

STATE STREET CORP  
Form 10-Q  
November 06, 2015  
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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 September 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 October 31, 2015 was 403,486,112.



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

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
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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 September 30, 2015, we had consolidated total assets of \$247.27 billion, consolidated total deposits of \$186.37 billion, consolidated total shareholders' equity of \$21.50 billion and 31,860 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 \$27.27 trillion of assets under custody and administration and \$2.20 trillion of assets under management as of September 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 September 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 nine 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

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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 underlying financial performance and trends in addition to financial information prepared and reported in conformity with GAAP. We also believe that the use of certain non-GAAP measures in the calculation of identified regulatory capital ratios is useful in understanding State Street's capital position and is of interest to investors.

Operating-basis financial information should be considered in addition to, not as a substitute for or superior to, financial information prepared in conformity with GAAP. Any non-GAAP, or operating-basis, financial information presented in this 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](http://www.statestreet.com).

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

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;  
the level and volatility of interest rates, the valuation of the U.S. dollar relative to other currencies in which we record  
revenue or



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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
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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;

our ability to develop, finalize and execute our plan to accelerate the next phase of our program to create cost efficiencies through changes in our operational processes and to further digitize our processes and interfaces with our clients. The objectives of this plan are to enhance the value and delivery of our products and services to clients and to identify and implement significant reductions in our cost structure. Any failure in whole or in part to achieve these objectives may, among other things, limit the attractiveness of our products or services to clients. This could reduce our competitive position, diminish the cost-effectiveness of our systems and processes or provide an insufficient return on our associated investment;

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



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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
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which we act as agent, and the possibility of significant reductions in the liquidity or valuation of assets underlying those pools;

- our ability to anticipate and manage the level and timing of redemptions and withdrawals from our collateral pools and other collective investment products;
- the credit agency ratings of our debt and depository obligations and investor and client perceptions of our financial strength;
- adverse publicity, whether specific to State Street or regarding other industry participants or industry-wide factors, or other reputational harm;
- our ability to control operational risks, data security breach risks and outsourcing risks, our ability to protect our intellectual property rights, the possibility of errors in the quantitative models we use to manage our business and the possibility that our controls will prove insufficient, fail or be circumvented;
- 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

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SEC filings, including our filings under the Securities Exchange Act of 1934, in particular our annual reports on Form 10-K, our quarterly reports on Form 10-Q and our current reports on Form 8-K, or registration statements filed under the Securities Act of 1933, all of which are accessible on the SEC's website at [www.sec.gov](http://www.sec.gov) or on the "Investor Relations" section of our corporate website at [www.statestreet.com](http://www.statestreet.com).

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|  |        |   |        |   |
|--|--------|---|--------|---|
| Cash dividends declared per common share | \$ .98 |   | \$ .86 |   |
| Return on average common equity          | 9.2    | % | 10.0   | % |

(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 third 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 third quarter of 2015 to those for the third quarter of 2014 and for the nine months ended September 30, 2015 to those for nine months ended September 30, 2014, is provided under “Consolidated Results of Operations,” which follows these sections. In this Management’s Discussion and Analysis, where we describe the effects of changes in foreign exchange rates, those effects are determined by applying applicable weighted average foreign exchange rates from the relevant 2014 period to the relevant 2015 results.

Highlights

In October 2015, we announced a multi-year plan to accelerate the next phase of our program to create cost efficiencies through changes in our operational processes and to further digitize our processes and interfaces with our clients. The objectives of this plan are to enhance the value and delivery of our products and services to our clients and to identify and implement significant reductions in our cost structure. We are targeting approximately \$500 million in annualized savings from this plan, when fully implemented over approximately the next four to five years. In the third quarter of 2015, we recorded a \$59 million reduction of an Italian deferred tax liability as a consequence of our European legal entity restructuring activities.

Asset servicing and asset management fees decreased 1% and 9%, respectively, in the third quarter of 2015 compared to the third quarter of 2014, primarily due the impact of the stronger U.S. dollar.

In the third quarter of 2015, we secured new business of an estimated \$141 billion in assets to be serviced; of that total, approximately \$101 billion was installed prior to September 30, 2015, with the remaining balance expected to be installed in the remainder of 2015 or later.

In the third quarter of 2015, we declared quarterly common stock dividends of \$0.34 per share, totaling approximately \$138 million which were paid in October 2015.

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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 4.8 million shares of our common stock at an average per-share cost of \$72.43 and an aggregate cost of approximately \$350 million during the third quarter of 2015.

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 third quarter of 2015 increased 1% compared to the third quarter of 2014, primarily due to a 5% increase in total fee revenue, partially offset by a decline in net interest revenue.

Total revenue in the third quarter of 2015 includes an \$83 million pre-tax gain related to the sale of commercial real estate acquired as a result of the Lehman Brothers bankruptcy. The increase in total revenue was largely offset by a decrease of \$80 million related to the stronger U.S. dollar when compared to the third quarter of 2014.

Total expenses in the third quarter of 2015 increased 4% compared to the third quarter of 2014, primarily driven by \$75 million of pre-tax severance costs related to targeted staff reductions taken to better calibrate our expenses to the current environment, partially offset by a \$9 million decrease in occupancy and a \$67 million dollar decrease in other expenses.

Total expenses in the third quarter of 2015 benefited from the stronger U.S. dollar by approximately \$63 million compared to the third quarter of 2014.

Return on average common shareholders' equity in the third quarter of 2015 increased to 11.3% from 10.6% in the third quarter of 2014.

## CONSOLIDATED RESULTS OF OPERATIONS

This section discusses our consolidated results of operations for the third quarter and first nine 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.

## Total Revenue

TABLE 2: TOTAL REVENUE

| (Dollars in millions)                                | Quarters Ended September 30, |         | % Change |
|--|------------------------------|---------|----------|
|  | 2015                         | 2014    |          |
| Fee revenue:   |                              |         |          |
| Servicing fees                                       | \$1,294                      | \$1,302 | (1 )%    |
| Management fees                                      | 287                          | 316     | (9 )     |
| Trading services:                                    |                              |         |          |
| Foreign exchange trading                             | 177                          | 161     | 10       |
| Brokerage and other trading services                 | 117                          | 117     | —        |
| Total trading services                               | 294                          | 278     | 6        |
| Securities finance                                   | 113                          | 99      | 14       |
| Processing fees and other                            | 120                          | 17      | 606      |
| Total fee revenue                                    | 2,108                        | 2,012   | 5        |
| Net interest revenue:                                |                              |         |          |
| Interest revenue                                     | 614                          | 671     | (8 )     |
| Interest expense                                     | 101                          | 101     | —        |
| Net interest revenue                                 | 513                          | 570     | (10 )    |
| Gains (losses) related to investment securities, net | (2 )                         | —       |          |
| Total revenue  | \$2,619                      | \$2,582 | 1        |

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| (Dollars in millions)                                | Nine Months Ended September 30, |         | % Change |   |
|--|---------------------------------|---------|----------|---|
|  | 2015                            | 2014    |          |   |
| Fee revenue:   |                                 |         |          |   |
| Servicing fees                                       | \$3,892                         | \$3,828 | 2        | % |
| Management fees                                      | 892                             | 908     | (2       | ) |
| Trading services:                                    |                                 |         |          |   |
| Foreign exchange trading                             | 547                             | 439     | 25       |   |
| Brokerage and other trading services                 | 352                             | 352     | —        |   |
| Total trading services                               | 899                             | 791     | 14       |   |
| Securities finance                                   | 369                             | 331     | 11       |   |
| Processing fees and other                            | 198                             | 117     | 69       |   |
| Total fee revenue                                    | 6,250                           | 5,975   | 5        |   |
| Net interest revenue:                                |                                 |         |          |   |
| Interest revenue                                     | 1,885                           | 1,976   | (5       | ) |
| Interest expense                                     | 291                             | 290     | —        |   |
| Net interest revenue                                 | 1,594                           | 1,686   | (5       | ) |
| Gains (losses) related to investment securities, net | (6                              | ) 4     |          |   |
| Total revenue  | \$7,838                         | \$7,665 | 2        |   |

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
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FEE REVENUE

Servicing and management fees collectively comprised approximately 75% and 77%, of our total fee revenue in the third quarter and first nine months of 2015, respectively, compared to approximately 80% and 79%, in the third quarter and first nine 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 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 September 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.

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

|               | Daily Averages of Indices       |       |          | Averages of Month-End Indices   |       |          | Quarter-End Indices |       |          |
|---------------|---------------------------------|-------|----------|---------------------------------|-------|----------|---------------------|-------|----------|
|               | Quarters Ended September 30,    |       |          | Quarters Ended September 30,    |       |          | As of September 30, |       |          |
|               | 2015                            | 2014  | % Change | 2015                            | 2014  | % Change | 2015                | 2014  | % Change |
| S&P 500®      | 2,027                           | 1,976 | 3 %      | 1,999                           | 1,969 | 2 %      | 1,920               | 1,972 | (3) %    |
| NASDAQ®       | 4,924                           | 4,483 | 10       | 4,842                           | 4,481 | 8        | 4,620               | 4,493 | 3        |
| MSCI EAFE®    | 1,785                           | 1,924 | (7)      | 1,754                           | 1,901 | (8)      | 1,644               | 1,846 | (11)     |
| MSCI Emerging | 860                             | 1,067 | (19)     | 837                             | 1,053 | (21)     | 792                 | 1,005 | (21)     |
|               | Daily Averages of Indices       |       |          | Averages of Month-End Indices   |       |          |                     |       |          |
|               | Nine Months Ended September 30, |       |          | Nine Months Ended September 30, |       |          |                     |       |          |
|               | 2015                            | 2014  | % Change | 2015                            | 2014  | % Change |                     |       |          |
| S&P 500®      | 2,064                           | 1,905 | 8 %      | 2,047                           | 1,910 | 7 %      |                     |       |          |
| NASDAQ®       | 4,928                           | 4,298 | 15       | 4,891                           | 4,313 | 13       |                     |       |          |
| MSCI EAFE®    | 1,836                           | 1,920 | (4)      | 1,827                           | 1,918 | (5)      |                     |       |          |
| MSCI Emerging | 948                             | 1,017 | (7)      | 940                             | 1,014 | (7)      |                     |       |          |

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

## Servicing Fees

Servicing fees in the third quarter of 2015 decreased 1% compared to the same period in 2014, primarily due to the impact of the stronger U.S. dollar of approximately \$50 million and weaker international equity markets, partially offset by net new business and higher transaction volumes. In the nine months ended September 30, 2015, servicing fees increased 2% compared to the same period 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, offset by the impact of the stronger U.S. dollar and weaker international markets. In both the third quarter and first nine months of 2015, servicing fees generated outside the U.S. were approximately 41% of total servicing fees compared to 42% for both the third quarter and first nine months of 2014. The decrease in total assets under custody and administration as of September 30, 2015 compared to both December 31, 2014 and September 30, 2014 primarily resulted from weaker global equity markets, partially offset by net new business. Asset levels as of September 30, 2015 did not reflect the estimated \$141 billion of new business in assets to be serviced awarded to us in the third quarter of 2015 and prior periods but not installed prior to September 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 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)        | September 30, 2015 | December 31, 2014 | September 30, 2014 |
|------------------------------|--------------------|-------------------|--------------------|
| Mutual funds                 | \$6,698            | \$6,992           | \$7,035            |
| Collective funds             | 6,883              | 6,949             | 6,919              |
| Pension products             | 5,497              | 5,746             | 5,780              |
| Insurance and other products | 8,187              | 8,501             | 8,731              |

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|   |                    |                   |                    |
|---|--------------------|-------------------|--------------------|
| Total   | \$27,265           | \$28,188          | \$28,465           |
| TABLE 5: COMPOSITION OF ASSETS UNDER CUSTODY AND ADMINISTRATION |                    |                   |                    |
| (Dollars in billions)   | September 30, 2015 | December 31, 2014 | September 30, 2014 |
| Equities  | \$14,223           | \$15,876          | \$15,616           |
| Fixed-income  | 9,470              | 8,739             | 9,298              |
| Short-term and other investments                                | 3,572              | 3,573             | 3,551              |
| Total   | \$27,265           | \$28,188          | \$28,465           |

|   |                    |                   |                    |
|---|--------------------|-------------------|--------------------|
| TABLE 6: GEOGRAPHIC MIX OF ASSETS UNDER CUSTODY AND ADMINISTRATION <sup>(1)</sup> |                    |                   |                    |
| (Dollars in billions)   | September 30, 2015 | December 31, 2014 | September 30, 2014 |
| North America   | \$20,536           | \$21,217          | \$21,255           |
| Europe/Middle East/Africa   | 5,452              | 5,633             | 5,869              |
| Asia/Pacific  | 1,277              | 1,338             | 1,341              |
| Total   | \$27,265           | \$28,188          | \$28,465           |

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

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## Management Fees

Management fees in the third quarter and first nine months of 2015 decreased 9% and 2%, respectively, compared to the third quarter and first nine months of 2014, primarily due to the effects of the stronger U.S. dollar.

The stronger U.S. dollar had the effect of reducing management fees by approximately \$11 million in the third quarter of 2015 compared to the same period in 2014.

Management fees generated outside the U.S. were approximately 34% and 35%, respectively, of total management fees for the third quarter and first nine months of 2015, compared to 38% and 37%, respectively, for the same periods in 2014.

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

| (Dollars in billions)                    | September 30, 2015 | December 31, 2014 | September 30, 2014 |
|--|--------------------|-------------------|--------------------|
| Equity:                                  |                    |                   |                    |
| Active                                   | \$29               | \$39              | \$40               |
| Passive                                  | 1,237              | 1,436             | 1,371              |
| Total Equity                             | 1,266              | 1,475             | 1,411              |
| Fixed-Income:                            |                    |                   |                    |
| Active                                   | 16                 | 17                | 16                 |
| Passive                                  | 300                | 302               | 322                |
| Total Fixed-Income                       | 316                | 319               | 338                |
| Cash <sup>(1)</sup>                      | 380                | 399               | 410                |
| Multi-Asset-Class Solutions:             |                    |                   |                    |
| Active                                   | 26                 | 30                | 34                 |
| Passive                                  | 85                 | 97                | 104                |
| Total Multi-Asset-Class Solutions        | 111                | 127               | 138                |
| Alternative Investments <sup>(2)</sup> : |                    |                   |                    |
| Active                                   | 17                 | 17                | 17                 |
| Passive                                  | 113                | 111               | 107                |
| Total Alternative Investments            | 130                | 128               | 124                |
| Total                                    | \$2,203            | \$2,448           | \$2,421            |

(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<sup>®</sup> Gold Fund, for which State Street is not the investment manager, but acts as distribution agent.

TABLE 8: EXCHANGE-TRADED FUNDS BY ASSET CLASS<sup>(1)</sup>

| (Dollars in billions)                  | September 30, 2015 | December 31, 2014 | September 30, 2014 |
|--|--------------------|-------------------|--------------------|
| Alternative Investments <sup>(2)</sup> | \$35               | \$38              | \$40               |
| Cash                                   | 3                  | 1                 | 1                  |
| Equity                                 | 323                | 388               | 338                |
| Fixed-income                           | 39                 | 39                | 37                 |
| Total Exchange-Traded Funds            | \$400              | \$466             | \$416              |

(1) ETFs are a component of assets under management presented in the preceding table.

(2) Includes SPDR<sup>®</sup> Gold Fund, for which State Street is not the investment manager, but acts as distribution agent.

TABLE 9: GEOGRAPHIC MIX OF ASSETS UNDER MANAGEMENT<sup>(1)</sup>

| (Dollars in billions) | September 30, 2015 | December 31, 2014 | September 30, 2014 |
|-----------------------|--------------------|-------------------|--------------------|
| North America         | \$1,409            | \$1,568           | \$1,502            |

|                           |         |         |         |
|---------------------------|---------|---------|---------|
| Europe/Middle East/Africa | 500     | 559     | 565     |
| Asia/Pacific              | 294     | 321     | 354     |
| Total                     | \$2,203 | \$2,448 | \$2,421 |

<sup>(1)</sup> Geographic mix is based on client location or fund management location.

In asset management, we experienced net outflows of approximately \$133 billion between December 31, 2014 and September 30, 2015 primarily composed of approximately \$82 billion of net outflows from long-term institutional portfolios, approximately \$33 billion of net outflows from ETFs and approximately \$18 billion of outflows from cash products. The decrease in total assets under management at September 30, 2015 compared to December 31, 2014 resulted primarily from outflows from SPY, our S&P 500 ETF, outflows from institutional equity products driven by client re-balancing and cash needs, weaker global equity market levels and the impact of the strengthening U.S. dollar. The decrease in total assets under management as of September 30, 2015 compared to September 30, 2014 resulted from net outflows and the strengthening U.S. dollar, partially offset by stronger U.S. equity markets.

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TABLE 10: ACTIVITY IN ASSETS UNDER MANAGEMENT BY PRODUCT CATEGORY

| (In billions)                                   | Equity   | Fixed-Income | Cash <sup>(2)</sup> | Multi-Asset-Class<br>Solutions | Alternative<br>Investments <sup>(3)</sup> | Total    |
|---|----------|--------------|---------------------|--------------------------------|---|----------|
| Balance as of September 30, 2014                | \$ 1,411 | \$ 338       | \$ 410              | \$ 138                         | \$ 124                                    | \$ 2,421 |
| Long-term institutional inflows <sup>(1)</sup>  | 85       | 20           | —                   | 7                              | 4   | 116      |
| Long-term institutional outflows <sup>(1)</sup> | (80)     | (45)         | —                   | (9)                            | (3)                                       | (137)    |
| Long-term institutional flows, net              | 5        | (25)         | —                   | (2)                            | 1   | (21)     |
| ETF flows, net                                  | 37       | 2            | 1                   | —                              | (2)                                       | 38       |
| Cash fund flows, net                            | —        | —            | (10)                | —                              | —   | (10)     |
| Total flows, net                                | 42       | (23)         | (9)                 | (2)                            | (1)                                       | 7        |
| Market appreciation                             | 39       | 14           | —                   | (7)                            | 9   | 55       |
| Foreign exchange impact                         | (17)     | (10)         | (2)                 | (2)                            | (4)                                       | (35)     |
| Total market/foreign exchange impact            | 22       | 4            | (2)                 | (9)                            | 5   | 20       |
| Balance as of December 31, 2014                 | 1,475    | 319          | 399                 | 127                            | 128                                       | 2,448    |
| Long-term institutional inflows <sup>(1)</sup>  | 218      | 48           | —                   | 42                             | 30  | 338      |
| Long-term institutional outflows <sup>(1)</sup> | (291)    | (48)         | —                   | (53)                           | (28)                                      | (420)    |
| Long-term institutional flows, net              | (73)     | —            | —                   | (11)                           | 2   | (82)     |
| ETF flows, net                                  | (38)     | 3            | 2                   | —                              | —   | (33)     |
| Cash fund flows, net                            | —        | —            | (18)                | —                              | —   | (18)     |
| Total flows, net                                | (111)    | 3            | (16)                | (11)                           | 2   | (133)    |
| Market appreciation                             | (79)     | —            | —                   | (2)                            | 9   | (72)     |
| Foreign exchange impact                         | (19)     | (6)          | (3)                 | (3)                            | (9)                                       | (40)     |
| Total market/foreign exchange impact            | (98)     | (6)          | (3)                 | (5)                            | —   | (112)    |
| Balance as of September 30, 2015                | \$ 1,266 | \$ 316       | \$ 380              | \$ 111                         | \$ 130                                    | \$ 2,203 |

<sup>(1)</sup> Amounts represent long-term portfolios, excluding ETFs.

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

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

The net outflows of approximately \$133 billion in assets under management between September 30, 2015 and December 31, 2014 presented in the preceding table did not include approximately \$22 billion of new asset management business, which was awarded to SSGA but not installed as of September 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. Net outflows in the third quarter reflect significant outflows from a single client. This client is anticipated to continue its reallocations during the remainder of 2015 and into 2016. This reallocation will impact the AUM that we report in future periods.

Total assets under management as of September 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.



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## Trading Services

TABLE 11: TRADING SERVICES REVENUE

| (Dollars in millions)                              | Quarters Ended September 30,    |        | % Change |   |
|--|---------------------------------|--------|----------|---|
|  | 2015                            | 2014   |          |   |
| Foreign exchange trading:                          |                                 |        |          |   |
| Direct sales and trading                           | \$ 108                          | \$ 101 | 7        | % |
| Indirect foreign exchange trading                  | 69                              | 60     | 15       |   |
| Total foreign exchange trading                     | 177                             | 161    | 10       |   |
| Brokerage and other trading services:              |                                 |        |          |   |
| Electronic foreign exchange services               | 46                              | 44     | 5        |   |
| Other trading, transition management and brokerage | 71                              | 73     | (3       | ) |
| Total brokerage and other trading services         | 117                             | 117    | —        |   |
| Total trading services revenue                     | \$294                           | \$278  | 6        |   |
|  |                                 |        |          |   |
| (Dollars in millions)                              | Nine Months Ended September 30, |        | % Change |   |
|  | 2015                            | 2014   |          |   |
| Foreign exchange trading:                          |                                 |        |          |   |
| Direct sales and trading                           | \$331                           | \$251  | 32       | % |
| Indirect foreign exchange trading                  | 216                             | 188    | 15       |   |
| Total foreign exchange trading                     | 547                             | 439    | 25       |   |
| Brokerage and other trading services:              |                                 |        |          |   |
| Electronic foreign exchange services               | 138                             | 135    | 2        |   |
| Other trading, transition management and brokerage | 214                             | 217    | (1       | ) |
| Total brokerage and other trading services         | 352                             | 352    | —        |   |
| Total trading services revenue                     | \$899                           | \$791  | 14       |   |

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<sup>®</sup> 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 10% and 25%, for the third quarter and first nine months of 2015, respectively, compared to the same periods in 2014, primarily the result of higher volatility, market making activities 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 61% of total foreign exchange trading revenue for both the three and nine month periods ended September 30, 2015, respectively, as compared to 63% and 57% 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 39% of total foreign exchange trading revenue for both the three and nine month periods ended September 30, 2015, respectively, as compared to 37% and 43% 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

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

Our direct sales and trading revenue increased 7% and 32%, in the third quarter and first nine 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 15% in both the third quarter and first nine months of 2015, respectively, compared to the same periods of 2014. The increase mainly resulted from higher currency volatility, 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 was flat in the third quarter and first nine months of 2015, compared to the same periods 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 5% in the third quarter of 2015 and 2% for the first nine months of 2015 compared to the same periods of 2014.

