hedges were recognized in OCI.

Table of Contents

STATE STREET CORPORATION

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

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.

	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	
(In millions)	Three Months Ended June 30, 2015	Six Months Ended June 30, 2015		Three Months Ended June 30, 2015	Six Months Ended June 30, 2015		Three Months Ended June 30, 2015	Six Months Ended June 30, 2015

Derivatives designated as
cash flow hedges:

Interest-rate contracts	\$—	\$—	Net interest revenue	\$(1)	\$(2)	Net interest revenue	\$—	\$—
Foreign exchange contracts	21	41	Net interest revenue	—	—	Net interest revenue	2	4
Total	\$21	\$41		\$(1)	\$(2)		\$2	\$4
	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	
(In millions)	Three Months Ended June 30, 2014	Six Months Ended June 30, 2014		Three Months Ended June 30, 2014	Six Months Ended June 30, 2014		Three Months Ended June 30, 2014	Six Months Ended June 30, 2014

Derivatives designated as
cash flow hedges:

Interest-rate contracts	\$(1)	\$(2)	Net interest revenue	\$(1)	\$(2)	Net interest revenue	\$1	\$2
Foreign exchange contracts	(52)	(64)	Net interest revenue	—	—	Net interest revenue	1	2
Total	\$(53)	\$(66)		\$(1)	\$(2)		\$2	\$4

Table of Contents

STATE STREET CORPORATION

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

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. Refer to note 17 on pages 179 to 181 in the 2014 Form 10-K for information on offsetting arrangements and our related accounting policy.

As of June 30, 2015 and December 31, 2014, the fair value of securities received as collateral where we are permitted to transfer or re-pledge the securities totaled \$4.57 billion and \$2.60 billion, respectively, and the fair value of the portion that had been transferred or re-pledged as of the same date was \$2.06 billion and \$125 million, respectively.

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

Assets:	June 30, 2015			December 31, 2014		
(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	\$ 10,539	\$(4,698	) \$5,841	\$ 15,135	\$(6,275	) \$8,860
Interest-rate contracts	49	(21	) 28	77	(21	) 56
Equity derivative contracts	2	(2	) —	—	—	—
Other derivative contracts	2	(2	) —	2	(1	) 1
Cash collateral netting	—	(701	) (701	) —	(983	) (983
Total derivatives	\$ 10,592	\$(5,424	) \$5,168	\$ 15,214	\$(7,280	) \$7,934
Other financial instruments:						
Resale agreements and securities borrowing ⁽³⁾	\$ 60,204	\$(33,810	) \$26,394	\$ 47,488	\$(29,157	) \$18,331
Total derivatives and other financial instruments	\$ 70,796	\$(39,234	) \$31,562	\$ 62,702	\$(36,437	) \$26,265

⁽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 \$26,394 million as of June 30, 2015 were \$4,447 million of resale agreements and \$21,947 million of collateral provided related to securities borrowing. Included in the \$18,331 million as of December 31, 2014 were \$2,390 million of resale agreements and \$15,941 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.

Table of Contents

STATE STREET CORPORATION

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

(In millions)	June 30, 2015				December 31, 2014			
	Net Amount of Assets Presented in Statement of Condition	Gross Amounts Not Offset in Statement of Condition ⁽¹⁾	Counterparty Collateral Netting Received	Net Amount ⁽²⁾	Net Amount of Assets Presented in Statement of Condition	Gross Amounts Not Offset in Statement of Condition ⁽¹⁾	Counterparty Collateral Netting Received	Net Amount ⁽²⁾
Derivatives	\$5,168	\$—	\$(1,561)	\$3,607	\$7,934	\$—	\$(1,490)	\$6,444
Resale								
agreements	26,394	(87)	(26,178)	129	18,331	(128)	(18,157)	46
and securities								
borrowing								
Total	\$31,562	\$(87)	\$(27,739)	\$3,736	\$26,265	\$(128)	\$(19,647)	\$6,490

⁽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.