The 3% and 1% decrease in other trading, transition management and brokerage revenue for the third quarter and first nine months of 2015, respectively, compared to the same periods of 2014 was primarily due to a decrease in transition management revenue, partially offset by an increase in other trading revenue. In recent years, our transition management revenue was adversely affected by compliance issues in our U.K. business during 2010 and 2011. 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 third quarter and first nine 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 14% and 11%, in the third quarter and first nine months of 2015, respectively, compared to the same periods of 2014. The increase was primarily the result of new business from our enhanced custody business.

Market influences may continue to affect client demand for securities finance, and as a result our revenue from, and the profitability of, our securities lending activities in future periods. In addition, 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 increased 606% and 69%, in the third quarter and first nine months of 2015, respectively, compared to the same periods of 2014, as shown in Table 2: Total Revenue. The increases were mainly due to the impact of an \$83 million pre-tax gain related to the sale of

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commercial real estate acquired as a result of the Lehman Brothers bankruptcy.

NET INTEREST REVENUE

See Table 2: Total Revenue, for the breakout of interest revenue and interest expense for the quarters ended September 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.



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|   |           |         |      |           |         |      |
|---|-----------|---------|------|-----------|---------|------|
| Long-term debt                                      | 9,809     | 185     | 2.51 | 9,340     | 186     | 2.66 |
| Other interest-bearing liabilities                  | 6,835     | 34      | .65  | 7,237     | 34      | .62  |
| Average total interest-bearing liabilities          | \$167,278 | \$291   | .23  | \$156,963 | \$290   | .25  |
| Interest-rate spread                                |           |         | 0.96 | %         |         | 1.13 |
| Net interest revenue—fully taxable-equivalent basis |           | \$1,725 |      |           | \$1,816 |      |
| Net interest margin—fully taxable-equivalent basis  |           |         | 1.02 | %         |         | 1.19 |
| Tax-equivalent adjustment                           |           | (131 )  |      |           | (130 )  |      |
| Net interest revenue—GAAP basis                     |           | \$1,594 |      |           | \$1,686 |      |

Net interest revenue decreased 9% and 5%, on a fully taxable-equivalent basis in the third quarter and first nine 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, and the effects of the stronger U.S. dollar. The stronger U.S. dollar had the effect of reducing net interest revenue by

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approximately \$14 million in the third quarter of 2015 compared to the same period in 2014, partially offset by the benefit of higher levels of interest-earning assets and lower rates on interest paid.

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 third quarter and first nine 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 higher levels of client deposits during the third quarter and first nine months of 2015 compared to the same periods in 2014, 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 impact our regulatory leverage ratios. We have been engaging in discussions with clients regarding deposit levels and during the third quarter of 2015 we took action to better balance our clients' cash management needs with our economic and regulatory objectives. These efforts resulted in a reduction in client deposits from June 30, 2015, mainly occurring toward the end of the third quarter of 2015. Client deposit levels at September 30, 2015 of \$186 billion decreased \$44 billion from \$231 billion at June 30, 2015, and average third quarter 2015 client deposits of \$137 billion decreased \$2 billion from \$139 billion at the second quarter of 2015. Were global interest rates to increase, we would expect to

see further decreases in client deposits; however, in general, we continue to anticipate higher levels of client deposits, irrespective of the interest rate environment, during periods of market stress.

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 \$75 million in the first nine 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 \$2.10 billion (including \$75 million in the first nine 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



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investment portfolio as of September 30, 2015 to generate discount accretion in future periods of approximately \$233 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 \$73.47 billion and \$74.83 billion, for the third quarter and first nine months of 2015, respectively, compared to \$63.16 billion and \$50.15 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.

While the actions taken in the third quarter of 2015 have reduced levels of client deposits, we expect to continue to invest deposits we deem as elevated in investment securities or short-term assets, including central bank deposits, depending on our assessment of the underlying characteristics of the deposits.

Average investment securities decreased to \$100.18 billion, and \$107.22 billion, for the third quarter and first nine months of 2015, respectively, compared to \$117.62 billion and \$117.68 billion, 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 September 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 \$17.61 billion and \$17.71 billion, for the third quarter and first nine months of 2015, respectively, compared to \$16.00 billion and \$15.23 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 \$12.63 billion and \$12.73 billion, respectively, for the third quarter and first nine months of 2015, compared to \$10.62 billion and \$9.96 billion, 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 September 30, |   |         |   |
|---|------------------------------|---|---------|---|
|   | 2015                         |   | 2014    |   |
| Average U.S. short-duration advances                        | \$2,226                      |   | \$2,372 |   |
| Average non-U.S. short-duration advances                    | 1,325                        |   | 1,468   |   |
| Average total short-duration advances                       | \$3,551                      |   | \$3,840 |   |
| Average short-duration advances to average loans and leases | 20                           | % | 24      | % |

| (In millions)   | Nine Months Ended September 30, |   |         |   |
|---|---------------------------------|---|---------|---|
|   | 2015                            |   | 2014    |   |
| Average U.S. short-duration advances                        | \$2,284                         |   | \$2,264 |   |
| Average non-U.S. short-duration advances                    | 1,432                           |   | 1,463   |   |
| Average total short-duration advances                       | \$3,716                         |   | \$3,727 |   |
| Average short-duration advances to average loans and leases | 21                              | % | 24      | % |

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 third quarter of 2015 and remained relatively flat for the first nine months of 2015 compared to the third quarter and first nine 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 \$24.00 billion and \$22.73 billion, for the third quarter and first nine months of 2015, respectively, from \$17.00 billion and \$15.14 billion, for the third quarter and first nine months of 2014, respectively. Our average other interest-earning assets, largely associated with our enhanced custody business, comprised approximately 11% of our average total interest-earning assets for both the third quarter and first nine months of 2015, compared to approximately 7% of our average total interest-earning assets for both the third quarter and first nine months of 2014, as this business continued to grow. While the enhanced custody business, our principal securities lending service for custody clients, 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.

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Aggregate average interest-bearing deposits decreased to \$137.33 billion from \$138.90 billion for the third quarter and increased to \$136.83 billion from \$127.51 billion in the first nine months of 2015, as compared to the same periods of 2014. The higher levels for the first nine months of 2015 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, client deposit behavior in reaction to management actions taken in the third quarter to reduce deposits, as well as market conditions, including the general levels of U.S. and non-U.S. interest rates.

Average other short-term borrowings decreased to \$3.79 billion from \$4.38 billion for the third quarter and increased to \$4.21 billion from \$4.10 billion in the first nine months of 2015 as compared to the same periods of 2014. The increase for the first nine months of 2015 was the result of a higher level of client demand for our commercial paper. The third quarter decline is a result of State Street's 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. In the third quarter of 2014 we had no interest expense on short-term borrowings as compared to the third quarter of 2015, when interest rates paid increased to 0.2%. Interest rates paid in the first nine months of 2015 increased to 0.2% from 0.1% for the same period in 2014. The increase over both periods resulted from a reclassification of certain derivative contracts in 2014 that hedge our interest-rate risk on certain assets and liabilities. Average long-term debt increased to \$10.53 billion and \$9.81 billion, for the third quarter and first nine months of 2015, respectively, from \$9.02 billion and \$9.34 billion, respectively, for the same periods of 2014. The increase primarily reflected the issuance of \$1.0 billion of senior debt issued in December 2014 and \$3.0 billion of senior debt issued in August 2015 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 decreased to \$4.46 billion and \$6.84 billion, for the

third quarter and first nine months of 2015, respectively, from \$7.39 billion and \$7.24 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; the yields earned on securities purchased compared to the yields earned on securities sold or matured; and changes in our enhanced custody business.

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.



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TABLE 14: INVESTMENT SECURITIES GAINS (LOSSES), NET

| (In millions)   | Quarters Ended September |      | Nine Months Ended     |       |
|---|--------------------------|------|-----------------------|-------|
|   | 30,<br>2015              | 2014 | September 30,<br>2015 | 2014  |
| Net realized gains (losses) from sales of available-for-sale securities | \$ (2 )                  | \$ — | \$ (5 )               | \$ 15 |
| Net impairment losses:  |                          |      |                       |       |
| Gross losses from other-than-temporary impairment                       | —                        | —    | (1 )                  | (1 )  |
| Losses reclassified (from) to other comprehensive income                | —                        | —    | —                     | (10 ) |
| Net impairment losses <sup>(1)</sup>                                    | —                        | —    | (1 )                  | (11 ) |
| Gains (losses) related to investment securities, net                    | \$ (2 )                  | \$ — | \$ (6 )               | \$ 4  |

<sup>(1)</sup> 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 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 )     |
| Net impairment losses   | \$ — | \$ — | \$ (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 nine months of 2015, we sold approximately \$12.42 billion of such investment securities, compared to approximately \$8.20 billion in the first nine months of 2014. We recorded \$5 million of net realized losses and \$15 million of net realized gains in the first nine months of 2015 and 2014, respectively, as presented in the preceding table.

**PROVISION FOR LOAN LOSSES**

We recorded a provision for loan losses of \$5 million and \$11 million in the third quarter and first nine months of 2015, respectively, compared to \$2 million and \$6 million, in the same periods in 2014. The provisions in both periods of 2014 and 2015 were recorded as a result of our exposure to certain senior secured bank loans to non-investment grade borrowers, which we purchased in connection with our participation in loan syndications in the non-investment-grade lending market. Increases in the provisions in the year-to-date comparison reflected growth of our 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.

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## EXPENSES

TABLE 15: EXPENSES

| (Dollars in millions)                   | Quarters Ended September 30, |         |     | % Change | % |
|---|------------------------------|---------|-----|----------|---|
|   | 2015                         | 2014    |     |          |   |
| Compensation and employee benefits      | \$1,051                      | \$953   | 10  |          |   |
| Information systems and communications  | 265                          | 242     | 10  |          |   |
| Transaction processing services         | 201                          | 199     | 1   |          |   |
| Occupancy                               | 110                          | 119     | (8  | )        |   |
| Acquisition costs                       | 7                            | 12      | (42 | )        |   |
| Restructuring charges, net              | 3                            | 8       | (63 | )        |   |
| Other:                                  |                              |         |     |          |   |
| Professional services                   | 136                          | 97      | 40  |          |   |
| Amortization of other intangible assets | 48                           | 54      | (11 | )        |   |
| Securities processing costs             | 40                           | 8       | 400 |          |   |
| Regulatory fees and assessments         | 31                           | 17      | 82  |          |   |
| Other                                   | 70                           | 183     | (62 | )        |   |
| Total other                             | 325                          | 359     | (9  | )        |   |
| Total expenses                          | \$1,962                      | \$1,892 | 4   |          |   |
| Number of employees at quarter-end      | 31,860                       | 29,510  |     |          |   |

| (Dollars in millions)                   | Nine Months Ended September 30, |         |     | % Change | % |
|---|---------------------------------|---------|-----|----------|---|
|   | 2015                            | 2014    |     |          |   |
| Compensation and employee benefits      | \$3,122                         | \$3,088 | 1   |          |   |
| Information systems and communications  | 761                             | 730     | 4   |          |   |
| Transaction processing services         | 599                             | 583     | 3   |          |   |
| Occupancy                               | 332                             | 348     | (5  | )        |   |
| Acquisition costs                       | 15                              | 48      | (69 | )        |   |
| Restructuring charges, net              | 4                               | 33      | (88 | )        |   |
| Other:                                  |                                 |         |     |          |   |
| Professional services                   | 368                             | 318     | 16  |          |   |
| Amortization of other intangible assets | 147                             | 162     | (9  | )        |   |
| Securities processing costs             | 75                              | 39      | 92  |          |   |
| Regulatory fees and assessments         | 90                              | 55      | 64  |          |   |
| Other                                   | 680                             | 366     | 86  |          |   |
| Total other                             | 1,360                           | 940     | 45  |          |   |
| Total expenses                          | \$6,193                         | \$5,770 | 7   |          |   |

Total expenses increased 4% and 7% in the third quarter and first nine months of 2015, respectively, compared to the same periods in 2014. Total expenses in the third quarter of 2015 and first nine months of 2015 benefited from the stronger U.S. dollar by approximately \$63 million and \$200 million respectively, compared to same periods in 2014. Compensation and employee benefits expenses increased by 10% and 1% in the third quarter and first nine months of 2015, respectively, compared to the same periods in 2014. These increases were primarily driven by \$75 million of pre-tax severance costs in the third quarter of 2015 related to targeted staff reductions.

Other expenses decreased 9% and increased 45% in the third quarter and first nine months of 2015,

respectively, compared to the same periods in 2014. The increase in the first nine months of 2015 was 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 the increases. The decrease in the third quarter of 2015 was primarily due to a third-quarter 2015 gain of \$41 million related to a recovery from certain Lehman Brothers claims, as compared to the same period in 2014. 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.

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 third quarter and first nine months of 2015, we recorded acquisition costs of \$7 million and \$15 million, respectively, compared to \$12 million and \$48 million, in the same periods in 2014. These amounts related to previously disclosed acquisitions.

#### Restructuring Charges

In the third quarter of 2015, we recorded \$3 million net restructuring charges compared to \$8 million in the same period of 2014. In the first nine months of 2015, we recorded net restructuring charges of \$4 million compared to \$33 million in the same period in 2014. The amounts recorded in the third quarter of 2015 mainly related to our recently completed Business Operations and Information Technology Transformation program.

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## Income Tax Expense

Income tax expense was \$68 million in the third quarter of 2015 compared to \$128 million in the third quarter of 2014. In the first nine months of 2015 and 2014, income tax expense was \$219 million and \$344 million, respectively. The decrease in tax expense was primarily due to the effects of legal accruals of \$400 million recorded in 2015. Our effective tax rate for the first nine months of 2015 was 13.4% compared to 18.2% in the same period of 2014. The first nine months of 2015 included effects of the approval of a tax refund for prior years and the reduction of \$59 million for an Italian deferred tax liability, partially offset by a change in New York tax law.

## 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 third quarter and first nine months of 2015 included net costs of \$85 million and \$93 million, respectively, composed of the following -

• Net acquisition and restructuring costs of \$10 million and \$19 million, respectively; and

• Net severance costs of \$75 million and \$74 million, respectively.

"Other" for the third quarter and first nine months of 2014 included costs of \$14 million and \$157 million, respectively, composed of the following -

• Severance costs credits of \$2 million associated with prior accruals for staff reductions and net severance costs of \$74 million associated with staff reductions, respectively;

• Net acquisition and restructuring costs of \$20 million and \$81 million, respectively; and

• Credits to provisions for litigation exposure and other cost of \$4 million in the third quarter of 2014.

• Provisions for legal contingencies of \$2 million in the first nine 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.

## Investment Servicing

TABLE 16: INVESTMENT SERVICING LINE OF BUSINESS RESULTS

| (Dollars in millions, except where otherwise noted)  | Three Months Ended<br>September 30, |         |          | Nine Months Ended<br>September 30, |         |          |
|--|-------------------------------------|---------|----------|------------------------------------|---------|----------|
|  | 2015                                | 2014    | % Change | 2015                               | 2014    | % Change |
| Servicing fees                                       | \$1,294                             | \$1,302 | (1)%     | \$3,892                            | \$3,828 | 2%       |
| Trading services                                     | 283                                 | 266     | 6        | 869                                | 756     | 15       |
| Securities finance                                   | 113                                 | 99      | 14       | 369                                | 331     | 11       |
| Processing fees and other                            | 131                                 | 25      | 424      | 212                                | 122     | 74       |
| Total fee revenue                                    | 1,821                               | 1,692   | 8        | 5,342                              | 5,037   | 6        |
| Net interest revenue                                 | 514                                 | 566     | (9)      | 1,593                              | 1,675   | (5)      |
| Gains (losses) related to investment securities, net | (2)                                 | —       | —        | (6)                                | 4       | (250)    |
| Total revenue  | 2,333                               | 2,258   | 3        | 6,929                              | 6,716   | 3        |
| Provision for loan losses                            | 5                                   | 2       | 150      | 11                                 | 6       | 83       |
| Total expenses                                       | 1,673                               | 1,642   | 2        | 5,389                              | 4,907   | 10       |



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|                                  |       |       |   |         |         |     |   |
|----------------------------------|-------|-------|---|---------|---------|-----|---|
| Income before income tax expense | \$655 | \$614 | 7 | \$1,529 | \$1,803 | (15 | ) |
| Pre-tax margin                   | 28    | % 27  | % | 22      | % 27    | %   |   |

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Total revenue in the third quarter and first nine months of 2015 for our Investment Servicing line of business, presented in Table 16: Investment Servicing Line of Business Results, both increased 3% compared to the same periods in 2014. Total fee revenue increased 8% and 6%, respectively, compared to the same periods in 2014. Servicing fees decreased 1% in the third quarter of 2015 compared to the third quarter in 2014 due primarily to the impact of the stronger U.S. dollar partially offset by positive revenue impact of net new business (revenue added from new servicing business installed less revenue lost from the removal of assets serviced). Servicing fees for the first nine months of 2015 increased 2% compared to the first nine months in 2014 primarily from the positive revenue impact of net new business partially offset by the impact of the stronger U.S. dollar.

Trading services revenue increased 6% and 15%, respectively, in the third quarter and first nine months of 2015, compared to the same periods in 2014. The increases primarily resulted from a continued trend of strong client volumes and higher market making revenues driven in part from higher foreign exchange volatility. The increase in the first nine months of 2015 compared to the first nine months of 2014 was also the result of higher volumes in the electronic FX platforms as FX volatility increased in 2015 from 2014.

Securities finance revenue increased 14% and 11%, respectively, in the third quarter and first nine months of 2015, compared to the same periods in 2014. The increase in these periods primarily resulted from new business in our enhanced custody business.

Processing fees and other revenue increased 424% and 74%, respectively, in the third quarter and first nine months of 2015, compared to the same periods in 2014, primarily resulting from an \$83 million pre-tax gain on the sale of commercial real estate acquired as a result of the Lehman Brothers bankruptcy.

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 9% and 5%, respectively, in the third quarter and first nine months of 2015, compared to the same periods in 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 and lower translation of revenue to U.S. dollars from foreign assets due to changes in foreign exchange rates, 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 2% and 10%, respectively, in the third quarter and first nine months of 2015, compared to the same periods in 2014. The increase in the third quarter of 2015 compared to the third quarter of 2014 resulted from higher regulatory and compliance costs and increases in compensation and employee benefits due to additional staffing to support new business and regulatory initiatives. The increase in the first nine months of 2015 compared to the first nine months of 2014 primarily resulted from other expenses for a legal accrual recorded in connection with our indirect foreign exchange client activities, higher regulatory and compliance costs, increases in compensation and employee benefits due to additional staffing to support new business and regulatory initiatives, and transaction processing services. Both comparisons were partially offset by the impact of the strong U.S. dollar.



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## Investment Management

TABLE 17: INVESTMENT MANAGEMENT LINE OF BUSINESS RESULTS

| (Dollars in millions, except where otherwise noted) | Three Months Ended<br>September 30, |       |          | Nine Months Ended<br>September 30, |       |          |
|---|-------------------------------------|-------|----------|------------------------------------|-------|----------|
|   | 2015                                | 2014  | % Change | 2015                               | 2014  | % Change |
| Management fees                                     | \$287                               | \$316 | (9 )%    | \$892                              | \$908 | (2 )%    |
| Trading services                                    | 11                                  | 12    | (8 )     | 30                                 | 35    | (14 )    |
| Processing fees and other                           | (11 )                               | (8 )  | nm       | (14 )                              | (5 )  | nm       |
| Total fee revenue                                   | 287                                 | 320   | (10 )    | 908                                | 938   | (3 )     |
| Net interest revenue                                | (1 )                                | 4     | (125 )   | 1                                  | 11    | (91 )    |
| Total revenue                                       | 286                                 | 324   | (12 )    | 909                                | 949   | (4 )     |
| Total expenses                                      | 204                                 | 236   | (14 )    | 711                                | 706   | 1        |
| Income before income tax expense                    | \$82                                | \$88  | (7 )     | \$198                              | \$243 | (19 )    |
| Pre-tax margin                                      | 29                                  | % 27  | %        | 22                                 | % 26  | %        |

nm - not meaningful

Total revenue for our Investment Management line of business, presented in Table 17: Investment Management Line of Business Results, decreased 12% and 4%, respectively, in the third quarter and first nine months of 2015 compared to the same periods in 2014. Total fee revenue decreased 10% and 3%, respectively, compared to the same periods in 2014.

Management fees decreased 9% and 2%, respectively, in the third quarter and first nine months of 2015 compared to the same periods in 2014. The decrease in the third quarter of 2015 compared to the third quarter in 2014 resulted from weaker international equity markets, net outflows, lower performance fees and the impact of the stronger U.S. dollar. The decrease in the first nine months of 2015 compared to the first nine months of 2014 resulted from the impact of the strong U.S. dollar and lower performance fees partially offset by net new business and stronger domestic equity markets.

Trading services revenue declined 8% and 14%, respectively, in the third quarter and first nine months of 2015 compared to the same periods in 2014. The decreases in both periods were mainly related to favorable mark to market on seed capital in the second quarter of 2014, as well as lower distribution fees associated with the SPDR® Gold ETF, which resulted from net outflows 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 decreased 14% in the third quarter of 2015 compared to the third quarter of 2014

due primarily to recoveries associated with Lehman Brothers-related assets recorded in 2015 and impact of the strong U.S. dollar partially offset by higher regulatory and compliance costs. Total expenses increased 1% for the first nine months of 2015 compared to the first nine months in 2014 resulting from higher transaction processing services and increases in regulatory and compliance costs partially offset by recoveries associated with Lehman Brothers-related assets recorded in 2015 and 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 have contractual maturities significantly longer than our liabilities; however, we evaluate the operational nature of our deposits and seek to maintain appropriate short-term liquidity of those liabilities that are not operational in nature and maintain longer-termed assets for our operational deposits. Our assets consist primarily of securities held in our available-for-sale or held-to-maturity

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

| Nine Months Ended September 30,<br>(In millions)   | 2015<br>Average Balance | 2014<br>Average Balance |
|--|-------------------------|-------------------------|
| Assets:  |                         |                         |
| Interest-bearing deposits with banks               | \$74,830                | \$50,153                |
| Securities purchased under resale agreements       | 3,325                   | 4,717                   |
| Trading account assets                             | 1,234                   | 947                     |
| Investment securities                              | 107,216                 | 117,681                 |
| Loans and leases                                   | 17,711                  | 15,227                  |
| Other interest-earning assets                      | 22,731                  | 15,138                  |
| Average total interest-earning assets              | 227,047                 | 203,863                 |
| Cash and due from banks                            | 2,577                   | 4,719                   |
| Other noninterest-earning assets                   | 28,343                  | 24,049                  |
| Average total assets                               | \$257,967               | \$232,631               |
| Liabilities and shareholders' equity:              |                         |                         |
| Interest-bearing deposits:                         |                         |                         |
| U.S.   | \$31,479                | \$19,016                |
| Non-U.S.   | 105,347                 | 108,492                 |
| Total interest-bearing deposits                    | 136,826                 | 127,508                 |
| Securities sold under repurchase agreements        | 9,576                   | 8,763                   |
| Federal funds purchased                            | 21                      | 19                      |
| Other short-term borrowings                        | 4,211                   | 4,096                   |
| Long-term debt                                     | 9,809                   | 9,340                   |
| Other interest-bearing liabilities                 | 6,835                   | 7,237                   |
| Average total interest-bearing liabilities         | 167,278                 | 156,963                 |
| Noninterest-bearing deposits                       | 54,153                  | 42,387                  |
| Other noninterest-bearing liabilities              | 15,080                  | 12,031                  |
| Preferred shareholders' equity                     | 2,322                   | 1,065                   |
| Common shareholders' equity                        | 19,134                  | 20,185                  |
| Average total liabilities and shareholders' equity | \$257,967               | \$232,631               |

<sup>(1)</sup> 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)                       | September 30, 2015 | December 31, 2014 |
|-------------------------------------|--------------------|-------------------|
| Available for sale:                 |                    |                   |
| U.S. Treasury and federal agencies: |                    |                   |
| Direct obligations                  | \$13,354           | \$10,655          |
| Mortgage-backed securities          | 18,829             | 20,714            |
| Asset-backed securities:            |                    |                   |
| Student loans <sup>(1)</sup>        | 7,644              | 12,460            |

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|                                     |          |          |
|-------------------------------------|----------|----------|
| Credit cards                        | 1,504    | 3,053    |
| Sub-prime                           | 458      | 951      |
| Other                               | 1,955    | 4,145    |
| Total asset-backed securities       | 11,561   | 20,609   |
| Non-U.S. debt securities:           |          |          |
| Mortgage-backed securities          | 7,916    | 9,606    |
| Asset-backed securities             | 3,198    | 3,226    |
| Government securities               | 3,711    | 3,909    |
| Other                               | 5,002    | 5,428    |
| Total non-U.S. debt securities      | 19,827   | 22,169   |
| State and political subdivisions    | 9,974    | 10,820   |
| Collateralized mortgage obligations | 3,299    | 5,339    |
| Other U.S. debt securities          | 2,907    | 4,109    |
| U.S. equity securities              | 37       | 39       |
| Non-U.S. equity securities          | 3        | 2        |
| U.S. money-market mutual funds      | 298      | 449      |
| Non-U.S. money-market mutual funds  | 8        | 8        |
| Total                               | \$80,097 | \$94,913 |

Held to Maturity:

U.S. Treasury and federal agencies:

|                                     |          |          |
|-------------------------------------|----------|----------|
| Direct obligations                  | \$7,931  | \$5,114  |
| Mortgage-backed securities          | 46       | 62       |
| Asset-backed securities:            |          |          |
| Student loans <sup>(1)</sup>        | 1,642    | 1,814    |
| Credit cards                        | 897      | 897      |
| Other                               | 404      | 577      |
| Total asset-backed securities       | 2,943    | 3,288    |
| Non-U.S. debt securities:           |          |          |
| Mortgage-backed securities          | 2,705    | 3,787    |
| Asset-backed securities             | 1,747    | 2,868    |
| Government securities               | 236      | 154      |
| Other                               | 67       | 72       |
| Total non-U.S. debt securities      | 4,755    | 6,881    |
| State and political subdivisions    | 2        | 9        |
| Collateralized mortgage obligations | 1,786    | 2,369    |
| Total                               | \$17,463 | \$17,723 |

<sup>(1)</sup> 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 consolidated financial statements included in this Form 10-Q.

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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 92% of the carrying value of the portfolio rated "AAA" or "AA" as of September 30, 2015 and 90% as of December 31, 2014.

TABLE 20: INVESTMENT PORTFOLIO BY EXTERNAL CREDIT RATING

|                    | September 30, 2015 |   | December 31, 2014 |   |
|--------------------|--------------------|---|-------------------|---|
| AAA <sup>(1)</sup> | 79                 | % | 73                | % |
| AA                 | 13                 |   | 17                |   |
| A                  | 5                  |   | 6                 |   |
| BBB                | 2                  |   | 2                 |   |
| Below BBB          | 1                  |   | 2                 |   |
|                    | 100                | % | 100               | % |

<sup>(1)</sup> Includes U.S. Treasury and federal agency securities that are split-rated, "AAA" by Moody's Investors Service and "AA+" by Standard & Poor's.

As of September 30, 2015, the investment portfolio of 14,316 securities was diversified with respect to asset class. Approximately 55% 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 September 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 September 30, 2015, we held approximately \$2.35 billion of investments in CLOs. As of the same date, these investments had an aggregate pre-tax net unrealized gain of approximately \$57 million, composed of gross unrealized gains of \$59 million and gross unrealized losses of \$2 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, 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

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effect on our consolidated results of operations in the period in which such a divestiture occurs or on our consolidated financial condition.

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 restricts 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 entails 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 September 30, 2015 compared to approximately 26% as of December 31, 2014.

TABLE 21: NON-U.S. DEBT SECURITIES

| (In millions)        | September 30, 2015 | December 31, 2014 |
|----------------------|--------------------|-------------------|
| Available for Sale:  |                    |                   |
| United Kingdom       | \$6,129            | \$6,925           |
| Australia            | 2,335              | 3,401             |
| Canada               | 2,480              | 2,711             |
| Netherlands          | 2,254              | 3,219             |
| France               | 1,057              | 1,407             |
| South Korea          | 846                | 920               |
| Japan                | 859                | 860               |
| Germany              | 1,006              | 810               |
| Norway               | 555                | 438               |
| Italy                | 384                | 464               |
| Finland              | 281                | 513               |
| Sweden               | 126                | 103               |
| Belgium              | 111                | 120               |
| Other <sup>(1)</sup> | 322                | 278               |
| Total                | \$18,745           | \$22,169          |
| Held to Maturity:    |                    |                   |
| United Kingdom       | \$1,383            | \$1,779           |
| Australia            | 1,037              | 1,712             |
| Germany              | 1,034              | 1,651             |
| Netherlands          | 818                | 1,128             |
| Singapore            | —                  | 154               |
| Spain                | 113                | 155               |
| Italy                | 64                 | 79                |
| Ireland              | 60                 | 68                |
| Other <sup>(2)</sup> | 122                | 155               |
| Total                | \$4,631            | \$6,881           |

<sup>(1)</sup> Included approximately \$222 million and \$66 million as of September 30, 2015 and December 31, 2014, respectively, related to Portugal, Ireland and Spain, all of which were related to mortgage-backed securities and auto loans.

<sup>(2)</sup> Included approximately \$32 million and \$36 million as of September 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 September 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 September 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 September 30, 2015, these non-U.S. debt securities had an average market-to-book ratio of 100.8%, and an aggregate pre-tax net unrealized gain of approximately \$205 million, composed of gross unrealized gains of \$267 million and gross unrealized losses of \$62 million. These unrealized amounts included a pre-tax net unrealized gain of \$110 million, composed of gross unrealized gains of \$138 million and gross unrealized losses of \$28 million, associated with non-U.S. debt securities available for sale.

As of September 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 September 30, 2015 is provided under "Financial Condition - Cross-Border Outstandings" in this Management's Discussion and Analysis.

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## Municipal Obligations

We carried approximately \$9.97 billion of municipal securities classified as state and political subdivisions in our investment securities portfolio as of September 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 \$8.66 billion of credit and liquidity facilities to municipal issuers.

TABLE 22: STATE AND MUNICIPAL OBLIGORS<sup>(1)</sup>

| (Dollars in millions) | Total Municipal Securities | Credit and Liquidity Facilities <sup>(2)</sup> | Total    | % of Total Municipal Exposure |   |
|-----------------------|----------------------------|--|----------|-------------------------------|---|
| September 30, 2015    |                            |  |          |                               |   |
| State of Issuer:      |                            |  |          |                               |   |
| Texas                 | \$1,262                    | \$1,723  | \$2,985  | 16                            | % |
| California            | 444                        | 2,027  | 2,471    | 13                            |   |
| New York              | 816                        | 1,147  | 1,963    | 11                            |   |
| Massachusetts         | 927                        | 839  | 1,766    | 9                             |   |
| Illinois              | 324                        | 551  | 875      | 5                             |   |
| Maryland              | 454                        | 416  | 870      | 5                             |   |
| Total                 | \$4,227                    | \$6,703  | \$10,930 |                               |   |
| 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  |                               |   |

<sup>(1)</sup> Represented 5% or more of our aggregate municipal credit exposure of approximately \$18.64 billion and \$18.44 billion across our businesses as of September 30, 2015 and December 31, 2014, respectively.

<sup>(2)</sup> 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 88% of the obligors rated "AAA" or "AA" as of September 30, 2015. As of that date, approximately 56% and 41% 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).

The decrease in the net unrealized gain position as of September 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 widening spreads.

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

| (In millions)                        | September 30, 2015 |                              |            | December 31, 2014 |                              |            |
|--------------------------------------|--------------------|------------------------------|------------|-------------------|------------------------------|------------|
|                                      | Amortized Cost     | Net Unrealized Gains(Losses) | Fair Value | Amortized Cost    | Net Unrealized Gains(Losses) | Fair Value |
| Available for sale <sup>(1)</sup>    | \$79,415           | \$ 682                       | \$80,097   | \$94,108          | \$ 805                       | \$94,913   |
| Held to maturity <sup>(1)</sup>      | 17,463             | 73                           | 17,536     | 17,723            | 119                          | 17,842     |
| Total investment securities          | \$96,878           | \$ 755                       | \$97,633   | \$111,831         | \$ 924                       | \$112,755  |
| Net after-tax unrealized gain (loss) |                    | \$ 453                       |            |                   | \$ 554                       |            |

<sup>(1)</sup> 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.

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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 nine months of 2015 compared to losses of \$11 million in the first nine months of 2014. Management considers the aggregate decline in fair value of the remaining investment securities and the resulting gross unrealized losses of \$571 million as of September 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 September 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 potential for other-than-temporary impairment of our investment securities portfolio continues to be sensitive to our estimates of future cumulative losses. However, given our positive outlook for U.S. national housing prices, our sensitivity analysis indicated, as of September 30, 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 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 3% and 17%. 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 September 30, 2015 and 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 September 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)           | September 30, 2015 | December 31, 2014 |
|-------------------------|--------------------|-------------------|
| Institutional:          |                    |                   |
| U.S.                    | \$15,639           | \$14,908          |
| Non-U.S.                | 3,377              | 3,263             |
| Commercial real estate: |                    |                   |

|                        |          |          |
|------------------------|----------|----------|
| U.S.                   | 51       | 28       |
| Total loans and leases | \$19,067 | \$18,199 |

The increase in loans in the institutional segment as of September 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 \$4.56 billion and \$3.54 billion as of September 30, 2015 and December 31, 2014, respectively. These short-duration advances provide liquidity to fund clients in

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support of their transaction flows associated with securities settlement activities.

As of September 30, 2015 and December 31, 2014, our investment in senior secured bank loans totaled approximately \$2.93 billion and \$2.07 billion, respectively. In addition, we had binding unfunded commitments as of September 30, 2015 and December 31, 2014 of \$178 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 September 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 September 30, 2015 and December 31, 2014, our allowance for loan losses included approximately \$37 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 September 30, 2015 and December 31, 2014, unearned income deducted from our investment in leveraged lease financing was \$103 million and \$109 million, respectively, for U.S. leases and \$238 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 September 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

| (In millions)              | Nine Months Ended September 30, |      |
|----------------------------|---------------------------------|------|
|                            | 2015                            | 2014 |
| Allowance for loan losses: |                                 |      |
| Beginning balance          | \$37                            | \$28 |
| Provision for loan losses: |                                 |      |
| Institutional              | 11                              | 6    |
| Ending balance             | \$48                            | \$34 |

The provision of \$11 million recorded in the first nine months of 2015 was associated with our exposure to certain senior secured bank loans to non-investment grade borrowers, which we purchased in connection with our participation in loan syndications in the non-investment-grade lending market.

As of September 30, 2015, approximately \$37 million of our allowance for loan losses was related to senior secured bank loans included in the institutional segment; the remaining \$11 million was related to other commercial and financial loans in the institutional segment.

**Cross-Border Outstandings**

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



borrowers to repay their obligations.

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 country-risk analyses and monitors limits on country exposure.

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

TABLE 26: CROSS-BORDER OUTSTANDINGS<sup>(1)</sup>

| (In millions)      | Investment Securities and<br>Other Assets | Derivatives and<br>Securities on Loan | Total Cross-Border<br>Outstandings |
|--------------------|---|---------------------------------------|------------------------------------|
| September 30, 2015 |   |                                       |                                    |
| United Kingdom     | \$18,964                                  | \$2,137                               | \$21,101                           |
| Germany            | 6,647                                     | 577                                   | 7,224                              |
| Japan              | 8,107                                     | 43                                    | 8,150                              |
| Australia          | 5,067                                     | 666                                   | 5,733                              |
| Canada             | 2,856                                     | 1,211                                 | 4,067                              |
| Netherlands        | 3,208                                     | 267                                   | 3,475                              |
| 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                              |

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

As of September 30, 2015 and December 31, 2014, we had no cross-border exposure to Greece and there were no countries, with the exception of France, 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<br>Securities and<br>Other Assets | Derivatives and<br>Securities on Loan | Total Cross-Border<br>Outstandings |
|--------------------|--|---------------------------------------|------------------------------------|
| September 30, 2015 |  |                                       |                                    |
| Ireland            | \$376  | \$793                                 | \$1,169                            |
| Italy              | 721  | 1                                     | 722                                |
| Spain              | 280  | 41                                    | 321                                |
| Portugal           | 58   | —                                     | 58                                 |
| 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 September 30, 2015 and December 31, 2014.

Our aggregate exposure to Spain, Italy, Ireland and Portugal as of September 30, 2015 did not include any direct sovereign debt exposure to any of these countries. Our indirect exposure to these countries totaled approximately \$875

million of auto-loans, mortgage- and asset-backed securities composed of \$280 million in Spain, \$447 million in Italy, \$89 million in Ireland and \$59 million in Portugal as of September 30, 2015. These securities had an aggregate pre-tax net unrealized gain of approximately \$80 million, composed of gross unrealized gains of \$82 million and gross unrealized losses of \$2 million as of September 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 nine months of 2015 or 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;
- model risk; and
- reputational, fiduciary and business conduct risk.

Many of these risks, as well as certain of the factors underlying each of these risks that could affect our businesses and our consolidated financial statements, are discussed in detail 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-

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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 approach, including board and senior management oversight and a system of policies, procedures, limits, risk measurement and monitoring and internal controls, 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.

On October 30, 2015, the Federal Reserve released its proposed total loss-absorbing capacity (TLAC) and external long term debt (ELTD) requirements for U.S. domiciled G-SIBs, like State Street. If adopted as proposed, the rule would, among other things (1) require us to hold qualifying equity and long-term debt in the amount equal to the greater of 21.5% of total risk-weighted assets (using the capital conservation buffer of 2.5% and an estimated GSIB method 1 surcharge of 1%) and 9.5% of total leverage exposure, as defined by the supplementary leverage ratio, or SLR, final rule and (2) require that we hold qualifying external long-term debt equal to the greater of 7.5% of risk weighted assets (using an estimated GSIB method 2 surcharge of 1.5%) and 4.5% of total leverage exposure, as defined by the SLR final rule. The risk-based requirements, if adopted as proposed, will be phased-in starting in 2019 through 2022. The proposed leverage requirements would be effective in 2019.

We manage our liquidity on a global, consolidated basis. We also manage liquidity on a stand-alone basis at the parent company, as well as at certain branches and subsidiaries of State Street Bank. State Street Bank generally has access to markets and funding sources limited to banks, such as the federal funds market and the Federal Reserve's discount window. Our parent company is managed to a more conservative liquidity profile, reflecting narrower market access. Our parent company typically holds enough cash, primarily in the form of interest-bearing deposits or time deposits with its banking subsidiaries, to meet its current debt maturities and cash needs, as well as those projected over the next one-year period. As of September 30, 2015, the value of parent company's net liquid assets totaled \$6.75 billion, compared with \$6.03 billion as of December 31, 2014. As of September 30, 2015, our parent company and State Street Bank have approximately \$1.0 billion and \$601 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.

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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. As of September 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 \$104.84 billion and \$115.58 billion as of September 30, 2015 and December 31, 2014, respectively.

TABLE 28: COMPONENTS OF HQLA BY TYPE OF ASSET

| (In millions)                | September 30, 2015 | December 31, 2014 |
|------------------------------|--------------------|-------------------|
| Excess Central Bank Balances | \$60,583           | \$85,176          |
| U.S. Treasuries              | 15,716             | 10,308            |
| Other Investment securities  | 25,191             | 16,545            |
| Foreign government           | 3,354              | 3,554             |
| Total                        | \$104,844          | \$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 September 30, 2015, we maintained cash balances in excess of regulatory requirements governing deposits with the Federal Reserve of approximately \$60.58 billion at the Federal Reserve, the ECB and other non-U.S. central banks, compared to \$85.18 billion as of December 31, 2014. The increase in investment securities as of September 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 September 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 \$30.15 billion as of September 30, 2015, compared to \$60.10 billion as of

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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 \$22.28 billion and \$24.43 billion as of September 30, 2015 and December 31, 2014, respectively. These amounts do not reflect the value of any collateral. As of September 30, 2015, approximately 76% 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.

FundingDeposits

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 29: CLIENT DEPOSITS

| (In millions)                  | September 30,         |            | Average Balance                      |            |
|--------------------------------|-----------------------|------------|--------------------------------------|------------|
|                                | September 30,<br>2015 | 2014       | Quarters Ended September 30,<br>2015 | 2014       |
| Client deposits <sup>(1)</sup> | \$ 168,757            | \$ 200,098 | \$ 178,313                           | \$ 164,706 |



(1) Balance as of September 30, 2015 and September 30, 2014 excluded term wholesale certificates of deposit, or CDs, of \$17.61 billion and \$7.87 billion, respectively; average balances for the nine months ended September 30, 2015 and September 30, 2014 excluded average CDs of \$12.67 billion and \$5.19 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 \$1.06 billion and \$2.48 billion of commercial paper outstanding as of September 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

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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 \$7.76 billion and \$8.93 billion as of September 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 \$597 million as of September 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 September 30, 2015, there was no balance outstanding on this line of credit.

Long-Term Funding

As of September 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 September 30, 2015, \$5 billion was available for issuance pursuant to this authority. As of September 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 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 September 30, 2015 and December 31, 2014 by counterparties in the event of a one-notch or two-notch downgrade in our credit ratings was \$10 million 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.

On November 2, 2015, Standard & Poor's Rating Service (S&P) placed the long-term credit ratings for the parent company and the non-deferrable subordinated debt credit rating for State Street Bank on CreditWatch with negative implications. This action followed the Federal Reserve's October 30, 2015 release of its proposed TLAC and ELTD requirements for U.S. domiciled G-SIBs, like State Street, and took similar actions with respect to other U.S. domiciled G-SIBs.

S&P's credit ratings and related determinations are assessments by a third party rating agency and are noted in this Form 10-Q solely for purposes of disclosing changes in such third party ratings and related determinations. Such ratings and related

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determinations are based on factors that are not transparent to State Street and consequently, State Street cannot assess the accuracy or predicative quality of the assumptions or evaluate methods employed by S&P.

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 September 30, 2015, the notional amount of these derivative contracts was \$1.39 trillion, of which \$1.36 trillion was composed of foreign exchange forward, swap and spot contracts. We seek to match positions closely with the objective of minimizing related currency and interest-rate risk. All foreign exchange contracts are valued daily at current market rates.

Value-at-Risk, Stress Testing and Stressed VaR

We use a variety of risk measurement tools and methodologies, including 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.

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Stress Testing and Stressed VaR

We have a corporate-wide stress-testing program in place that incorporates an array of techniques to measure the potential loss we could suffer in a hypothetical scenario of adverse economic and financial conditions. We also monitor concentrations of risk such as concentration by branch, risk component, and currency pairs. We conduct stress testing on a daily basis based on selected historical stress events that are relevant to our positions in order to estimate the potential impact to our current portfolio should similar market conditions recur, and we also perform stress testing as part of the Federal Reserve's 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.

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 one back-testing exception for the first nine months of 2015, which occurred in the third quarter. The trading P&L that day exceeded the VaR based on the prior days closing positions, following a large depreciation in the U.S. dollar against several major and emerging market currencies, which depreciation can be attributed to a decision and related statements by the Federal Reserve's Federal Open Market Committee to hold interest rates at current levels. We experienced no back-testing exceptions for 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 nine months ended September 30, 2015 and the first nine months ended September 30, 2014, and as of September 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 activities that is free of any restrictions on its tradability, but does not include intangible assets, certain credit derivatives recognized as guarantees and certain equity positions not publicly traded. All FX and commodity positions are considered covered positions, regardless of the accounting treatment they receive.