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

(In millions)	June 30, 2015			December 31, 2014		
	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	\$10,003	\$(4,698)	\$5,305	\$14,925	\$(6,275)	\$8,650
Interest-rate contracts	219	(21)	198	239	(20)	219
Equity derivative contracts	1	(1)	—	—	—	—
Other derivative contracts	106	(2)	104	70	(1)	69
Cash collateral netting	—	(1,241)	(1,241)	—	(2,630)	(2,630)
Total derivatives	\$10,329	\$(5,963)	\$4,366	\$15,234	\$(8,926)	\$6,308
Other financial instruments:						
Repurchase agreements and securities lending ⁽³⁾	\$49,223	\$(33,810)	\$15,413	\$44,562	\$(29,157)	\$15,405
Total derivatives and other financial instruments	\$59,552	\$(39,773)	\$19,779	\$59,796	\$(38,083)	\$21,713

⁽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 \$15,413 million as of June 30, 2015 were \$10,978 million of repurchase agreements and \$4,435 million of collateral received related to securities lending. Included in the \$15,405 million as of December 31, 2014 were \$8,925 million of repurchase agreements and \$6,480 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.

Table of Contents

STATE STREET CORPORATION

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

(In millions)	June 30, 2015				December 31, 2014			
	Net Amount of Liabilities Presented in Statement of Condition	Gross Amounts Not Offset in Statement of Condition ⁽¹⁾			Net Amount of Liabilities Presented in Statement of Condition	Gross Amounts Not Offset in Statement of Condition ⁽¹⁾		
		Counterparty Netting	Collateral Provided	Net Amount ⁽²⁾		Counterparty Netting	Collateral Provided	Net Amount ⁽²⁾
Derivatives	\$4,366	\$—	\$(221)	\$4,145	\$6,308	\$—	\$(19)	\$6,289
Repurchase agreements and securities lending	15,413	(87)	(13,066)	2,260	15,405	(128)	(13,872)	1,405
Total	\$19,779	\$(87)	\$(13,287)	\$6,405	\$21,713	\$(128)	\$(13,891)	\$7,694

⁽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.

The securities transferred under repurchase and reverse repurchase agreements typically are U.S. Treasury, agency and agency mortgage-backed securities. In our principal securities borrowing and lending arrangements, the securities transferred in exchange for the collateral are predominantly equity securities and some corporate debt securities. The fair value of the securities transferred may increase in value to an amount greater than the amount received

under our repurchase and securities lending arrangements, which exposes the Company with counterparty risk. We require the review of the price of the underlying securities in relation to the carrying value of the repurchase agreements and securities lending arrangements on a daily basis and when appropriate, adjust the cash or security to be obtained or returned to counterparties that is reflective of the required collateral levels.

The following table summarizes our repurchase agreements and securities lending transactions by category of collateral pledged and remaining maturity of these agreements as of June 30, 2015:

(In millions)	June 30, 2015			
	Remaining Contractual Maturity of the Agreements			
	Overnight and Continuous	Up to 30 days	30 – 90 days	Total
Repurchase agreements				
US Treasury and agency securities	\$41,684	\$14	\$—	\$41,698
Non-US sovereign debt	—	308	—	308
Total	\$41,684	\$322	\$—	\$42,006
Securities lending transactions				
Corporate debt securities	1	—	—	1
Equity securities	6,162	—	1,054	7,216
Total	\$6,163	\$—	\$1,054	\$7,217
Gross amount of recognized liabilities for repurchase agreements and securities lending	\$47,847	\$322	\$1,054	\$49,223

Table of Contents

STATE STREET CORPORATION

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

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:

(In millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Interest revenue:				
Deposits with banks	\$54	\$51	\$108	\$85
Investment securities:				
U.S. Treasury and federal agencies	176	164	359	327
State and political subdivisions	58	44	116	115
Other investments	247	318	506	637
Securities purchased under resale agreements	15	10	26	19
Loans and leases	77	61	151	119
Other interest-earning assets	2	2	5	3
Total interest revenue	629	650	1,271	1,305
Interest expense:				
Deposits	14	18	40	33
Short-term borrowings	3	(12)	3	3
Long-term debt	61	64	123	127
Other interest-bearing liabilities	16	19	24	26
Total interest expense	94	89	190	189
Net interest revenue	\$535	\$561	\$1,081	\$1,116

Note 15. Expenses

Acquisition and Restructuring Costs:

The following table presents net acquisition and restructuring costs recorded in the periods indicated:

(In millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Acquisition costs	\$3	\$15	\$8	\$36
Restructuring charges, net	—	13	1	25
Total acquisition and restructuring costs	\$3	\$28	\$9	\$61

Acquisition Costs

Acquisition costs recorded in the three and six months ended June 30, 2015 and 2014 were related to previously disclosed acquisitions.

Restructuring Charges

In the six months ended June 30, 2015, we recorded net restructuring charges of \$1 million compared to \$25 million in the six months ended June 30, 2014. The amounts recorded mainly related

to our recently completed Business Operations and Information Technology Transformation program.