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

|                 | Nine Months Ended September<br>30, 2015 |          |         | Nine Months Ended September<br>30, 2014 |          |         | As of<br>September<br>30, 2015 | As of<br>December<br>31, 2014 |
|-----------------|---|----------|---------|---|----------|---------|--------------------------------|-------------------------------|
|                 | Average                                 | Maximum  | Minimum | Average                                 | Maximum  | Minimum | VaR                            | VaR                           |
| (In thousands)  |   |          |         |   |          |         |                                |                               |
| Global Markets  | \$5,439                                 | \$17,649 | \$3,245 | \$6,475                                 | \$12,327 | \$2,273 | \$3,864                        | \$4,566                       |
| Global Treasury | 1,789                                   | 5,273    | 842     | 47                                      | 62       | 12      | 857                            | 4,759                         |
| Total VaR       | \$6,056                                 | \$16,700 | \$3,531 | \$6,455                                 | \$12,283 | \$2,262 | \$3,676                        | \$8,281                       |

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

|                    | Nine Months Ended September<br>30, 2015 |          |          | Nine Months Ended September<br>30, 2014 |          |          | As of<br>September<br>30, 2015 | As of<br>December<br>31, 2014 |
|--------------------|---|----------|----------|---|----------|----------|--------------------------------|-------------------------------|
|                    | Average                                 | Maximum  | Minimum  | Average                                 | Maximum  | Minimum  | Stressed VaR                   | Stressed<br>VaR               |
| (In thousands)     |   |          |          |   |          |          |                                |                               |
| Global Markets     | \$38,224                                | \$65,860 | \$20,601 | \$33,168                                | \$64,510 | \$15,625 | \$41,468                       | \$30,255                      |
| Global Treasury    | 30,518                                  | 47,929   | 20,711   | 162                                     | 572      | 41       | 20,711                         | 39,050                        |
| Total Stressed VaR | \$64,714                                | \$95,692 | \$36,956 | \$33,112                                | \$64,409 | \$15,495 | \$61,981                       | \$58,945                      |

The nine month average of our stressed VaR-based measure was approximately \$65 million for the period ended September 30, 2015, compared to a nine month average of approximately \$33 million for the period ended September 30, 2014.

The increase in the nine month average of our stressed VaR-based measure for the period ended September 30, 2015, compared to the period ended September 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. Although the FX swaps are not considered part of our trading activity, all FX activity (trading or banking) generates market risk captured under Basel rules. The tenor extension gives rise to additional market risk in our stressed VaR calculation.

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.

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.



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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 September 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<sup>(1)</sup>

| (In thousands)  | As of September 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  | \$2,894                  | \$3,474            | \$ 74           | \$5,584                 | \$3,230            | \$ 349          |
| Global Treasury | 323                      | 927                | —               | —                       | 4,759              | —               |
| Total VaR       | \$2,885                  | \$2,959            | \$ 74           | \$5,584                 | \$5,892            | \$ 349          |

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

| (In thousands)     | As of September 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     | \$11,985                 | \$36,535           | \$ 99           | \$8,305                 | \$39,220           | \$ 468          |
| Global Treasury    | 500                      | 20,634             | —               | —                       | 39,050             | —               |
| Total Stressed VaR | \$11,445                 | \$54,050           | \$ 99           | \$8,305                 | \$62,923           | \$ 468          |

<sup>(1)</sup> 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 at September 30, 2015, as compared to 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.

**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 and gradual +/-100-basis-point shift to our internal forecast of global interest rates. We manage our NIR sensitivity to limit declines to 15% or less from baseline NIR. Estimated exposures presented

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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<br>Net Interest Revenue |               | September 30,<br>2015 |               | December 31,<br>2014 |               |
|-----------------------|---|---------------|-----------------------|---------------|----------------------|---------------|
|                       | Exposure                                      | % of Base NIR | Exposure              | % of Base NIR | Exposure             | % of Base NIR |
| Rate change:          |   |               |                       |               |                      |               |
| +100 bps shock        | \$574   | 26.9          | \$384                 | 16.6          |                      |               |
| -100 bps shock        | (211)   | (9.9)         | (328)                 | (14.2)        |                      |               |
| +100 bps ramp         | 263   | 12.3          | 149                   | 6.5           |                      |               |
| -100 bps ramp         | (110)   | (5.2)         | (192)                 | (8.3)         |                      |               |

As of September 30, 2015, NIR sensitivity to an upward-100-basis-point shock to our internal forecast of global interest rates increased compared to such sensitivity as of December 31, 2014, on a dollar exposure basis as well as a percentage of twelve-month forecasted base NIR, reflecting slower client deposit repricing expectations in the twelve-month forecast horizon beyond September 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.

NIR sensitivity to a downward-100-basis-point shock to our internal forecast of global interest rates as of September 30, 2015 decreased compared to such sensitivity as of December 31, 2014 on a dollar and percentage basis, primarily due to higher expected deposit charges when rates decline. September 30, 2015 NIR-at-risk sensitivities incorporate additional charges on deposits as rates decline to their floors compared to December 31, 2014 NIR-at-risk. A downward-100-basis-point shock in global interest rates places pressure on NIR due to declining deposit rates, providing little funding relief on the liability side, while many assets continue to re-price in 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 current 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.

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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<br>Economic Value of Equity |                               | Estimated Sensitivity of<br>Economic Value of Equity |                               |
|-----------------------|--|-------------------------------|--|-------------------------------|
|                       | September 30,<br>2015                                | December 31,<br>2014          | September 30,<br>2015                                | December 31,<br>2014          |
| Rate change:          | Exposure   | % of Tier 1/Tier 2<br>Capital | Exposure   | % of Tier 1/Tier 2<br>Capital |
| +200 bps shock        | \$(1,996 )   | (11.3 )%                      | \$(2,291 )   | (12.8 )%                      |
| -200 bps shock        | 835  | 4.7                           | 942  | 5.3                           |

The dollar measure of EVE sensitivity to an upward-200-basis-point shock as of September 30, 2015 improved compared to December 31, 2014; and the dollar measure of EVE sensitivity to a downward-200-basis-point shock as of September 30, 2015 declined compared to December 31, 2014, with the change in both EVE sensitivity measures driven by investment portfolio actions.

EVE sensitivity to an upward-200-basis-point shock as of September 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 September 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, monitors compliance, and reports regularly to the Board on the

overall degree of model risk across the corporation;

- 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 conceptually sound, computationally accurate, are performing as expected, and are in line with their design objectives.

**Model Development and Usage**

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

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

Model owners 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

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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 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% and raises the minimum tier 1 risk-based capital ratio from 4% to 6%. In addition, for advanced approaches banking organizations such as State Street, the U.S. Basel III final rule imposes a minimum supplementary tier 1 leverage ratio of 3%, the numerator of which is tier 1 capital and the denominator of which includes both on-balance sheet assets and certain off-balance sheet exposures, which are sometimes referred to collectively as total leverage exposures. The supplementary leverage ratio requirement was enhanced by the 2014 supplementary leverage ratio final rule which, upon implementation as of January 1, 2018, requires (1) State Street Bank to maintain an SLR of at least 6% to be well capitalized under the U.S. banking regulators' prompt corrective action framework and (2) State Street to maintain an SLR of at least 5% to avoid limitations on distribution and discretionary bonus payments. 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 only quarterly average on-balance sheet assets and does not include any off-balance sheet exposures.

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 September 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.



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

|  | 2015 | 2016    | 2017    | 2018    | 2019    |   |
|--|------|---------|---------|---------|---------|---|
| Capital conservation buffer (Common Equity Tier 1) | —    | % 0.625 | % 1.250 | % 1.875 | % 2.500 | % |
| G-SIB surcharge (CET1) <sup>(1)</sup>              | —    | 0.375   | 0.750   | 1.125   | 1.500   |   |
| Minimum common equity tier 1 <sup>(3)</sup>        | 4.5  | 5.500   | 6.500   | 7.500   | 8.500   |   |
| Minimum tier 1 capital <sup>(3)</sup>              | 6.0  | 7.000   | 8.000   | 9.000   | 10.000  |   |
| Minimum total capital <sup>(3)</sup>               | 8.0  | 9.000   | 10.000  | 11.000  | 12.000  |   |

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

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

<sup>(3)</sup> Minimum common equity tier 1 capital, minimum tier 1 capital and minimum total capital presented include the transitional capital conservation buffer as well as the estimated transitional G-SIB surcharge.

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.

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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     | Basel III Standardized Approach   | Basel III Advanced Approaches    | Basel III Transitional Approach  | Basel III Advanced Approaches     | Basel III Standardized Approach   | Basel III Advanced Approaches    | Basel III Transitional Approach  |
|   | September 30, 2015 <sup>(1)</sup> | September 30, 2015 <sup>(2)</sup> | December 31, 2014 <sup>(1)</sup> | December 31, 2014 <sup>(3)</sup> | September 30, 2015 <sup>(1)</sup> | September 30, 2015 <sup>(2)</sup> | December 31, 2014 <sup>(1)</sup> | December 31, 2014 <sup>(3)</sup> |
| Common shareholders' equity:  |                                   |                                   |                                  |                                  |                                   |                                   |                                  |                                  |
| Common stock and related surplus  | \$ 10,246                         | \$ 10,246                         | \$ 10,295                        | \$ 10,295                        | \$ 10,924                         | \$ 10,924                         | \$ 10,867                        | \$ 10,867                        |
| Retained earnings   | 15,795                            | 15,795                            | 14,882                           | 14,882                           | 10,886                            | 10,886                            | 9,416                            | 9,416                            |
| Accumulated other comprehensive income (loss)   | (1,177 )                          | (1,177 )                          | (641 )                           | (641 )                           | (1,011 )                          | (1,011 )                          | (535 )                           | (535 )                           |
| Treasury stock, at cost   | (6,143 )                          | (6,143 )                          | (5,158 )                         | (5,158 )                         | —                                 | —                                 | —                                | —                                |
| Total   | 18,721                            | 18,721                            | 19,378                           | 19,378                           | 20,799                            | 20,799                            | 19,748                           | 19,748                           |
| Regulatory capital adjustments:   |                                   |                                   |                                  |                                  |                                   |                                   |                                  |                                  |
| Goodwill and other intangible assets, net of associated deferred tax liabilities <sup>(4)</sup> | (5,987 )                          | (5,987 )                          | (5,869 )                         | (5,869 )                         | (5,687 )                          | (5,687 )                          | (5,577 )                         | (5,577 )                         |
| Other adjustments   | (62 )                             | (62 )                             | (36 )                            | (36 )                            | (92 )                             | (92 )                             | (128 )                           | (128 )                           |
| Common equity tier 1 capital  | 12,672                            | 12,672                            | 13,473                           | 13,473                           | 15,020                            | 15,020                            | 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   | (94 )                             | (94 )                             | (145 )                           | (145 )                           | —                                 | —                                 | —                                | —                                |
| Tier 1 capital  | 15,518                            | 15,518                            | 15,764                           | 15,764                           | 15,020                            | 15,020                            | 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 phased out of tier 1 capital                                 | 713                               | 713                               | 475                              | 475                              | —                                 | —                                 | —                                | —                                |

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|                                   |                      |                      |                      |                      |                      |                      |                      |                      |       |       |
|-----------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|-------|-------|
| ALLL and other                    | 12                   | 69                   | —                    | —                    | 9                    | 69                   | —                    | —                    |       |       |
| Other adjustments                 | 2                    | 2                    | 4                    | 4                    | —                    | —                    | —                    | —                    |       |       |
| Total capital                     | \$17,683             | \$17,740             | \$17,861             | \$17,861             | \$16,481             | \$16,541             | \$15,677             | \$15,677             |       |       |
| Risk-weighted assets:             |                      |                      |                      |                      |                      |                      |                      |                      |       |       |
| Credit risk                       | \$55,914             | \$103,004            | \$66,874             | \$87,502             | \$50,936             | \$97,803             | \$59,836             | \$84,433             |       |       |
| Operational risk                  | 44,014               | NA                   | 35,866               | NA                   | 43,413               | NA                   | 35,449               | NA                   |       |       |
| Market risk <sup>(5)</sup>        | 4,437                | 2,761                | 5,087                | 2,910                | 4,397                | 2,761                | 5,048                | 2,909                |       |       |
| Total risk-weighted assets        | \$104,365            | \$105,765            | \$107,827            | \$90,412             | \$98,746             | \$100,564            | \$100,333            | \$87,342             |       |       |
| Adjusted quarterly average assets | \$244,553            | \$244,553            | \$247,740            | \$247,740            | \$239,610            | \$239,610            | \$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%                 | 12.1%                | 12.0%                | 12.5%                | 14.9%                | 15.2%                | 14.9%                | 14.0% | 16.1% |
| Tier 1 capital                    | 6.0                  | 5.5                  | 14.9                 | 14.7                 | 14.6                 | 17.4                 | 15.2                 | 14.9                 | 14.0  | 16.1  |
| Total capital                     | 8.0                  | 8.0                  | 16.9                 | 16.8                 | 16.6                 | 19.8                 | 16.7                 | 16.4                 | 15.6  | 17.9  |
| Tier 1 leverage                   | 4.0                  | 4.0                  | 6.3                  | 6.3                  | 6.4                  | 6.4                  | 6.3                  | 6.3                  | 5.8   | 5.8   |

NA: Not applicable.

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

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The regulatory capital ratios for State Street and State Street Bank as of September 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 \$801 million as of September 30, 2015 compared to December 31, 2014, the result of purchases by us of our common stock of approximately \$1.17 billion, the strengthening U.S. dollar's impact on accumulated other comprehensive income, declarations of common and preferred stock dividends of \$502 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 capital decreased \$246 million, total capital decreased \$178 million under advanced approaches and total capital decreased \$121 million under standardized approach. Our tier 1 capital and total capital decreased by less than the decrease to common equity tier 1 capital over the same period as the net decrease to common equity tier 1 capital was largely offset by the positive effects on tier 1 capital and total capital of the issuance of \$750 million of preferred stock in the second quarter of 2015. State Street Bank's tier 1 capital increased \$977 million, and total capital increased \$804 million and \$864 million under the advanced and standardized approaches, respectively, as of September 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 nine months ended September 30, 2015 and for the twelve months ended December 31, 2014.

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TABLE 38: CAPITAL ROLL-FORWARD

| (Dollars in millions)   | State Street   |  |   |
|---|--|--|---|
|   | Basel III Advanced<br>Approach September<br>30, 2015 | Basel III Standardized<br>Approach September 30,<br>2015 | Twelve Months<br>Ended December<br>31, 2014 |
| Common equity tier 1 capital:   |  |  |   |
| Common equity tier 1 capital balance,<br>beginning of period                        | \$13,473   | \$13,473   | \$12,454                                    |
| Net income  | 1,416  | 1,416  | 2,037                                       |
| Changes in treasury stock, at cost  | (985)  | (985)  | (1,465)                                     |
| Dividends declared  | (502)  | (502)  | (551)                                       |
| Goodwill and other intangible assets, net of<br>associated deferred tax liabilities | (118)  | (118)  | 1,874                                       |
| Effect of certain items in accumulated other<br>comprehensive income (loss)         | (536)  | (536)  | (857)                                       |
| Other adjustments   | (76)   | (76)   | (19)  |
| Changes in common equity tier 1 capital   | (801)  | (801)  | 1,019                                       |
| Common equity tier 1 capital balance, end of<br>period                              | 12,672   | 12,672   | 13,473                                      |
| Additional tier 1 capital:  |  |  |   |
| Tier 1 capital balance, beginning of period   | 15,764   | 15,764   | 13,895                                      |
| Change in common equity tier 1 capital  | (801)  | (801)  | 1,019                                       |
| Net issuance of preferred stock   | 742  | 742  | 1,470                                       |
| Trust preferred capital securities phased out<br>of tier 1 capital                  | (238)  | (238)  | (475)                                       |
| Other adjustments   | 51   | 51   | (145)                                       |
| Changes in tier 1 capital   | (246)  | (246)  | 1,869                                       |
| Tier 1 capital balance, end of period   | 15,518   | 15,518   | 15,764                                      |
| Tier 2 capital:   |  |  |   |
| Tier 2 capital balance, beginning of period   | 2,097  | 2,097  | 1,892                                       |
| Net issuance and changes in long-term debt<br>qualifying as tier 2                  | (180)  | (180)  | (300)                                       |
| Trust preferred capital securities phased into<br>tier 2 capital                    | 238  | 238  | 475   |
| Changes in ALLL and other   | 12   | 69   | —   |
| Change in other adjustments   | (2)  | (2)  | 30  |
| Changes in tier 2 capital   | 68   | 125  | 205   |
| Tier 2 capital balance, end of period   | 2,165  | 2,222  | 2,097                                       |
| Total capital:  |  |  |   |
| Total capital balance, beginning of period  | 17,861   | 17,861   | 15,787                                      |
| Changes in tier 1 capital   | (246)  | (246)  | 1,869                                       |
| Changes in tier 2 capital   | 68   | 125  | 205   |
| Total capital balance, end of period  | \$17,683   | \$17,740   | \$17,861                                    |

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

TABLE 39: ADVANCED APPROACHES RWA ROLL-FORWARD

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| (Dollars in millions)                                       | State Street<br>Nine Months Ended<br>September 30, 2015 | Six Months Ended<br>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  | 687   | (1,082 )                              |
| Net increase (decrease) in loans and leases                 | (870 )  | 1,381 )                               |
| Net increase (decrease) in securitization exposures         | (8,126 )  | (5,949 )                              |
| Net increase (decrease) in all other <sup>(1)</sup>         | (2,651 )  | 1,431 )                               |
| Net increase (decrease) in credit risk-weighted assets      | (10,960 )   | (4,219 )                              |
| Net increase (decrease) in credit valuation adjustment      | (501 )  | (80 )                                 |
| Net increase (decrease) in market risk-weighted assets      | (149 )  | 1,230 )                               |
| Net increase (decrease) in operational risk-weighted assets | 8,148 )   | (119 )                                |
| Total risk-weighted assets, end of period                   | \$104,365   | \$107,827                             |

<sup>(1)</sup> 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 September 30, 2015, total advanced approaches risk-weighted assets decreased \$3.46 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 an \$8.15 billion increase in operational risk which reflects 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

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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 nine months ended September 30, 2015.

TABLE 40: STANDARDIZED APPROACH RWA ROLL-FORWARD

| (Dollars in millions)  | State Street<br>Nine Months Ended<br>September 30, 2015 |
|--|---|
| Total estimated risk-weighted assets, beginning of period <sup>(1)</sup> | \$ 125,011  |
| Changes in credit risk-weighted assets:                                  |   |
| Net increase (decrease) in investment securities- wholesale              | (1,849 )  |
| Net increase (decrease) in loans and leases                              | 44  |
| Net increase (decrease) in securitization exposures                      | (8,126 )  |
| Net increase (decrease) in all other <sup>(2)</sup>                      | (9,166 )  |
| Net increase (decrease) in credit risk-weighted assets                   | (19,097 )   |
| Net increase (decrease) in market risk-weighted assets                   | (149 )  |
| Total risk-weighted assets, end of period                                | \$ 105,765  |

<sup>(1)</sup> 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.

<sup>(2)</sup> 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 September 30, 2015, total standardized approach risk-weighted assets decreased \$19.25 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 market values, and a decrease in securities financing exposure.

The regulatory capital ratios as of September 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 September 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 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 September 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 September 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 September 30, 2015.

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

| September 30,<br>2015 (Dollars<br>in millions)   | Basel III<br>Advanced<br>Approaches | Phase-In<br>Provisions | Basel III<br>Advanced<br>Approaches<br>Fully<br>Phased-In<br>Pro-Forma<br>Estimate <sup>(1)</sup> | Basel III<br>Standardized<br>Approach | Phase-In<br>Provisions | Basel III<br>Standardized<br>Approach<br>Fully<br>Phased-In<br>Pro-Forma<br>Estimate <sup>(1)</sup> |
|--|-------------------------------------|------------------------|---|---------------------------------------|------------------------|---|
| Total common<br>shareholders'<br>equity  | \$18,721                            | \$77                   | \$18,798  | \$18,721                              | \$77                   | \$18,798  |
| Regulatory<br>capital<br>adjustments:  |                                     |                        |   |                                       |                        |   |
| Goodwill and<br>other<br>intangible<br>assets, net of<br>associated<br>deferred tax<br>liabilities | (5,987 )                            | (836 )                 | (6,823 )  | (5,987 )                              | (836 )                 | (6,823 )  |
| Other<br>adjustments   | (62 )                               | (96 )                  | (158 )  | (62 )                                 | (96 )                  | (158 )  |
| Common<br>equity tier 1<br>capital   | 12,672                              | (855 )                 | 11,817  | 12,672                                | (855 )                 | 11,817  |
| Additional tier<br>1 capital:  |                                     |                        |   |                                       |                        |   |
| Preferred<br>stock   | 2,703                               | —                      | 2,703   | 2,703                                 | —                      | 2,703   |
| Trust preferred<br>capital<br>securities   | 237                                 | (237 )                 | —   | 237                                   | (237 )                 | —   |
| Other<br>adjustments   | (94 )                               | 94                     | —   | (94 )                                 | 94                     | —   |
| Additional tier<br>1 capital   | 2,846                               | (143 )                 | 2,703   | 2,846                                 | (143 )                 | 2,703   |
| Tier 1 capital   | 15,518                              | (998 )                 | 14,520  | 15,518                                | (998 )                 | 14,520  |
| Tier 2 capital:  |                                     |                        |   |                                       |                        |   |
| Qualifying<br>subordinated<br>long-term debt   | 1,438                               | —                      | 1,438   | 1,438                                 | —                      | 1,438   |
| Trust preferred<br>capital<br>securities   | 713                                 | 132                    | 845   | 713                                   | 132                    | 845   |
|  | 12                                  | —                      | 12  | 69                                    | —                      | 69  |

|                                     |           |         |           |           |         |           |           |         |           |  |
|-------------------------------------|-----------|---------|-----------|-----------|---------|-----------|-----------|---------|-----------|--|
| ALLL and other                      |           |         |           |           |         |           |           |         |           |  |
| Other                               | 2         | (2)     | —         | 2         | (2)     | —         | 2         | (2)     | —         |  |
| Tier 2 capital                      | 2,165     | 130     | 2,295     | 2,222     | 130     | 2,352     | 2,222     | 130     | 2,352     |  |
| Total capital                       | \$17,683  | \$(868) | \$16,815  | \$17,740  | \$(868) | \$16,872  | \$17,740  | \$(868) | \$16,872  |  |
| Risk weighted assets <sup>(2)</sup> | \$104,365 | \$(478) | \$103,887 | \$105,765 | \$(451) | \$105,314 | \$105,765 | \$(451) | \$105,314 |  |
| Adjusted average assets             | 244,553   | (488)   | 244,065   | 244,553   | (488)   | 244,065   | 244,553   | (488)   | 244,065   |  |
| Total assets for SLR                | 270,762   | (488)   | 270,274   | 270,762   | (488)   | 270,274   | 270,762   | (488)   | 270,274   |  |

| Capital ratios <sup>(3)</sup> :             | 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 <sup>(4)</sup> | 4.5%                     | 4.5%                     | 8.5%   | 12.1 | % | 11.4 | % | 12.0 | % | 11.2 | % |
| Tier 1 capital                              | 6.0                      | 6.0                      | 10.0   | 14.9 |   | 14.0 |   | 14.7 |   | 13.8 |   |
| Total capital                               | 8.0                      | 8.0                      | 12.0   | 16.9 |   | 16.2 |   | 16.8 |   | 16.0 |   |
| Tier 1 leverage                             | 4.0                      | 4.0                      | NA   | 6.3  |   | 5.9  |   | 6.3  |   | 5.9  |   |
| Supplementary leverage                      | NA                       | 5.0                      | NA   | 5.7  |   | 5.4  |   | 5.7  |   | 5.4  |   |

NA: Not applicable.