Aggregate Restructuring-Related Accrual Activity

The following table presents aggregate activity associated with accruals that resulted from the charges associated with the recently completed Business Operations and Information Technology Transformation program:

(In millions)	Employee-Related	Real Estate Consolidation	Asset and Other Write-Offs	Total
---------------	------------------	---------------------------	----------------------------	-------

	Costs				
Balance as of December 31, 2014	\$40	\$24	\$7	\$71	
Additional accruals for Business Operations and Information Technology Transformation program	(5	) (4	) —	(9	)
Additional accruals for 2012 expense control measures	—	—	9	9	
Payments and adjustments	(16	) (6	) (10	) (32	)
Balance as of June 30, 2015	\$19	\$14	\$6	\$39	

Note 16. Earnings Per Common Share

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

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

Table of Contents

STATE STREET CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	Three Months Ended June 30,	
(Dollars in millions, except per share amounts)	2015	2014
Net income	\$422	\$622
Less:		
Preferred stock dividends	(29)	(19)
Dividends and undistributed earnings allocated to participating securities ⁽¹⁾	—	(1)
Net income available to common shareholders	\$393	\$602
Average common shares outstanding (in thousands):		
Basic average common shares	410,674	427,824
Effect of dilutive securities: common stock options and common stock awards	6,038	7,496
Diluted average common shares	416,712	435,320
Anti-dilutive securities ⁽²⁾	619	1,508
Earnings per Common Share:		
Basic	\$.96	\$1.41
Diluted ⁽³⁾	.94	1.38
	Six Months Ended June 30,	
(Dollars in millions, except per share amounts)	2015	2014
Net income	\$831	\$985
Less:		
Preferred stock dividends	(60)	(25)
Dividends and undistributed earnings allocated to participating securities ⁽¹⁾	(1)	(2)
Net income available to common shareholders	\$770	\$958
Average common shares outstanding (in thousands):		
Basic average common shares	411,445	429,215
Effect of dilutive securities: common stock options and common stock awards	6,198	7,743
Diluted average common shares	417,643	436,958
Anti-dilutive securities ⁽²⁾	704	1,506
Earnings per Common Share:		
Basic	\$1.87	\$2.23
Diluted ⁽³⁾	1.84	2.19

(1) Represents 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) Represents 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. 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 24 to the consolidated financial statements included in the 2014 Form 10-K.

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

Table of Contents

STATE STREET CORPORATION

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

	Three Months Ended June 30,							
	Investment Servicing		Investment Management		Other		Total	
	2015	2014	2015	2014	2015	2014	2015	2014
(Dollars in millions, except where otherwise noted)								
Servicing fees	\$1,325	\$1,288	\$—	\$—	\$—	\$—	\$1,325	\$1,288
Management fees	—	—	304	300	—	—	304	300
Trading services	271	249	10	11	—	—	281	260
Securities finance	155	147	—	—	—	—	155	147
Processing fees and other	22	42	(5)	2	—	—	17	44
Total fee revenue	1,773	1,726	309	313	—	—	2,082	2,039
Net interest revenue	534	558	1	3	—	—	535	561
Gains (losses) related to investment securities, net	(3)	(2)	—	—	—	—	(3)	(2)
Total revenue	2,304	2,282	310	316	—	—	2,614	2,598
Provision for loan losses	2	2	—	—	—	—	2	2
Total expenses	1,880	1,594	251	224	3	32	2,134	1,850
Income before income tax expense	\$422	\$686	\$59	\$92	\$(3)	\$(32)	\$478	\$746
Pre-tax margin	18 %	30 %	19 %	29 %			18 %	29 %
Six Months Ended June 30,								
	Investment Servicing		Investment Management		Other		Total	
	2015	2014	2015	2014	2015	2014	2015	2014
(Dollars in millions, except where otherwise noted)								
Servicing fees	\$2,598	\$2,526	\$—	\$—	\$—	\$—	\$2,598	\$2,526
Management fees	—	—	605	592	—	—	605	592
Trading services	586	490	19	23	—	—	605	513
Securities finance	256	232	—	—	—	—	256	232
Processing fees and other	81	97	(3)	3	—	—	78	100
Total fee revenue	3,521	3,345	621	618	—	—	4,142	3,963
Net interest revenue	1,079	1,109	2	7	—	—	1,081	1,116
Gains (losses) related to investment securities, net	(4)	4	—	—	—	—	(4)	4
Total revenue	4,596	4,458	623	625	—	—	5,219	5,083
Provision for loan losses	6	4	—	—	—	—	6	4
Total expenses	3,716	3,265	507	470	8	143	4,231	3,878
Income before income tax expense	\$874	\$1,189	\$116	\$155	\$(8)	\$(143)	\$982	\$1,201
Pre-tax margin	19 %	27 %	19 %	25 %			19 %	24 %