<sup>(1)</sup> As of September 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 September 30, 2015.

<sup>(2)</sup> As of September 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 \$1.4 billion (\$105.8 billion minus \$104.4 billion).

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

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

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AND RESULTS OF OPERATIONS (Continued)TABLE 42: REGULATORY CAPITAL STRUCTURE AND RELATED REGULATORY CAPITAL RATIOS -  
STATE STREET BANK

| September 30,<br>2015 (Dollars<br>in millions)   | Basel III<br>Advanced<br>Approaches |                        |   | Basel III<br>Standardized<br>Approach |                        |   |
|--|-------------------------------------|------------------------|---|---------------------------------------|------------------------|---|
|  | Basel III<br>Advanced<br>Approaches | Phase-In<br>Provisions | Basel III<br>Fully<br>Phased-In<br>Pro-Forma<br>Estimate <sup>(1)</sup> | Basel III<br>Standardized<br>Approach | Phase-In<br>Provisions | Basel III<br>Standardized<br>Approach<br>Fully<br>Phased-In<br>Pro-Forma<br>Estimate <sup>(1)</sup> |
| Total common<br>shareholders'<br>equity  | \$20,799                            | \$87                   | \$20,886  | \$20,799                              | \$87                   | \$20,886  |
| Regulatory<br>capital<br>adjustments:  |                                     |                        |   |                                       |                        |   |
| Goodwill and<br>other<br>intangible<br>assets, net of<br>associated<br>deferred tax<br>liabilities | (5,687 )                            | (788 )                 | (6,475 )  | (5,687 )                              | (788 )                 | (6,475 )  |
| Other<br>adjustments   | (92 )                               | —                      | (92 )   | (92 )                                 | —                      | (92 )   |
| Common<br>equity tier 1<br>capital   | 15,020                              | (701 )                 | 14,319  | 15,020                                | (701 )                 | 14,319  |
| Additional tier<br>1 capital:  |                                     |                        |   |                                       |                        |   |
| Preferred<br>stock   | —                                   | —                      | —   | —                                     | —                      | —   |
| Trust preferred<br>capital<br>securities   | —                                   | —                      | —   | —                                     | —                      | —   |
| Other<br>adjustments   | —                                   | —                      | —   | —                                     | —                      | —   |
| Additional tier<br>1 capital   | —                                   | —                      | —   | —                                     | —                      | —   |
| Tier 1 capital   | 15,020                              | (701 )                 | 14,319  | 15,020                                | (701 )                 | 14,319  |
| Tier 2 capital:  |                                     |                        |   |                                       |                        |   |
| Qualifying<br>subordinated<br>long-term debt   | 1,452                               | —                      | 1,452   | 1,452                                 | —                      | 1,452   |
| Trust preferred<br>capital<br>securities   | —                                   | —                      | —   | —                                     | —                      | —   |
|  | 9                                   | —                      | 9   | 69                                    | —                      | 69  |

|                                     |  |  |  |          |  |         |  |          |  |           |  |          |  |          |
|-------------------------------------|--|--|--|----------|--|---------|--|----------|--|-----------|--|----------|--|----------|
| ALLL and other                      |  |  |  |          |  |         |  |          |  |           |  |          |  |          |
| Other                               |  |  |  |          |  |         |  |          |  |           |  |          |  |          |
| Tier 2 capital                      |  |  |  | 1,461    |  | 1,461   |  | 1,521    |  | 1,521     |  |          |  |          |
| Total capital                       |  |  |  | \$16,481 |  | \$(701) |  | \$15,780 |  | \$(701)   |  | \$15,840 |  |          |
| Risk weighted assets <sup>(2)</sup> |  |  |  | \$98,746 |  | \$(915) |  | \$97,831 |  | \$100,564 |  | \$(863)  |  | \$99,701 |
| Adjusted average assets             |  |  |  | 239,610  |  | (443 )  |  | 239,167  |  | 239,610   |  | (443 )   |  | 239,167  |
| Total assets for SLR                |  |  |  | 265,797  |  | (443 )  |  | 265,354  |  | 265,797   |  | (443 )   |  | 265,354  |

| Capital ratios <sup>(3)</sup> :             | 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 <sup>(4)</sup> | 4.5%                     | 4.5%                     | 8.5%   | 15.2 | % | 14.6 | % | 14.9 | % | 14.4 | % |
| Tier 1 capital                              | 6.0                      | 6.0                      | 10.0   | 15.2 |   | 14.6 |   | 14.9 |   | 14.4 |   |
| Total capital                               | 8.0                      | 8.0                      | 12.0   | 16.7 |   | 16.1 |   | 16.4 |   | 15.9 |   |
| Tier 1 leverage                             | 4.0                      | 4.0                      | NA   | 6.3  |   | 6.0  |   | 6.3  |   | 6.0  |   |
| Supplementary leverage                      | NA                       | 5.0                      | NA   | 5.7  |   | 5.4  |   | 5.7  |   | 5.4  |   |

NA: Not applicable.

<sup>(1)</sup> As of September 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 September 30, 2015.

<sup>(2)</sup> As of September 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 \$1.8 billion (\$100.6 billion minus \$98.7 billion).

<sup>(3)</sup> 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).

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

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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 third 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 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 August 14, 2015, the Federal Reserve published a final rule on the implementation of capital requirements for U.S. G-SIBs. The surcharge requirements within the 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 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 and may differ from the Federal Reserve's estimated charge of 1.5%. Assuming completion of the phase-in period for the capital conservation buffer, and a countercyclical buffer of 0%, the minimum capital ratios as of January 1, 2019, including a capital conservation buffer of 2.5% and 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 September 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 September 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 September 30, 2015.

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

TABLE 43: SUPPLEMENTARY LEVERAGE RATIO

| September 30, 2015<br>(Dollars in millions)    | Transitional SLR | Phase-In Provisions | Fully Phased-in Pro<br>Forma SLR Estimate |
|--|------------------|---------------------|---|
| State Street:                                  |                  |                     |   |
| Tier 1 capital                                 | \$ 15,518        | \$(998 )            | \$ 14,520                                 |
| On- and off-balance sheet leverage<br>exposure | 276,673          | —                   | 276,673                                   |
| Less: regulatory deductions                    | (5,911 )         | (488 )              | (6,399 )                                  |
| Total assets for SLR                           | \$270,762        | \$(488 )            | \$270,274                                 |
| Supplementary leverage ratio                   | 5.7              | % (0.3 )%           | 5.4                                       |
| State Street Bank:                             |                  |                     |   |
| Tier 1 capital                                 | \$ 15,020        | \$(701 )            | \$ 14,319                                 |
| On- and off-balance sheet leverage<br>exposure | 271,347          | —                   | 271,347                                   |
| Less: regulatory deductions                    | (5,550 )         | (443 )              | (5,993 )                                  |
| Total assets for SLR                           | \$265,797        | \$(443 )            | \$265,354                                 |
| Supplementary leverage ratio                   | 5.7              | % (0.3 )%           | 5.4                                       |
| 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 first nine months ended September 30, 2015, we declared dividends on our Series F preferred stock of \$1,663 per share, or approximately \$16.63 per depositary share, totaling approximately \$12 million. We did not declare a dividend on the Series F preferred stock in the first six months of 2015.

In the third 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 nine months ended September 30, 2015, we declared dividends on our Series E preferred stock of \$4,833 per share, or approximately \$1.22 per depositary share, totaling approximately \$36 million.

In the third 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 nine months ended September 30, 2015, we declared aggregate dividends on our Series D

preferred stock of \$4,425 per share, or approximately \$1.11 per depositary share, totaling approximately \$33 million. In the third 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 nine months ended September 30, 2015, we declared aggregate dividends on our Series C preferred stock of \$3,939 per share, or approximately \$0.99 per depositary share, totaling approximately \$20 million.

## Common Stock

In the third quarter of 2015, we declared aggregate quarterly common stock dividends of \$0.34 per share, totaling approximately \$138 million, which were paid in July 2015. In the nine months ended September 30, 2015, we declared aggregate common stock dividends of \$0.98 per share, totaling approximately \$401 million, compared to aggregate common stock dividends of \$0.86 per share, totaling approximately \$366 million, declared in the first nine 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 third quarter of 2015, we purchased approximately 4.8 million shares of our common stock at an average per-share cost of \$72.43 and an aggregate cost of approximately \$350 million under this program. In the nine months ended September 30, 2015, we purchased approximately 9.3 million shares of our common stock at an average per-share cost of \$75.47 and an aggregate cost of approximately \$700 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

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

\$74.88 and an aggregate cost of approximately \$470 million.

Under both programs, in the nine months ended September 30, 2015, we purchased in the aggregate approximately 15.6 million shares of our common stock at an average per-share cost of \$75.23 and an aggregate cost of approximately \$1,170 million. Shares acquired in connection with our common stock purchase programs which remained unissued as of September 30, 2015 were recorded as treasury stock in our consolidated statement of condition as of September 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 \$330.82 billion as of September 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 \$341.79 billion and \$364.41 billion as collateral for indemnified securities on loan as of September 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 \$341.79 billion and \$364.41 billion, referenced above, \$78.41 billion and \$85.31 billion was invested in indemnified repurchase agreements as of September 30, 2015 and December 31, 2014, respectively. We or our agents held \$82.58 billion and \$90.82 billion as collateral for indemnified investments in repurchase agreements as of September 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.

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**QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The information provided under “Financial Condition - Market Risk Management” in Management’s Discussion and Analysis, included in this Form 10-Q, is incorporated by reference herein. 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 September 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 September 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 September 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<br>Ended September<br>30, |         | Nine Months Ended<br>September 30, |         |
|--|--|---------|------------------------------------|---------|
|  | 2015                                   | 2014    | 2015                               | 2014    |
| (Dollars in millions, except per share amounts)                |  |         |                                    |         |
| Fee revenue:   |  |         |                                    |         |
| Servicing fees   | \$1,294                                | \$1,302 | \$3,892                            | \$3,828 |
| Management fees  | 287                                    | 316     | 892                                | 908     |
| Trading services   | 294                                    | 278     | 899                                | 791     |
| Securities finance   | 113                                    | 99      | 369                                | 331     |
| Processing fees and other                                      | 120                                    | 17      | 198                                | 117     |
| Total fee revenue  | 2,108                                  | 2,012   | 6,250                              | 5,975   |
| Net interest revenue:  |  |         |                                    |         |
| Interest revenue   | 614                                    | 671     | 1,885                              | 1,976   |
| Interest expense   | 101                                    | 101     | 291                                | 290     |
| Net interest revenue   | 513                                    | 570     | 1,594                              | 1,686   |
| Gains (losses) related to investment securities, net:          |  |         |                                    |         |
| Net gains (losses) from sales of available-for-sale securities | (2                                     | ) —     | (5                                 | ) 15    |
| Losses from other-than-temporary impairment                    | —                                      | —       | (1                                 | ) (1    |
| Losses reclassified (from) to other comprehensive income       | —                                      | —       | —                                  | (10     |
| Gains (losses) related to investment securities, net           | (2                                     | ) —     | (6                                 | ) 4     |
| Total revenue  | 2,619                                  | 2,582   | 7,838                              | 7,665   |
| Provision for loan losses                                      | 5                                      | 2       | 11                                 | 6       |
| Expenses:  |  |         |                                    |         |
| Compensation and employee benefits                             | 1,051                                  | 953     | 3,122                              | 3,088   |
| Information systems and communications                         | 265                                    | 242     | 761                                | 730     |
| Transaction processing services                                | 201                                    | 199     | 599                                | 583     |
| Occupancy  | 110                                    | 119     | 332                                | 348     |
| Acquisition and restructuring costs                            | 10                                     | 20      | 19                                 | 81      |
| Professional services  | 136                                    | 97      | 368                                | 318     |
| Amortization of other intangible assets                        | 48                                     | 54      | 147                                | 162     |
| Other  | 141                                    | 208     | 845                                | 460     |
| Total expenses   | 1,962                                  | 1,892   | 6,193                              | 5,770   |
| Income before income tax expense                               | 652                                    | 688     | 1,634                              | 1,889   |
| Income tax expense   | 68                                     | 128     | 219                                | 344     |
| Net income from non-controlling interest                       | 1                                      | —       | 1                                  | —       |
| Net income   | \$585                                  | \$560   | \$1,416                            | \$1,545 |
| Net income available to common shareholders                    | \$543                                  | \$542   | \$1,313                            | \$1,500 |
| Earnings per common share:                                     |  |         |                                    |         |
| Basic  | \$1.34                                 | \$1.28  | \$3.20                             | \$3.52  |
| Diluted  | 1.32                                   | 1.26    | 3.16                               | 3.45    |
| Average common shares outstanding (in thousands):              |  |         |                                    |         |

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|  |         |         |         |         |
|--|---------|---------|---------|---------|
| Basic                                    | 406,612 | 421,974 | 409,816 | 426,775 |
| Diluted                                  | 412,167 | 429,736 | 415,772 | 434,510 |
| Cash dividends declared per common share | \$.34   | \$.30   | \$.98   | \$.86   |

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

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STATE STREET CORPORATION  
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
(UNAUDITED)

| (In millions)   | Three Months Ended |         |
|---|--------------------|---------|
|   | September 30,      |         |
|   | 2015               | 2014    |
| Net income  | \$585              | \$560   |
| Other comprehensive income (loss), net of related taxes:  |                    |         |
| Foreign currency translation, net of related taxes of (\$51) and (\$75), respectively   | (145 )             | (591 )  |
| Net unrealized gains (losses) on available-for-sale securities, net of reclassification adjustment and net of related taxes of \$27 and (\$94), respectively  | 37                 | (140 )  |
| Net unrealized gains (losses) on available-for-sale securities designated in fair value hedges, net of related taxes of (\$10) and \$10, respectively         | (16 )              | 14      |
| Other-than-temporary impairment on held-to-maturity securities related to factors other than credit, net of related taxes of \$2 and \$2, respectively        | 4                  | 4       |
| Net unrealized gains (losses) on cash flow hedges, net of related taxes of \$17 and \$37, respectively  | 26                 | 117     |
| Net unrealized gains (losses) on retirement plans, net of related taxes of \$3 and \$3, respectively  | 4                  | —       |
| Other comprehensive income (loss)   | (90 )              | (596 )  |
| Total comprehensive income  | \$495              | \$(36 ) |
|   | Nine Months Ended  |         |
|   | September 30,      |         |
|   | 2015               | 2014    |
| Net income  | \$1,416            | \$1,545 |
| Other comprehensive income (loss), net of related taxes:  |                    |         |
| Foreign currency translation, net of related taxes of (\$76) and (\$38), respectively   | (555 )             | (518 )  |
| Net unrealized gains (losses) on available-for-sale securities, net of reclassification adjustment and net of related taxes of (\$48) and \$261, respectively | (106 )             | 425     |
| Net unrealized gains (losses) on available-for-sale securities designated in fair value hedges, net of related taxes of (\$5) and (\$5), respectively         | (9 )               | (9 )    |
| Other-than-temporary impairment on held-to-maturity securities related to factors other than credit, net of related taxes of \$6 and \$10, respectively       | 11                 | 16      |
| Net unrealized gains (losses) on cash flow hedges, net of related taxes of \$39 and \$34, respectively  | 46                 | 56      |
| Net unrealized gains on retirement plans, net of related taxes of \$4 and (\$2), respectively   | 19                 | 18      |
| Other comprehensive income (loss)   | (594 )             | (12 )   |
| Total comprehensive income  | \$822              | \$1,533 |

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

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STATE STREET CORPORATION  
CONSOLIDATED STATEMENT OF CONDITION  
(UNAUDITED)

|   | September 30,<br>2015 | December 31,<br>2014 |
|---|-----------------------|----------------------|
|   | (Unaudited)           |                      |
| (Dollars in millions, except per share amounts)                                 |                       |                      |
| Assets:   |                       |                      |
| Cash and due from banks   | \$3,660               | \$1,855              |
| Interest-bearing deposits with banks  | 68,361                | 93,523               |
| Securities purchased under resale agreements                                    | 9,155                 | 2,390                |
| Trading account assets  | 1,223                 | 924                  |
| Investment securities available for sale  | 80,097                | 94,913               |
| Investment securities held to maturity (fair value of \$17,536 and \$17,842)    | 17,463                | 17,723               |
| Loans and leases (less allowance for losses of \$48 and \$38)                   | 19,019                | 18,161               |
| Premises and equipment (net of accumulated depreciation of \$4,768 and \$4,599) | 1,984                 | 1,937                |
| Accrued interest and fees receivable  | 2,271                 | 2,242                |
| Goodwill  | 5,716                 | 5,826                |
| Other intangible assets   | 1,820                 | 2,025                |
| Other assets  | 36,505                | 32,600               |
| Total assets  | \$247,274             | \$274,119            |
| Liabilities:  |                       |                      |
| Deposits:   |                       |                      |
| Noninterest-bearing   | \$58,426              | \$70,490             |
| Interest-bearing—U.S.   | 30,407                | 33,012               |
| Interest-bearing—non-U.S.   | 97,534                | 105,538              |
| Total deposits  | 186,367               | 209,040              |
| Securities sold under repurchase agreements                                     | 7,760                 | 8,925                |
| Federal funds purchased   | 25                    | 21                   |
| Other short-term borrowings   | 3,761                 | 4,381                |
| Accrued expenses and other liabilities  | 15,804                | 20,237               |
| Long-term debt  | 12,025                | 10,042               |
| Total liabilities   | 225,742               | 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   | 9,742                 | 9,791                |
| Retained earnings   | 15,795                | 14,882               |
| Accumulated other comprehensive income (loss)                                   | (1,101)               | (507)                |
| Treasury stock, at cost (100,086,970 and 88,684,969 shares)                     | (6,143)               | (5,158)              |
| Total shareholders' equity  | 21,500                | 21,473               |
| Non-controlling interest-equity   | 32                    | —                    |
| Total equity  | 21,532                | 21,473               |
| Total liabilities and equity  | \$247,274             | \$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,<br>except per share<br>amounts, shares<br>in thousands)               | PREFERRED<br>STOCK | COMMON<br>STOCK |        | Surplus | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | TREASURY<br>STOCK |           | Total    |
|---|--------------------|-----------------|--------|---------|----------------------|---|-------------------|-----------|----------|
|   |                    | Shares          | Amount |         |                      |   | Shares            | Amount    |          |
| Balance as of<br>December 31, 2013  | \$ 491             | 503,883         | \$504  | \$9,776 | \$13,395             | \$(95 )   | 69,754            | \$(3,693) | \$20,378 |
| Net income  |                    |                 |        |         | 1,545                |   |                   |           | 1,545    |
| Other comprehensive<br>income   |                    |                 |        |         |                      | (12 )   |                   |           | (12 )    |
| Preferred stock issued 742  |                    |                 |        |         |                      |   |                   |           | 742      |
| Cash dividends<br>declared:   |                    |                 |        |         |                      |   |                   |           |          |
| Common stock -<br>\$.86 per share   |                    |                 |        |         | (366 )               |   |                   |           | (366 )   |
| Preferred stock   |                    |                 |        |         | (43 )                |   |                   |           | (43 )    |
| Common stock<br>acquired  |                    |                 |        |         |                      |   | 18,187            | (1,240 )  | (1,240 ) |
| Common stock<br>awards and options<br>exercised, including<br>income tax benefit of<br>\$54 |                    | (3 )            |        | 4       |                      |   | (3,984 )          | 148       | 152      |
| Other   |                    |                 |        |         |                      |   | (8 )              |           | —        |
| Balance as of<br>September 30, 2014   | \$ 1,233           | 503,880         | \$504  | \$9,780 | \$14,531             | \$(107 )  | 83,949            | \$(4,785) | \$21,156 |
| Balance as of<br>December 31, 2014  | \$ 1,961           | 503,880         | \$504  | \$9,791 | \$14,882             | \$(507 )  | 88,685            | \$(5,158) | \$21,473 |
| Net income  |                    |                 |        |         | 1,416                |   |                   |           | 1,416    |
| Other comprehensive<br>loss   |                    |                 |        |         |                      | (594 )  |                   |           | (594 )   |
| Preferred stock issued 742  |                    |                 |        |         |                      |   |                   |           | 742      |
| Cash dividends<br>declared:   |                    |                 |        |         |                      |   |                   |           |          |
| Common stock -<br>\$.98 per share   |                    |                 |        |         | (401 )               |   |                   |           | (401 )   |
| Preferred stock   |                    |                 |        |         | (101 )               |   |                   |           | (101 )   |
| Common stock<br>acquired  |                    |                 |        |         |                      |   | 15,552            | (1,170 )  | (1,170 ) |
| Common stock<br>awards and options<br>exercised, including<br>income tax benefit of<br>\$57 |                    |                 |        | (45 )   |                      |   | (4,148 )          | 185       | 140      |
| Other   |                    |                 |        | (4 )    | (1 )                 |   | (2 )              |           | (5 )     |
|   | \$ 2,703           | 503,880         | \$504  | \$9,742 | \$15,795             | \$(1,101 )  | 100,087           | \$(6,143) | \$21,500 |

Balance as of  
September 30, 2015

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

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STATE STREET CORPORATION  
CONSOLIDATED STATEMENT OF CASH FLOWS  
(UNAUDITED)

|   | Nine Months Ended September |           |
|---|-----------------------------|-----------|
|   | 30,                         | 2014      |
|   | 2015                        | 2014      |
| (In millions)   |                             |           |
| Operating Activities:   |                             |           |
| Net income  | \$1,416                     | \$1,545   |
| Adjustments to reconcile net income to net cash provided by operating activities: |                             |           |
| Deferred income tax expense   | (12                         | ) (17     |
| Amortization of other intangible assets   | 147                         | 162       |
| Other non-cash adjustments for depreciation, amortization and accretion, net      | 434                         | 351       |
| Losses (gains) related to investment securities, net                              | 6                           | (4        |
| Change in trading account assets, net   | (299                        | ) (190    |
| Change in accrued interest and fees receivable, net                               | (29                         | ) (195    |
| Change in collateral deposits, net  | (8,077                      | ) (3,533  |
| Change in unrealized losses (gains) on foreign exchange derivatives, net          | 434                         | (2,316    |
| Change in other assets, net   | 697                         | 1,563     |
| Change in accrued expenses and other liabilities, net                             | 116                         | 1,430     |
| Other, net  | 385                         | 240       |
| Net cash provided by (used in) operating activities                               | (4,782                      | ) (964    |
| Investing Activities:   |                             |           |
| Net decrease (increase) in interest-bearing deposits with banks                   | 25,162                      | (22,689   |
| Net (increase) decrease in securities purchased under resale agreements           | (6,765                      | ) 3,627   |
| Proceeds from sales of available-for-sale securities                              | 12,417                      | 8,205     |
| Proceeds from maturities of available-for-sale securities                         | 20,258                      | 28,562    |
| Purchases of available-for-sale securities  | (19,494                     | ) (35,393 |
| Proceeds from maturities of held-to-maturity securities                           | 2,835                       | 2,383     |
| Purchases of held-to-maturity securities  | (2,962                      | ) (3,271  |
| Net increase in loans   | (837                        | ) (4,927  |
| Purchases of equity investments and other long-term assets                        | (353                        | ) (169    |
| Purchases of premises and equipment   | (543                        | ) (298    |
| Other, net  | 75                          | 63        |
| Net cash used in investing activities   | 29,793                      | (23,907   |
| Financing Activities:   |                             |           |
| Net (increase) decrease in time deposits  | (5,933                      | ) 6,266   |
| Net (decrease) increase in all other deposits                                     | (16,740                     | ) 19,434  |
| Net (decrease) increase in short-term borrowings                                  | (1,781                      | ) 1,957   |
| Proceeds from issuance of long-term debt, net of issuance costs                   | 2,995                       | —         |
| Payments for long-term debt and obligations under capital leases                  | (914                        | ) (779    |
| Proceeds from issuance of preferred stock   | 742                         | 742       |
| Proceeds from exercises of common stock options                                   | 4                           | 10        |
| Purchases of common stock   | (961                        | ) (1,240  |
| Excess tax benefit related to stock-based compensation                            | 60                          | —         |
| Repurchases of common stock for employee tax withholding                          | (189                        | ) (197    |
| Payments for cash dividends   | (489                        | ) (396    |
| Net cash provided by financing activities   | (23,206                     | ) 25,797  |
| Net increase  | 1,805                       | 926       |
| Cash and due from banks at beginning of period                                    | 1,855                       | 3,220     |

|  |         |         |
|--|---------|---------|
| Cash and due from banks at end of period | \$3,660 | \$4,146 |
|--|---------|---------|

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

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STATE STREET CORPORATION

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note 1. Summary of Significant Accounting Policies

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 September 2015, the Financial Accounting Standards Board, or the FASB, issued an amendment that requires an acquirer to recognize purchase price adjustments to provisional amounts in the reporting period in which the adjustments are determined, as opposed to being applied retrospectively at the acquisition date. The amendment, which allows for early adoption, is effective for State Street beginning on January 1, 2016. We do not have any significant acquisitions in 2015 that could have a material impact in our consolidated financial statements when this amendment becomes effective in 2016. We will assess its impact in conjunction with new transactions, as applicable. In July 2015, the FASB issued an update 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 issued 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.

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STATE STREET CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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. This 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 \$39 million as of September 30, 2015 will be reclassified as contra liabilities upon adoption.

In August 2015, the FASB issued a related amendment incorporating the SEC staff announcement in the accounting standards codification to clarify that debt issuance costs relating to line of credit arrangements may still be presented as an asset, notwithstanding the April 2015 amendment that requires debt issuance costs relating to recognized debt liabilities to be recognized as contra liabilities. We do not have significant line of credit arrangements or related debt issuance costs and do not expect this amendment to be significant to our consolidated financial statements.

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. Based on our current assessment of the amendment, 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 nine months ended September 30, 2015 or the year ended December 31, 2014.





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## STATE STREET CORPORATION

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

| (In millions)                                     | Fair-Value Measurements on a Recurring Basis<br>as of September 30, 2015 |   |   |                                     | Total Net<br>Carrying Value<br>in Consolidated<br>Statement of<br>Condition |
|---|--|---|---|-------------------------------------|---|
|   | Quoted Market<br>Prices in Active<br>Markets<br>(Level 1)                | Pricing Methods<br>with Significant<br>Observable<br>Market Inputs<br>(Level 2) | Pricing Methods<br>with Significant<br>Unobservable<br>Market Inputs<br>(Level 3) | Impact of<br>Netting <sup>(1)</sup> |   |
| Assets:   |  |   |   |                                     |   |
| Trading account assets:                           |  |   |   |                                     |   |
| U.S. government securities                        | \$71   | \$ —  | \$ —  |                                     | \$71  |
| Non-U.S. government securities                    | 666  | —   | —   |                                     | 666   |
| Other   | 14   | 472   | —   |                                     | 486   |
| Total trading account assets                      | 751  | 472   | —   |                                     | 1,223   |
| Investment securities available for sale:         |  |   |   |                                     |   |
| U.S. Treasury and federal agencies:               |  |   |   |                                     |   |
| Direct obligations                                | 12,817   | 537   | —   |                                     | 13,354  |
| Mortgage-backed securities                        | —  | 18,829  | —   |                                     | 18,829  |
| Asset-backed securities:                          |  |   |   |                                     |   |
| Student loans                                     | —  | 7,414   | 230   |                                     | 7,644   |
| Credit cards                                      | —  | 1,504   | —   |                                     | 1,504   |
| Sub-prime   | —  | 458   | —   |                                     | 458   |
| Other <sup>(2)</sup>                              | —  | 12  | 1,943   |                                     | 1,955   |
| Total asset-backed securities                     | —  | 9,388   | 2,173   |                                     | 11,561  |
| Non-U.S. debt securities:                         |  |   |   |                                     |   |
| Mortgage-backed securities                        | —  | 7,916   | —   |                                     | 7,916   |
| Asset-backed securities                           | —  | 2,921   | 277   |                                     | 3,198   |
| Government securities                             | —  | 3,711   | —   |                                     | 3,711   |
| Other <sup>(3)</sup>                              | —  | 4,739   | 263   |                                     | 5,002   |
| Total non-U.S. debt securities                    | —  | 19,287  | 540   |                                     | 19,827  |
| State and political subdivisions                  | —  | 9,939   | 35  |                                     | 9,974   |
| Collateralized mortgage obligations               | —  | 3,151   | 148   |                                     | 3,299   |
| Other U.S. debt securities                        | —  | 2,898   | 9   |                                     | 2,907   |
| U.S. equity securities                            | —  | 37  | —   |                                     | 37  |
| Non-U.S. equity securities                        | —  | 3   | —   |                                     | 3   |
| U.S. money-market mutual funds                    | —  | 298   | —   |                                     | 298   |
| Non-U.S. money-market mutual funds                | —  | 8   | —   |                                     | 8   |
| Total investment securities available<br>for sale | 12,817   | 64,375  | 2,905   |                                     | 80,097  |
| Other assets:                                     |  |   |   |                                     |   |
| Derivative instruments:                           |  |   |   |                                     |   |
| Foreign exchange contracts                        | —  | 10,713  | 21  | \$ (5,364 )                         | 5,370   |
| Interest-rate contracts                           | —  | 232   | —   | (217 )                              | 15  |
| Other derivative contracts                        | —  | 5   | —   | (3 )                                | 2   |
| Total derivative instruments                      | —  | 10,950  | 21  | (5,584 )                            | 5,387   |
| Total assets carried at fair value                | \$ 13,568  | \$ 75,797   | \$ 2,926  | \$ (5,584 )                         | \$ 86,707   |

## Liabilities:

## Accrued expenses and other liabilities:

## Trading account liabilities:

|   |      |           |       |             |          |
|---|------|-----------|-------|-------------|----------|
| Non-U.S. government securities          | \$94 | \$ —      | \$ —  | \$ —        | \$94     |
| Other                                   | —    | 9         | —     | —           | 9        |
| Derivative instruments:                 |      |           |       |             |          |
| Foreign exchange contracts              | —    | 10,275    | 22    | (6,451 )    | 3,846    |
| Interest-rate contracts                 | —    | 207       | —     | (39 )       | 168      |
| Other derivative contracts              | —    | 105       | —     | (3 )        | 102      |
| Total derivative instruments            | —    | 10,587    | 22    | (6,493 )    | 4,116    |
| Total liabilities carried at fair value | \$94 | \$ 10,596 | \$ 22 | \$ (6,493 ) | \$ 4,219 |

(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 \$842 million and \$1.75 billion, respectively, for cash collateral received from and provided to derivative counterparties.

(2) As of September 30, 2015 the fair value of other asset-backed securities was primarily composed of \$1.9 billion of collateralized loan obligations and approximately \$12 million of automobile loan securities.

(3) As of September 30, 2015 the fair value of other non-U.S. debt securities was primarily composed of \$3.3 billion of covered bonds and \$763 million of corporate bonds.

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## STATE STREET CORPORATION

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

| (In millions)                                  | Fair-Value Measurements on a Recurring Basis<br>as of December 31, 2014 |   |   |  | Impact of<br>Netting <sup>(1)</sup> | Total Net<br>Carrying Value<br>in<br>Consolidated<br>Statement of<br>Condition |
|--|---|---|---|--|-------------------------------------|--|
|  | Quoted Market<br>Prices in Active<br>Markets<br>(Level 1)               | Pricing Methods<br>with Significant<br>Observable<br>Market Inputs<br>(Level 2) | Pricing Methods<br>with Significant<br>Unobservable<br>Market Inputs<br>(Level 3) |  |                                     |  |
| 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 <sup>(2)</sup>                           | —   | 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 <sup>(3)</sup>                           | —   | 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  |

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|   |          |           |         |             |           |
|---|----------|-----------|---------|-------------|-----------|
| 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.

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## 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 nine months ended September 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 nine months ended September 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 September 30, 2015

| (In millions)                             | Fair Value as of June 30, 2015 | Total Realized and Unrealized Gains (Losses) |  |           |        |             |                          | Fair Value as of September 30, 2015 <sup>(1)</sup> | Change in Unrealized Gains (Losses) Related to Financial Instruments Held as of September 30, 2015 |
|---|--------------------------------|--|--|-----------|--------|-------------|--------------------------|--|--|
|   |                                | Recorded in Revenue                          | Recorded in Other Comprehensive Income | Purchases | Sales  | Settlements | Transfers out of Level 3 |  |  |
| Assets:                                   |                                |  |  |           |        |             |                          |  |  |
| Investment securities available for sale: |                                |  |  |           |        |             |                          |  |  |
| Asset-backed securities:                  |                                |  |  |           |        |             |                          |  |  |
| Student loans                             | \$234                          | \$ —   | \$ (3 )                                | \$ —      | \$ —   | \$ (1 )     | \$ —                     | \$230  |  |
| Other                                     | 2,933                          | 22   | (19 )                                  | —         | (686 ) | (307 )      | —                        | 1,943  |  |
| Total asset-backed securities             | 3,167                          | 22   | (22 )                                  | —         | (686 ) | (308 )      | —                        | 2,173  |  |
| Non-U.S. debt securities:                 |                                |  |  |           |        |             |                          |  |  |
| Mortgage-backed securities                | 97                             | —  | —                                      | —         | —      | —           | (97 )                    | —  |  |
| Asset-backed securities                   | 193                            | —  | (1 )                                   | 168       | —      | (83 )       | —                        | 277  |  |
| Other                                     | 264                            | —  | (1 )                                   | —         | —      | —           | —                        | 263  |  |
| Total Non-U.S. equity securities          | 554                            | —  | (2 )                                   | 168       | —      | (83 )       | (97 )                    | 540  |  |
| State and political subdivisions          | 36                             | —  | (1 )                                   | —         | —      | —           | —                        | 35   |  |
| Collateralized mortgage obligations       | 215                            | —  | (1 )                                   | —         | —      | (17 )       | (49 )                    | 148  |  |
| Other U.S. debt securities                | 9                              | —  | —                                      | —         | —      | —           | —                        | 9  |  |
| Total investment securities available for | 3,981                          | 22   | (26 )                                  | 168       | (686 ) | (408 )      | (146 )                   | 2,905  |  |

|                                    |         |       |          |        |          |           |           |         |      |
|------------------------------------|---------|-------|----------|--------|----------|-----------|-----------|---------|------|
| sale                               |         |       |          |        |          |           |           |         |      |
| Other assets:                      |         |       |          |        |          |           |           |         |      |
| Derivative instruments:            |         |       |          |        |          |           |           |         |      |
| Foreign exchange contracts         | 60      | (5 )  | —        | 1      | —        | (35 )     | —         | 21      | \$ — |
| Total derivative instruments       | 60      | (5 )  | —        | 1      | —        | (35 )     | —         | 21      | —    |
| Other                              | —       | —     | —        | —      | —        | —         | —         | —       | —    |
| Total assets carried at fair value | \$4,041 | \$ 17 | \$ (26 ) | \$ 169 | \$ (686) | \$ (443 ) | \$ (146 ) | \$2,926 | \$ — |

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

| (In millions)                           | Fair Value as of June 30, 2015 | Total Realized and Unrealized (Gains) Losses |           |             | Fair Value as of September 30, 2015 <sup>(2)</sup> | Change in Unrealized (Gains) Losses Related to Financial Instruments Held as of September 30, 2015 |
|---|--------------------------------|--|-----------|-------------|--|--|
|   |                                | Recorded in Revenue                          | Issuances | Settlements |  |  |
| Liabilities:                            |                                |  |           |             |  |  |
| Accrued expenses and other liabilities: |                                |  |           |             |  |  |
| Derivative instruments:                 |                                |  |           |             |  |  |
| Foreign exchange contracts              | \$50                           | \$ (3 )                                      | \$ 1      | \$(26 )     | \$22   | \$1  |
| Total derivative instruments            | 50                             | (3 )   | 1         | (26 )       | 22   | 1  |
| Total liabilities carried at fair value | \$50                           | \$ (3 )                                      | \$ 1      | \$(26 )     | \$22   | \$1  |

(1) There were no transfers of assets into level 3 during the three months ended September 30, 2015.

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

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## STATE STREET CORPORATION

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

| Fair Value Measurements Using Significant Unobservable Inputs |                                    |  |  |          |          |             |                        |                          |                                     |  |
|---|------------------------------------|--|--|----------|----------|-------------|------------------------|--------------------------|-------------------------------------|--|
| Nine Months Ended September 30, 2015                          |                                    |  |  |          |          |             |                        |                          |                                     |  |
| (In millions)   | Fair Value as of December 31, 2014 | Total Realized and Unrealized Gains (Losses) |  | Purchase | Sales    | Settlements | Transfers into Level 3 | Transfers out of Level 3 | Fair Value as of September 30, 2015 | Change in Unrealized Gains (Losses) Related to Financial Instruments Held as of September 30, 2015 |
|   |                                    | Recorded in Revenue                          | Recorded in Other Comprehensive Income |          |          |             |                        |                          |                                     |  |
| Assets:   |                                    |  |  |          |          |             |                        |                          |                                     |  |
| Investment securities available for sale:                     |                                    |  |  |          |          |             |                        |                          |                                     |  |
| Asset-backed securities:                                      |                                    |  |  |          |          |             |                        |                          |                                     |  |
| Student loans   | \$259                              | \$ —   | \$ (2 )                                | \$ —     | —        | \$ (6 )     | \$ —                   | \$ (21 )                 | \$230                               |  |
| Other   | 3,780                              | 47   | (37 )                                  | —        | (1,106 ) | (741 )      | —                      | —                        | 1,943                               |  |
| Total asset-backed securities                                 | 4,039                              | 47   | (39 )                                  | —        | (1,106 ) | (747 )      | —                      | (21 )                    | 2,173                               |  |
| Non-U.S. debt securities:                                     |                                    |  |  |          |          |             |                        |                          |                                     |  |
| Mortgage-backed securities                                    | —                                  | —  | —                                      | 43       | —        | —           | 97                     | (140 )                   | —                                   |  |
| Asset-backed securities                                       | 295                                | 1  | (1 )                                   | 168      | —        | (169 )      | —                      | (17 )                    | 277                                 |  |
| Other   | 371                                | —  | —                                      | 111      | —        | (32 )       | —                      | (187 )                   | 263                                 |  |
| Total non-U.S. debt securities                                | 666                                | 1  | (1 )                                   | 322      | —        | (201 )      | 97                     | (344 )                   | 540                                 |  |
| State and political subdivisions                              | 38                                 | —  | (2 )                                   | —        | —        | (1 )        | —                      | —                        | 35                                  |  |
| Collateralized mortgage obligations                           | 614                                | —  | (2 )                                   | 293      | (88 )    | (82 )       | —                      | (587 )                   | 148                                 |  |
| Other U.S. debt securities                                    | 9                                  | —  | —                                      | —        | —        | —           | —                      | —                        | 9                                   |  |
| Total investment securities available for sale                | 5,366                              | 48   | (44 )                                  | 615      | (1,194 ) | (1,031 )    | 97                     | (952 )                   | 2,905                               |  |



## Other assets:

## Derivative instruments:

## Derivative

|   |         |       |          |        |            |             |       |           |         |     |
|---|---------|-------|----------|--------|------------|-------------|-------|-----------|---------|-----|
| instruments, Foreign exchange contracts | 81      | 49    | —        | 17     | —          | (126 )      | —     | —         | 21      | \$— |
| Total derivative instruments            | 81      | 49    | —        | 17     | —          | (126 )      | —     | —         | 21      | —   |
| Total assets carried at fair value      | \$5,447 | \$ 97 | \$ (44 ) | \$ 632 | \$ (1,194) | \$ (1,157 ) | \$ 97 | \$ (952 ) | \$2,926 | \$— |

Fair-Value Measurements Using Significant Unobservable Inputs  
Nine Months Ended September 30, 2015

| (In millions) | Fair Value as of December 31, 2014 | Total Realized and Unrealized (Gains) Losses |           |             |  | Fair Value as of September 30, 2015 <sup>(1)</sup> | Change in Unrealized (Gains) Losses Related to Financial Instruments Held as of September 30, 2015 |
|---------------|------------------------------------|--|-----------|-------------|--|--|--|
|               |                                    | Recorded in Revenue                          | Issuances | Settlements |  |  |  |

## Liabilities:

## Accrued expenses and other liabilities:

## Derivative instruments:

|   |      |       |      |           |      |        |
|---|------|-------|------|-----------|------|--------|
| Foreign exchange contracts              | \$74 | \$ 24 | \$19 | \$ (95 )  | \$22 | \$(2 ) |
| Other                                   | 9    | —     | —    | (9 )      | —    | —      |
| Total derivative instruments            | 83   | 24    | 19   | (104 )    | 22   | (2 )   |
| Total liabilities carried at fair value | \$83 | \$ 24 | \$19 | \$ (104 ) | \$22 | \$(2 ) |

<sup>(1)</sup> There were no transfers of liabilities into or out of level 3 during the nine months ended September 30, 2015.