Table of Contents

STATE STREET CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 June 30,	
(In millions)	2015	2014
Total fee revenue	\$848	\$838
Net interest revenue	302	330
Gains (losses) related to investment securities, net	—	(1)
Total revenue	1,150	1,167
Expenses	799	819
Income before income taxes	351	348
Income tax expense	84	81
Net income	\$267	\$267
	Six Months Ended June 30,	
(In millions)	2015	2014
Total fee revenue	\$1,705	\$1,626
Net interest revenue	593	642
Gains (losses) related to investment securities, net	(1)	5
Total revenue	2,297	2,273
Expenses	1,604	1,671
Income before income taxes	693	602
Income tax expense	162	142
Net income	\$531	\$460

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)	June 30, 2015	December 31, 2014
Interest-bearing deposits with banks	\$32,219	\$17,382
Investment securities	25,797	29,060
Other assets	14,524	13,577
Total non-U.S. assets	\$72,540	\$60,019

Table of Contents

REVIEW REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Shareholders and Board of Directors of
State Street Corporation

We have reviewed the consolidated statement of condition of State Street Corporation (the "Corporation") as of June 30, 2015, and the related consolidated statements of income and comprehensive income for the three- and six-month periods ended June 30, 2015 and 2014, and changes in shareholders' equity, and cash flows for the six-month periods ended June 30, 2015 and 2014. 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, 2014, 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 20, 2015, we expressed an unqualified audit opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated statement of condition of the Corporation as of December 31, 2014, is fairly stated, in all material respects, in relation to the consolidated statement of condition from which it has been derived.

/s/ Ernst & Young LLP
Boston, Massachusetts
August 7, 2015

Table of Contents

PART II. OTHER INFORMATION

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

(c) In March 2015, our Board of Directors approved a new common stock purchase program authorizing the purchase by us of up to \$1.8 billion of our common stock from April 1, 2015 through June 30, 2016.

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

number of shares purchased will depend on several factors, including, market conditions and State Street's capital positions, its financial performance and investment opportunities. The common stock purchase program does not have specific price targets and may be suspended at any time.

The following table presents purchases of our common stock under this program and related information for each of the months in the quarter ended June 30, 2015. 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:				
April 1 - April 30, 2015	—	\$—	\$—	\$1,800
May 1 - May 31, 2015	1,178	78.45	92	1,708
June 1 - June 30, 2015	3,264	78.91	258	1,450
Total	4,442	\$78.79	\$350	\$1,450

ITEM 6. EXHIBITS

The exhibits listed in the Exhibit Index following the signature page of this Form 10-Q are filed herewith or are incorporated herein by reference to other SEC filings.

Table of Contents

SIGNATURES

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

STATE STREET CORPORATION
(Registrant)

Date: August 7, 2015	By:	/s/ MICHAEL W. BELL Michael W. Bell, Executive Vice President and Chief Financial Officer (Principal Financial Officer)
----------------------	-----	--

Date: August 7, 2015	By:	/s/ SEAN P. NEWTH Sean P. Newth, Senior Vice President, Chief Accounting Officer and Controller (Principal Accounting Officer)
----------------------	-----	---

Table of Contents

EXHIBIT INDEX

3.1	Restated Articles of Organization, as amended
4.1	Deposit Agreement, dated May 21, 2015, among State Street Corporation, American Stock Transfer & Trust Company, LLC (as depository), and the holders from time to time of the depository receipts (filed as Exhibit 4.1 to State Street's Current Report on Form 8-K (File No. 001-07511) filed with the SEC on May 21, 2015 and incorporated herein by reference)
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

* Submitted electronically herewith

Attached as Exhibit 101 to this report are the following formatted in XBRL (Extensible Business Reporting Language): (i) consolidated statement of income for the three and six months ended June 30, 2015 and 2014, (ii) consolidated statement of comprehensive income for the three and six months ended June 30, 2015 and 2014, (iii) consolidated statement of condition as of June 30, 2015 and December 31, 2014, (iv) consolidated statement of changes in shareholders' equity for the six months ended June 30, 2015 and 2014, (v) consolidated statement of cash flows for the six months ended June 30, 2015 and 2014, and (vi) condensed notes to consolidated financial statements.