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## STATE STREET CORPORATION

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

| (In millions)  | Fair-Value Measurements Using Significant Unobservable Inputs<br>Three Months Ended September 30, 2014 |   |                           |   |           |         |             |                                 |                                | Change<br>in<br>Unrealized<br>Gains<br>(Losses)<br>Related<br>to<br>Financial<br>Instruments<br>Held as<br>of<br>September<br>30,<br>2014 |
|--|--|---|---------------------------|---|-----------|---------|-------------|---------------------------------|--------------------------------|---|
|  | Fair<br>Value<br>as of<br>June<br>30,<br>2014  | Total Realized and<br>Unrealized Gains (Losses) | Recorded<br>in<br>Revenue | Recorded<br>in Other<br>Comprehensive<br>Income | Purchases | Sales   | Settlements | Transfers<br>into<br>Level<br>3 | Transfers<br>out of<br>Level 3 |   |
| Assets:  |  |   |                           |   |           |         |             |                                 |                                |   |
| Investment securities available for sale:                      |  |   |                           |   |           |         |             |                                 |                                |   |
| U.S. Treasury and federal agencies, mortgage-backed securities | \$96   | \$ —  | \$ —                      | \$ 168  | \$ —      | \$ (4 ) | \$ —        | \$ —                            | \$ 260                         |   |
| Asset-backed securities:                                       |  |   |                           |   |           |         |             |                                 |                                |   |
| Student loans  | 322  |   | (1 )                      | 24  | (74 )     | (5 )    | —           | —                               | 266                            |   |
| Other  | 4,061  | 18  | (8 )                      | 275   | —         | (402 )  | —           | —                               | 3,944                          |   |
| Total asset-backed securities                                  | 4,383  | 18  | (9 )                      | 299   | (74 )     | (407 )  | —           | —                               | 4,210                          |   |
| Non-U.S. debt securities:                                      |  |   |                           |   |           |         |             |                                 |                                |   |
| Asset-backed securities  | 506  | 2   | (1 )                      | —   | —         | (99 )   | 76          | (60 )                           | 424                            |   |
| Other  | 515  | —   | —                         | —   | —         | (25 )   | —           | (192 )                          | 298                            |   |
| Total non-U.S. debt securities                                 | 1,021  | 2   | (1 )                      | —   | —         | (124 )  | 76          | (252 )                          | 722                            |   |
| State and political subdivisions                               | 41   | —   | —                         | —   | —         | —       | —           | —                               | 41                             |   |
| Collateralized mortgage obligations                            | 196  | —   | —                         | 125   | —         | (7 )    | —           | (80 )                           | 234                            |   |
| Other U.S. debt securities                                     | 9  | —   | —                         | —   | —         | (1 )    | —           | —                               | 8                              |   |
| Total investment securities available for sale                 | 5,746  | 20  | (10 )                     | 592   | (74 )     | (543 )  | 76          | (332 )                          | 5,475                          |   |

## Other assets:

## Derivative instruments:

## Derivative

|   |         |       |          |        |         |           |       |           |         |       |
|---|---------|-------|----------|--------|---------|-----------|-------|-----------|---------|-------|
| instruments, Foreign exchange contracts | 10      | 44    | —        | 22     | —       | (8 )      | —     | —         | 68      | \$ 40 |
| Total derivative instruments            | 10      | 44    | —        | 22     | —       | (8 )      | —     | —         | 68      | 40    |
| Total assets carried at fair value      | \$5,756 | \$ 64 | \$ (10 ) | \$ 614 | \$ (74) | \$ (551 ) | \$ 76 | \$ (332 ) | \$5,543 | \$ 40 |

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

| (In millions) | Fair Value as of June 30, 2014 | Total Realized and Unrealized Gains (Losses) Recorded in Revenue | Issuances |  | Settlements | Fair Value as of September 30, 2014 <sup>(1)</sup> | Change in Unrealized (Gains) Losses Related to Financial Instruments Held as of September 30, 2014 |
|---------------|--------------------------------|--|-----------|--|-------------|--|--|
|               |                                |  |           |  |             |  |  |

## Liabilities:

## Accrued expenses and other liabilities:

## Derivative instruments:

|   |      |       |      |         |      |      |
|---|------|-------|------|---------|------|------|
| Foreign exchange contracts              | \$10 | \$ 36 | \$18 | \$ (5 ) | \$59 | \$35 |
| Other                                   | 9    | —     | —    | —       | 9    | —    |
| Total derivative instruments            | 19   | 36    | 18   | (5 )    | 68   | 35   |
| Total liabilities carried at fair value | \$19 | \$ 36 | \$18 | \$ (5 ) | \$68 | \$35 |

<sup>(1)</sup> There were no transfers of liabilities into or out of level 3 in the three months ended September 30, 2014.

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## STATE STREET CORPORATION

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

Fair-Value Measurements Using Significant Unobservable Inputs  
Nine Months Ended September 30, 2014

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

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

Fair-Value Measurements Using Significant Unobservable Inputs  
Nine Months Ended September 30, 2014

| (In millions)                           | Fair Value              |                     | Total Realized and Unrealized (Gains) Losses |             | Fair Value as of                     |                       | Change in Unrealized (Gains) Losses Related to Financial Instruments Held as of September 30, 2014 |
|---|-------------------------|---------------------|--|-------------|--------------------------------------|-----------------------|--|
|   | as of December 31, 2013 | Recorded in Revenue | Issuances                                    | Settlements | of September 30, 2014 <sup>(1)</sup> | of September 30, 2014 |  |
| Liabilities:                            |                         |                     |  |             |                                      |                       |  |
| Accrued expenses and other liabilities: |                         |                     |  |             |                                      |                       |  |
| Derivative instruments:                 |                         |                     |  |             |                                      |                       |  |
| Foreign exchange contracts              | \$17                    | \$ 22               | \$28   | \$(8 )      | \$59                                 | \$32                  |  |
| Other                                   | 9                       | —                   | —  | —           | 9                                    | —                     |  |
| Total derivative instruments            | 26                      | 22                  | 28   | (8 )        | 68                                   | 32                    |  |
| Total liabilities carried at fair value | \$26                    | \$ 22               | \$28   | \$(8 )      | \$68                                 | \$32                  |  |

<sup>(1)</sup> There were no transfers of liabilities into or out of level 3 in the nine months ended September 30, 2014.

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## 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 September 30,                                 |      |   |      | Nine Months Ended September 30,                                  |      |   |      |
|----------------------|--|------|---|------|--|------|---|------|
|                      | Total Realized and Unrealized Gains (Losses) Recorded in Revenue |      | Change in Unrealized Gains (Losses) Related to Financial Instruments Held as of September 30, |      | Total Realized and Unrealized Gains (Losses) Recorded in Revenue |      | Change in Unrealized Gains (Losses) Related to Financial Instruments Held as of September 30, |      |
| (In millions)        | 2015   | 2014 | 2015  | 2014 | 2015   | 2014 | 2015  | 2014 |
| Fee revenue:         |  |      |   |      |  |      |   |      |
| Trading services     | \$(1 )   | \$8  | \$(1 )  | \$5  | \$25   | \$4  | \$2   | \$3  |
| Total fee revenue    | (1 )   | 8    | (1 )  | 5    | 25   | 4    | 2   | 3    |
| Net interest revenue | 21   | 20   | —   | —    | 48   | 53   | —   | —    |
| Total revenue        | \$20   | \$28 | \$(1 )  | \$5  | \$73   | \$57 | \$2   | \$3  |

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

| (Dollars in millions)  | Quantitative Information about Level-3 Fair-Value Measurements |                         |                       |   |                          |                         |       |
|--|--|-------------------------|-----------------------|---|--------------------------|-------------------------|-------|
|  | Fair Value   |                         | Valuation Technique   | Significant Unobservable Input <sup>(1)</sup> | Weighted-Average         |                         |       |
|  | As of September 30, 2015                                       | As of December 31, 2014 |                       |   | As of September 30, 2015 | As of December 31, 2014 |       |
| Significant unobservable inputs readily available to State Street: |  |                         |                       |   |                          |                         |       |
| Assets:  |  |                         |                       |   |                          |                         |       |
| Asset-backed securities, other                                     | \$38   | \$59                    | Discounted cash flows | Credit spread                                 | 0.1                      | %                       | 0.2 % |
| State and political subdivisions                                   | 35   | 38                      | Discounted cash flows | Credit spread                                 | 2.3                      |                         | 2.1   |
| Derivative instruments, foreign exchange contracts                 | 21   | 81                      | Option model          | Volatility                                    | 10.9                     |                         | 9.1   |
| Total  | \$94   | \$178                   |                       |   |                          |                         |       |
| Liabilities:   |  |                         |                       |   |                          |                         |       |
| Derivative instruments, foreign exchange contracts                 | \$22   | \$74                    | Option model          | Volatility                                    | 11.8                     |                         | 9.0   |
| Derivative instruments, other <sup>(2)</sup>                       | —  | 9                       | Discounted cash flows | Participant redemptions                       | —                        |                         | 5.2   |
| Total  | \$22   | \$83                    |                       |   |                          |                         |       |

<sup>(1)</sup> 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 certain level-3 financial assets and liabilities, which 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.

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## 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:

| September 30, 2015                                   | Significant<br>Unobservable<br>Inputs Readily<br>Available to State<br>Street <sup>(1)</sup> | Significant<br>Unobservable Inputs<br>Not Developed by<br>State Street and Not<br>Readily Available <sup>(2)</sup> | Total Assets and<br>Liabilities with<br>Significant<br>Unobservable Inputs |
|--|--|--|--|
| (In millions)  |  |  |  |
| Assets:  |  |  |  |
| Asset-backed securities, student loans               | \$—  | \$230  | \$230  |
| Asset-backed securities, other                       | 38   | 1,905  | 1,943  |
| Non-U.S. debt securities, mortgage-backed securities | —  | —  | —  |
| Non-U.S. debt securities, asset-backed securities    | —  | 277  | 277  |
| Non-U.S. debt securities, other                      | —  | 263  | 263  |
| State and political subdivisions                     | 35   | —  | 35   |
| Collateralized mortgage obligations                  | —  | 148  | 148  |
| Other U.S. debt securities                           | —  | 9  | 9  |
| Derivative instruments, foreign exchange contracts   | 21   | —  | 21   |
| Total  | \$94   | \$2,832  | \$2,926  |
| Liabilities:   |  |  |  |
| Derivative instruments, foreign exchange contracts   | \$22   | \$—  | \$22   |
| Total  | \$22   | \$—  | \$22   |

<sup>(1)</sup> Information with respect to these model-priced financial assets and liabilities is provided above in a separate table.

<sup>(2)</sup> Fair value for these financial assets is measured using non-binding broker or dealer quotes.

| December 31, 2014                                  | Significant<br>Unobservable<br>Inputs Readily<br>Available to State<br>Street <sup>(1)</sup> | Significant<br>Unobservable<br>Inputs Not<br>Developed by State<br>Street and Not<br>Readily Available <sup>(2)</sup> | Total Assets and<br>Liabilities with<br>Significant<br>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   |



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|                               |      |     |      |
|-------------------------------|------|-----|------|
| 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.

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## 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.

| September 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                      | \$3,660         | \$3,660              | \$3,660  | \$ —  | \$ —  |
| Interest-bearing deposits with banks         | 68,361          | 68,361               | —  | 68,361  | —   |
| Securities purchased under resale agreements | 9,155           | 9,155                | —  | 9,155   | —   |
| Investment securities held to maturity       | 17,463          | 17,536               | —  | 17,536  | —   |
| Net loans (excluding leases)                 | 18,108          | 18,081               | —  | 17,925  | 156   |
| Financial Liabilities:                       |                 |                      |  |   |   |
| Deposits:                                    |                 |                      |  |   |   |
| Noninterest-bearing                          | \$58,426        | \$58,426             | \$—  | \$ 58,426   | \$ —  |
| Interest-bearing - U.S.                      | 30,407          | 30,407               | —  | 30,407  | —   |
| Interest-bearing - non-U.S.                  | 97,534          | 97,534               | —  | 97,534  | —   |
| Securities sold under repurchase agreements  | 7,760           | 7,760                | —  | 7,760   | —   |
| Federal funds purchased                      | 25              | 25                   | —  | 25  | —   |
| Other short-term borrowings                  | 3,761           | 3,761                | —  | 3,761   | —   |
| Long-term debt                               | 12,025          | 11,998               | —  | 11,448  | 550   |
| 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 |

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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.

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## 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)                       | September 30, 2015 |                        |        | 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                  | \$13,156           | \$199                  | \$1    | \$13,354          | \$10,573               | \$83    | \$1        | \$10,655 |
| Mortgage-backed securities          | 18,636             | 254                    | 61     | 18,829            | 20,648                 | 193     | 127        | 20,714   |
| Asset-backed securities:            |                    |                        |        |                   |                        |         |            |          |
| Student loans <sup>(1)</sup>        | 7,816              | 20                     | 192    | 7,644             | 12,478                 | 106     | 124        | 12,460   |
| Credit cards                        | 1,527              | 4                      | 27     | 1,504             | 3,077                  | 10      | 34         | 3,053    |
| Sub-prime                           | 485                | 2                      | 29     | 458               | 1,005                  | 2       | 56         | 951      |
| Other <sup>(2)</sup>                | 1,901              | 55                     | 1      | 1,955             | 4,055                  | 100     | 10         | 4,145    |
| Total asset-backed securities       | 11,729             | 81                     | 249    | 11,561            | 20,615                 | 218     | 224        | 20,609   |
| Non-U.S. debt securities:           |                    |                        |        |                   |                        |         |            |          |
| Mortgage-backed securities          | 7,835              | 93                     | 12     | 7,916             | 9,442                  | 168     | 4          | 9,606    |
| Asset-backed securities             | 3,200              | 3                      | 5      | 3,198             | 3,215                  | 11      | —          | 3,226    |
| Government securities               | 3,704              | 7                      | —      | 3,711             | 3,899                  | 10      | —          | 3,909    |
| Other <sup>(3)</sup>                | 4,978              | 34                     | 10     | 5,002             | 5,383                  | 52      | 7          | 5,428    |
| Total non-U.S. debt securities      | 19,717             | 137                    | 27     | 19,827            | 21,939                 | 241     | 11         | 22,169   |
| State and political subdivisions    | 9,703              | 317                    | 46     | 9,974             | 10,532                 | 325     | 37         | 10,820   |
| Collateralized mortgage obligations | 3,267              | 43                     | 11     | 3,299             | 5,280                  | 71      | 12         | 5,339    |
| Other U.S. debt securities          | 2,866              | 53                     | 12     | 2,907             | 4,033                  | 88      | 12         | 4,109    |
| U.S. equity securities              | 32                 | 7                      | 2      | 37                | 29                     | 10      | —          | 39       |
| Non-U.S. equity securities          | 3                  | —                      | —      | 3                 | 2                      | —       | —          | 2        |
| U.S. money-market mutual funds      | 298                | —                      | —      | 298               | 449                    | —       | —          | 449      |
| Non-U.S. money-market mutual funds  | 8                  | —                      | —      | 8                 | 8                      | —       | —          | 8        |
| Total                               | \$79,415           | \$1,091                | \$409  | \$80,097          | \$94,108               | \$1,229 | \$424      | \$94,913 |
| Held to maturity:                   |                    |                        |        |                   |                        |         |            |          |
| U.S. Treasury and federal agencies: |                    |                        |        |                   |                        |         |            |          |
| Direct obligations                  | \$7,931            | \$32                   | \$71   | \$7,892           | \$5,114                | \$—     | \$147      | \$4,967  |
| Mortgage-backed securities          | 46                 | 3                      | —      | 49                | 62                     | 4       | —          | 66       |
| Asset-backed securities:            |                    |                        |        |                   |                        |         |            |          |
| Student loans <sup>(1)</sup>        | 1,642              | —                      | 36     | 1,606             | 1,814                  | 2       | 4          | 1,812    |
| Credit cards                        | 897                | 1                      | —      | 898               | 897                    | 2       | —          | 899      |
| Other                               | 404                | 2                      | 1      | 405               | 577                    | 3       | 1          | 579      |
| Total asset-backed securities       | 2,943              | 3                      | 37     | 2,909             | 3,288                  | 7       | 5          | 3,290    |
| Non-U.S. debt securities:           |                    |                        |        |                   |                        |         |            |          |
| Mortgage-backed securities          | 2,705              | 122                    | 31     | 2,796             | 3,787                  | 177     | 22         | 3,942    |

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|                                     |          |       |       |          |          |       |       |          |
|-------------------------------------|----------|-------|-------|----------|----------|-------|-------|----------|
| Asset-backed securities             | 1,747    | 5     | 3     | 1,749    | 2,868    | 14    | 1     | 2,881    |
| Government securities               | 236      | —     | —     | 236      | 154      | —     | —     | 154      |
| Other                               | 67       | —     | —     | 67       | 72       | —     | —     | 72       |
| Total non-U.S. debt securities      | 4,755    | 127   | 34    | 4,848    | 6,881    | 191   | 23    | 7,049    |
| State and political subdivisions    | 2        | —     | —     | 2        | 9        | —     | —     | 9        |
| Collateralized mortgage obligations | 1,786    | 70    | 20    | 1,836    | 2,369    | 107   | 15    | 2,461    |
| Total                               | \$17,463 | \$235 | \$162 | \$17,536 | \$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 September 30, 2015 and December 31, 2014, the fair value of other asset-backed securities was primarily composed of \$1.9 billion and \$3.8 billion, respectively, of collateralized loan obligations and approximately \$12 million and approximately \$315 million, respectively, of automobile loan securities.

(3) As of both September 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 \$763 million and \$1.2 billion, as of September 30, 2015 and December 31, 2014, respectively, of corporate bonds.

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## STATE STREET CORPORATION

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## (UNAUDITED)

Aggregate investment securities with carrying values of \$22.91 billion and \$44.02 billion as of September 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:

| September 30, 2015<br>(In millions)  | Less than 12 months |                               | 12 months or longer |                               | Total         | Gross<br>Unrealized<br>Losses |
|--------------------------------------|---------------------|-------------------------------|---------------------|-------------------------------|---------------|-------------------------------|
|                                      | Fair<br>Value       | Gross<br>Unrealized<br>Losses | Fair<br>Value       | Gross<br>Unrealized<br>Losses | Fair<br>Value |                               |
| Available for sale:                  |                     |                               |                     |                               |               |                               |
| U.S. Treasury and federal agencies:  |                     |                               |                     |                               |               |                               |
| Direct obligations                   | \$—                 | \$—                           | \$125               | \$1                           | \$125         | \$1                           |
| Mortgage-backed securities           | 1,411               | 9                             | 3,331               | 52                            | 4,742         | 61                            |
| Asset-backed securities:             |                     |                               |                     |                               |               |                               |
| Student loans                        | 3,372               | 64                            | 2,762               | 128                           | 6,134         | 192                           |
| Credit cards                         | —                   | —                             | 498                 | 27                            | 498           | 27                            |
| Sub-prime                            | —                   | —                             | 419                 | 29                            | 419           | 29                            |
| Other                                | —                   | —                             | 91                  | 1                             | 91            | 1                             |
| Total asset-backed securities        | 3,372               | 64                            | 3,770               | 185                           | 7,142         | 249                           |
| Non-U.S. debt securities:            |                     |                               |                     |                               |               |                               |
| Mortgage-backed securities           | 2,030               | 9                             | 197                 | 3                             | 2,227         | 12                            |
| Asset-backed securities              | 2,016               | 5                             | —                   | —                             | 2,016         | 5                             |
| Other                                | 1,208               | 7                             | 514                 | 3                             | 1,722         | 10                            |
| Total non-U.S. debt securities       | 5,254               | 21                            | 711                 | 6                             | 5,965         | 27                            |
| State and political subdivisions     | 818                 | 7                             | 824                 | 39                            | 1,642         | 46                            |
| Collateralized mortgage obligations  | 667                 | 5                             | 188                 | 6                             | 855           | 11                            |
| Other U.S. debt securities           | 255                 | 3                             | 155                 | 9                             | 410           | 12                            |
| U.S. equity securities               | 5                   | 2                             | —                   | —                             | 5             | 2                             |
| Total                                | \$11,782            | \$111                         | \$9,104             | \$298                         | \$20,886      | \$409                         |
| Held to maturity:                    |                     |                               |                     |                               |               |                               |
| U.S. Treasury and federal agencies:  |                     |                               |                     |                               |               |                               |
| Direct obligations                   | \$1,990             | \$14                          | \$3,048             | \$57                          | \$5,038       | \$71                          |
| Asset-backed securities:             |                     |                               |                     |                               |               |                               |
| Student loans                        | 1,204               | 27                            | 385                 | 9                             | 1,589         | 36                            |
| Other                                | —                   | —                             | 34                  | 1                             | 34            | 1                             |
| Total asset-backed securities        | 1,204               | 27                            | 419                 | 10                            | 1,623         | 37                            |
| Non-U.S. mortgage-backed securities: |                     |                               |                     |                               |               |                               |
| Mortgage-backed securities           | 613                 | 3                             | 480                 | 28                            | 1,093         | 31                            |
| Asset-backed securities              | 1,142               | 3                             | —                   | —                             | 1,142         | 3                             |
| Total non-U.S. debt securities       | 1,755               | 6                             | 480                 | 28                            | 2,235         | 34                            |
| Collateralized mortgage obligations  | 452                 | 5                             | 547                 | 15                            | 999           | 20                            |
| Total                                | \$5,401             | \$52                          | \$4,494             | \$110                         | \$9,895       | \$162                         |





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## STATE STREET CORPORATION

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

| December 31, 2014<br>(In millions)  | Less than 12 months |                               | 12 months or longer |                               | Total         | Gross<br>Unrealized<br>Losses |
|-------------------------------------|---------------------|-------------------------------|---------------------|-------------------------------|---------------|-------------------------------|
|                                     | Fair<br>Value       | Gross<br>Unrealized<br>Losses | Fair<br>Value       | Gross<br>Unrealized<br>Losses | Fair<br>Value |                               |
| 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                         |

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## STATE STREET CORPORATION

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## (UNAUDITED)

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

| (In millions)                       | Under 1<br>Year | 1 to 5<br>Years | 6 to 10<br>Years | Over 10<br>Years |
|-------------------------------------|-----------------|-----------------|------------------|------------------|
| Available for sale:                 |                 |                 |                  |                  |
| U.S. Treasury and federal agencies: |                 |                 |                  |                  |
| Direct obligations                  | \$1,403         | \$9,228         | \$2,245          | \$478            |
| Mortgage-backed securities          | 135             | 2,268           | 3,784            | 12,642           |
| Asset-backed securities:            |                 |                 |                  |                  |
| Student loans                       | 335             | 3,858           | 2,271            | 1,180            |
| Credit cards                        | 144             | 262             | 1,098            | —                |
| Sub-prime                           | 6               | 5               | 4                | 443              |
| Other                               | 29              | 292             | 758              | 876              |
| Total asset-backed securities       | 514             | 4,417           | 4,131            | 2,499            |
| Non-U.S. debt securities:           |                 |                 |                  |                  |
| Mortgage-backed securities          | 1,554           | 3,134           | 657              | 2,571            |
| Asset-backed securities             | 391             | 2,475           | 136              | 196              |
| Government securities               | 2,647           | 1,064           | —                | —                |
| Other                               | 1,407           | 2,927           | 668              | —                |
| Total non-U.S. debt securities      | 5,999           | 9,600           | 1,461            | 2,767            |
| State and political subdivisions    | 616             | 2,372           | 5,075            | 1,911            |
| Collateralized mortgage obligations | 333             | 215             | 490              | 2,261            |
| Other U.S. debt securities          | 983             | 1,716           | 174              | 34               |
| Total                               | \$9,983         | \$29,816        | \$17,360         | \$22,592         |
| Held to maturity:                   |                 |                 |                  |                  |
| U.S. Treasury and federal agencies: |                 |                 |                  |                  |
| Direct obligations                  | \$—             | \$1,625         | \$6,197          | \$109            |
| Mortgage-backed securities          | 2               | 6               | 7                | 31               |
| Asset-backed securities:            |                 |                 |                  |                  |
| Student loans                       | —               | 193             | 313              | 1,136            |
| Credit cards                        | —               | 630             | 267              | —                |
| Other                               | 60              | 232             | 109              | 3                |
| Total asset-backed securities       | 60              | 1,055           | 689              | 1,139            |
| Non-U.S. debt securities:           |                 |                 |                  |                  |
| Mortgage-backed securities          | 362             | 815             | 100              | 1,428            |
| Asset-backed securities             | 276             | 1,320           | 151              | —                |
| Government securities               | 123             | —               | 113              | —                |
| Other                               | 23              | 44              | —                | —                |
| Total non-U.S. debt securities      | 784             | 2,179           | 364              | 1,428            |
| State and political subdivisions    | 2               | —               | —                | —                |
| Collateralized mortgage obligations | 350             | 143             | 494              | 799              |
| Total                               | \$1,198         | \$5,008         | \$7,751          | \$3,506          |

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



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## 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 September 30, |       |
|---|----------------------------------|-------|
|   | 2015                             | 2014  |
| Gross realized gains from sales of available-for-sale securities  | \$ 15                            | \$ 48 |
| Gross realized losses from sales of available-for-sale securities   | (17                              | ) (48 |
| Net impairment losses:  |                                  |       |
| Losses reclassified (from) to other comprehensive income  | —                                | —     |
| Net impairment losses <sup>(1)</sup>  | —                                | —     |
| Losses related to investment securities, net  | \$(2                             | ) \$— |
| <sup>(1)</sup> Net impairment losses, recognized in our consolidated statement of income, were composed of the following: |                                  |       |
| Impairment associated with expected credit losses   | \$—                              | \$—   |
| Impairment associated with adverse changes in timing of expected future cash flows  | —                                | —     |
| Net impairment losses   | \$—                              | \$—   |

| (In millions)   | Nine Months Ended September 30, |         |
|---|---------------------------------|---------|
|   | 2015                            | 2014    |
| Gross realized gains from sales of available-for-sale securities  | \$57                            | \$64    |
| Gross realized losses from sales of available-for-sale securities   | (62                             | ) (49   |
| Net impairment losses:  |                                 |         |
| Gross losses from other-than-temporary impairment   | (1                              | ) (1    |
| Losses reclassified (from) to other comprehensive income  | —                               | (10     |
| Net impairment losses <sup>(1)</sup>  | (1                              | ) (11   |
| Gains (losses) related to investment securities, net  | \$(6                            | ) \$4   |
| <sup>(1)</sup> 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 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)   | Nine Months Ended September 30, |        |
|---|---------------------------------|--------|
|   | 2015                            | 2014   |
| Balance, beginning of period (December 31, 2014 and 2013, respectively) | \$ 115                          | \$ 122 |
| Additions:  |                                 |        |

|  |      |       |
|--|------|-------|
| Losses for which other-than-temporary impairment was previously recognized | 1    | 11    |
| Reductions:  |      |       |
| Previously recognized losses related to securities sold or matured         | (22  | ) (11 |
| Losses related to securities intended or required to be sold               | —    | (6    |
| Balance, end of period   | \$94 | \$116 |

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

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## STATE STREET CORPORATION

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## (UNAUDITED)

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.

## 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 September 30, 2015 and three months ended September 30, 2014, no other-than-temporary impairment was recorded. In the nine months ended September 30, 2015 we recorded \$1 million of other-than-temporary impairment compared to \$11 million in the nine months ended September 30, 2014:

Three and nine months ended September 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 nine months ended September 30, 2014:

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

zero 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 nine months ended September 30, 2015, management considers the aggregate decline in fair value of the investment securities portfolio and the resulting gross pre-tax unrealized losses of \$571 million as of September 30, 2015, related to 1,150 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)             | September 30, 2015 | December 31, 2014 |
|---------------------------|--------------------|-------------------|
| Institutional:            |                    |                   |
| Investment funds:         |                    |                   |
| U.S.                      | \$11,875           | \$11,388          |
| Non-U.S.                  | 2,144              | 2,333             |
| Commercial and financial: |                    |                   |
| U.S.                      | 3,328              | 3,061             |
| Non-U.S.                  | 653                | 256               |
| Purchased receivables:    |                    |                   |
| U.S.                      | 99                 | 124               |

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|  |           |           |
|--|-----------|-----------|
| Non-U.S.   | —         | 6         |
| Lease financing:                                   |           |           |
| U.S.   | 337       | 335       |
| Non-U.S.   | 580       | 668       |
| Total institutional                                | 19,016    | 18,171    |
| Commercial real estate:                            |           |           |
| U.S.   | 51        | 28        |
| Total loans and leases                             | 19,067    | 18,199    |
| Allowance for loan losses                          | (48       | ) (38     |
| Loans and leases, net of allowance for loan losses | \$ 19,019 | \$ 18,161 |

Short-duration advances to our clients included in the institutional segment were \$4.56 billion and \$3.54 billion as of September 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 \$2.93 billion and \$2.07 billion of senior secured bank loans as of September 30, 2015 and December 31, 2014, respectively. These senior secured bank loans are included in the “speculative” category in the credit-quality-indicator

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## STATE STREET CORPORATION

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## (UNAUDITED)

tables presented below. As of September 30, 2015 and December 31, 2014, our allowance for loan losses included approximately \$37 million and \$26 million, respectively, related to these loans.

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

| September 30, 2015<br>(In millions) | Institutional       |                             |                          |                    | Commercial Real Estate  |       | Total<br>Loans and<br>Leases |
|-------------------------------------|---------------------|-----------------------------|--------------------------|--------------------|-------------------------|-------|------------------------------|
|                                     | Investment<br>Funds | Commercial<br>and Financial | Purchased<br>Receivables | Lease<br>Financing | Property<br>Development | Other |                              |
| Investment grade <sup>(1)</sup>     | \$13,683            | \$1,001                     | \$99                     | \$890              | \$—                     | \$28  | \$15,701                     |
| Speculative <sup>(2)</sup>          | 336                 | 2,955                       | —                        | 27                 | 23                      | —     | 3,341                        |
| Special mention <sup>(3)</sup>      | —                   | 25                          | —                        | —                  | —                       | —     | 25                           |
| Total                               | \$14,019            | \$3,981                     | \$99                     | \$917              | \$23                    | \$28  | \$19,067                     |
| December 31, 2014<br>(In millions)  | Institutional       |                             |                          |                    | Commercial Real Estate  |       | Total<br>Loans and<br>Leases |
|                                     | Investment<br>Funds | Commercial<br>and Financial | Purchased<br>Receivables | Lease<br>Financing | Property<br>Development | Other |                              |
| Investment grade <sup>(1)</sup>     | \$13,304            | \$1,011                     | \$130                    | \$976              | \$—                     | \$—   | \$15,421                     |
| Speculative <sup>(2)</sup>          | 417                 | 2,306                       | —                        | 27                 | —                       | 28    | 2,778                        |
| Total                               | \$13,721            | \$3,317                     | \$130                    | \$1,003            | \$—                     | \$28  | \$18,199                     |

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

<sup>(2)</sup> 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.

<sup>(3)</sup> 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:

| (In millions)  | September 30, 2015 |                           |                              | December 31, 2014 |                           |                              |
|--|--------------------|---------------------------|------------------------------|-------------------|---------------------------|------------------------------|
|  | Institutional      | Commercial<br>Real Estate | Total<br>Loans and<br>Leases | Institutional     | Commercial<br>Real Estate | Total<br>Loans and<br>Leases |
| Loans and leases:                                    |                    |                           |                              |                   |                           |                              |
| Collectively evaluated for impairment <sup>(1)</sup> | \$19,016           | \$51                      | \$19,067                     | \$18,171          | \$28                      | \$18,199                     |
| Total  | \$19,016           | \$51                      | \$19,067                     | \$18,171          | \$28                      | \$18,199                     |

<sup>(1)</sup> For those portfolios where there are a small number of loans each with a large balance, we review each loan annually for indicators of impairment. For those loans where no such indicators are identified, the loans are collectively evaluated for impairment. As of September 30, 2015 and December 31, 2014, all of the allowance for loan losses of \$48 million and \$38 million, respectively, related to institutional loans collectively evaluated for impairment.





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## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## (UNAUDITED)

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

| (In millions)                                     | September 30, 2015  |   | December 31, 2014   |   |
|---|---------------------|---|---------------------|---|
|   | Recorded Investment | Unpaid Principal Balance <sup>(1)</sup> | Recorded Investment | Unpaid Principal Balance <sup>(1)</sup> |
| With no related allowance recorded:               |                     |   |                     |   |
| CRE—property development—acquired credit-impaired | \$—                 | \$34                                    | \$—                 | \$34                                    |
| CRE—other—acquired credit-impaired                | —                   | 22                                      | —                   | 22                                      |
| Total CRE   | \$—                 | \$56                                    | \$—                 | \$56                                    |

<sup>(1)</sup> As of September 30, 2015 and December 31, 2014, all of the allowance for loan losses of \$48 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 maturity, regardless of whether the borrowers perform under the modified terms of the loans. No loans were modified in troubled debt restructurings in the nine months ended September 30, 2015 and the year ended December 31, 2014.

As of September 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:

| (In millions)                              | Three Months Ended September 30, |                        |
|--|----------------------------------|------------------------|
|  | 2015                             | 2014                   |
|  | Total Loans and Leases           | Total Loans and Leases |
| Allowance for loan losses <sup>(1)</sup> : |                                  |                        |
| Beginning balance                          | \$43                             | \$32                   |
| Provisions                                 | 5                                | 2                      |
| Ending balance                             | \$48                             | \$34                   |
| (In millions)                              | Nine Months Ended September 30,  |                        |
|  | 2015                             | 2014                   |
|  | Total Loans and Leases           | Total Loans and Leases |
| Allowance for loan losses <sup>(1)</sup> : |                                  |                        |
| Beginning balance                          | \$37                             | \$28                   |
| Provisions                                 | 11                               | 6                      |
| Ending balance                             | \$48                             | \$34                   |

<sup>(1)</sup> As of September 30, 2015, approximately \$37 million of our allowance for loan losses was related to senior secured bank loans included in the institutional segment; the remaining \$11 million was related to other commercial-and-financial loans in the institutional segment.

The provision of \$11 million recorded in the nine months ended September 30, 2015 included a provision of \$5 million, recorded in the three months ended September 30, 2015, as a result of our exposure to certain senior secured bank loans to non-investment grade borrowers, which we purchased 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.

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## STATE STREET CORPORATION

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## (UNAUDITED)

## Note 5. Goodwill and Other Intangible Assets

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

| (In millions)                | Nine Months Ended September 30,<br>2015 |                          |         | 2014                    |                          |         |
|------------------------------|---|--------------------------|---------|-------------------------|--------------------------|---------|
|                              | Investment<br>Servicing                 | Investment<br>Management | Total   | Investment<br>Servicing | Investment<br>Management | Total   |
| Goodwill:                    |   |                          |         |                         |                          |         |
| Beginning balance            | \$5,793                                 | \$33                     | \$5,826 | \$5,999                 | \$37                     | \$6,036 |
| Foreign currency translation | (108 )                                  | (2 )                     | (110 )  | (134 )                  | (3 )                     | (137 )  |
| Ending balance               | \$5,685                                 | \$31                     | \$5,716 | \$5,865                 | \$34                     | \$5,899 |

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

| (In millions)                                  | Nine Months Ended September 30,<br>2015 |                          |         | 2014                    |                          |         |
|--|---|--------------------------|---------|-------------------------|--------------------------|---------|
|  | Investment<br>Servicing                 | Investment<br>Management | Total   | Investment<br>Servicing | Investment<br>Management | Total   |
| Other intangible assets:                       |   |                          |         |                         |                          |         |
| Beginning balance                              | \$1,998                                 | \$27                     | \$2,025 | \$2,321                 | \$39                     | \$2,360 |
| Amortization                                   | (141 )                                  | (6 )                     | (147 )  | (155 )                  | (7 )                     | (162 )  |
| Foreign currency translation and other,<br>net | (56 )                                   | (2 )                     | (58 )   | (75 )                   | (2 )                     | (77 )   |
| Ending balance                                 | \$1,801                                 | \$19                     | \$1,820 | \$2,091                 | \$30                     | \$2,121 |

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)        | September 30, 2015          |                             |                           | December 31, 2014           |                             |                           |
|----------------------|-----------------------------|-----------------------------|---------------------------|-----------------------------|-----------------------------|---------------------------|
|                      | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Net<br>Carrying<br>Amount | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Net<br>Carrying<br>Amount |
| Client relationships | \$2,503                     | \$(1,175 )                  | \$1,328                   | \$2,569                     | \$(1,088 )                  | \$1,481                   |
| Core deposits        | 672                         | (239 )                      | 433                       | 688                         | (219 )                      | 469                       |
| Other                | 157                         | (98 )                       | 59                        | 214                         | (139 )                      | 75                        |
| Total                | \$3,332                     | \$(1,512 )                  | \$1,820                   | \$3,471                     | \$(1,446 )                  | \$2,025                   |

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## STATE STREET CORPORATION

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## (UNAUDITED)

## Note 6. Other Assets

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

| (In millions)   | September 30, 2015 | December 31, 2014 |
|---|--------------------|-------------------|
| Collateral deposits, net  | \$23,041           | \$18,134          |
| Unrealized gains on derivative financial instruments, net       | 5,387              | 7,934             |
| Bank-owned life insurance                                       | 3,057              | 2,402             |
| Investments in joint ventures and other unconsolidated entities | 2,047              | 1,798             |
| Accounts receivable   | 1,225              | 513               |
| Receivable for securities settlement                            | 414                | 218               |
| Prepaid expenses  | 309                | 259               |
| Income taxes receivable   | 199                | 396               |
| Deferred tax assets, net of valuation allowance                 | 187                | 214               |
| Deposits with clearing organizations                            | 135                | 197               |
| Other <sup>(1)</sup>  | 504                | 535               |
| Total   | \$36,505           | \$32,600          |

<sup>(1)</sup> Includes other real estate owned of approximately zero and \$62 million as of September 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 \$22.28 billion and \$24.43 billion as of September 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 September 30, 2015, approximately 76% of our unfunded commitments to extend credit expire within one year. Since many of these commitments are expected to expire or renew without being drawn upon, the gross contractual amounts do not necessarily represent our future cash requirements.

## Guarantees:

Off-balance sheet guarantees comprise indemnified securities financing, stable value protection, asset purchase agreements, 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)                    | September 30, 2015 | December 31, 2014 |
|----------------------------------|--------------------|-------------------|
| Indemnified securities financing | \$330,821          | \$349,766         |
| Stable value protection          | 23,588             | 23,409            |
| Asset purchase agreements        | 4,322              | 4,107             |
| Standby letters of credit        | 4,769              | 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.

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

| (In millions)   | September 30, 2015 | December 31, 2014 |
|---|--------------------|-------------------|
| Fair value of indemnified securities financing  | \$330,821          | \$349,766         |
| Fair value of cash and securities held by us, as agent, as collateral for indemnified securities financing                    | 341,789            | 364,411           |
| Fair value of collateral for indemnified securities financing invested in indemnified repurchase agreements                   | 78,407             | 85,309            |
| Fair value of cash and securities held by us or our agents as collateral for investments in indemnified repurchase agreements | 82,582             | 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 September 30, 2015 and December 31, 2014, we had approximately \$21.21 billion and \$15.94 billion, respectively, of collateral provided and approximately \$3.35 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

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CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

These contingencies are individually accounted for as derivative financial instruments. The notional amounts of the stable value contracts are presented as “derivatives not designated as hedging instruments” in the table of aggregate notional amounts of derivative financial instruments provided in note 12. We have not made a payment under these contingencies that we consider material to our consolidated financial condition, and management believes that the probability of payment under these contingencies in the future, that we would consider material to our consolidated financial condition, is remote.

Note 8. Contingencies

Legal and Regulatory Matters:

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

We evaluate our needs for accruals of loss contingencies related to legal proceedings on a case-by-case basis. When we have a liability that we

deem probable and that we deem can be reasonably estimated as of the date of our consolidated financial statements, we accrue for our estimate of the loss. We also consider a loss probable and establish an accrual when we make, or intend to make, an offer of settlement. Once established, an accrual is subject to subsequent adjustment as a result of additional information. The resolution of proceedings and the reasonably estimable loss (or range thereof) are inherently difficult to predict, especially in the early stages of proceedings. Even if a loss is probable, due to many complex factors, such as speed of discovery and the timing of court decisions or rulings, a loss or range of loss might not be reasonably estimated until the later stages of the proceeding.

As of September 30, 2015, our aggregate accruals for legal loss contingencies and regulatory matters totaled approximately \$605 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



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plaintiffs received on or about August 2009. While management does not believe that such difference is an appropriate measure of damages, we have been informed that the participants liquidated these securities in June 2013, and we estimate the loss on those sales to be approximately \$11 million. As of September 30, 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.

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<br>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   |
| Nine Months Ended September 30, 2015  | 216   |

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CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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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 September 30, 2015, we have accrued a total of \$585 million associated with indirect foreign exchange business. This accrual reflects the current status of our ongoing efforts 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. 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.

Transition Management

In January 2014, we entered into a settlement with the U.K. Financial Conduct Authority, or FCA, pursuant to which we paid a fine of £22.9 million (approximately \$37.8 million), as a result of our having charged six clients of our U.K. transition management business during 2010 and 2011 amounts in excess of the contractual terms. The SEC and the U.S. Attorney are conducting separate investigations into this matter. As of September 30, 2015, we had remaining accruals of approximately \$2.5 million for indemnification costs associated with this matter.

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). State Street has submitted its response to the SEC staff’s position. We are also in discussions with the staff concerning possible bases for bringing this matter to a close.

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 September 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 September 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.

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 September 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 \$2.15 billion and \$2.27 billion, respectively, and other short-term borrowings of \$1.79 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 5.4 years as of September 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 \$1.79 billion and \$598 million, respectively, as of September 30, 2015, none of which was utilized as of that date.

Interests in Sponsored Investment Funds:

As of September 30, 2015, the aggregate assets and liabilities of our consolidated sponsored investment funds totaled \$497 million and \$403 million, respectively. As of December 31, 2014, the aggregate assets and liabilities of our consolidated sponsored investment funds totaled \$65 million and \$13 million, respectively.

As of September 30, 2015, our potential maximum total exposure associated with the consolidated sponsored investment funds totaled \$62 million and represented the value of our economic ownership interest in the fund.

As of September 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 \$86 million and \$45 million as of September 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.

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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.

In the three months ended September 30, 2015, we declared dividends on our Series F preferred stock of \$1,663 per share, or approximately \$16.63 per depositary share, totaling approximately \$12 million. We did not declare a dividend on the Series F preferred stock in the first six months of 2015.

Preferred Stock, Series E

In the three months ended September 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 nine months ended September 30, 2015, we declared dividends on our Series E preferred stock of \$4,833 per share, or approximately \$1.22 per depositary share, totaling approximately \$36 million. We did not declare a dividend on the Series E preferred stock in the first nine months of September 30, 2014.

Preferred Stock, Series D

In the three months ended September 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 nine months ended September 30, 2015, we declared aggregate dividends on our Series D preferred stock of \$4,425 per share, or approximately \$1.11 per depositary share, totaling approximately \$33 million. In the three months ended September 30, 2014, 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 nine months ended September 30, 2014, we declared aggregate dividends on our Series D preferred stock of \$3,130 per share, or approximately \$0.78 per depositary share, totaling approximately \$23 million.

Preferred Stock, Series C

In the three months ended September 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 nine months ended September 30, 2015, we declared aggregate dividends on our Series C preferred stock of \$3,939 per share, or approximately \$0.99 per depositary share, totaling approximately \$20 million. In the three months ended September 30, 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 nine months ended September 30, 2014, we declared aggregate dividends on our Series C preferred stock of \$3,939 per share, or approximately \$0.99 per depositary share, totaling approximately \$20 million.

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 September 30, 2015, we purchased approximately 4.8 million shares of our common stock at an average per-share cost of \$72.43 and an aggregate cost of approximately \$350 million under this program. In the nine months ended September 30, 2015, we purchased approximately 9.3 million shares of our common stock at an average per-share cost of \$75.47 and an aggregate cost of approximately \$700 million 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

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## STATE STREET CORPORATION

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## (UNAUDITED)

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 nine months ended September 30, 2015, we purchased in the aggregate approximately 15.6 million shares of our common stock at an average per-share cost of \$75.23 and an aggregate cost of \$1,170 million. Shares acquired under the programs which remained unissued as of September 30, 2015 were recorded as treasury stock in our consolidated statement of condition as of September 30, 2015.

In the three months ended September 30, 2015, we declared aggregate common stock dividends of \$0.34 per share, totaling approximately \$138 million. In the three months ended September 30, 2014, we declared aggregate common stock dividends of \$0.30 per share, totaling approximately \$126 million. In the nine months ended September 30, 2015, we declared aggregate common stock dividends of \$0.98 per share, totaling approximately \$401 million, compared to aggregate common stock dividends of \$0.86 per share, totaling approximately \$366 million, declared in the nine months ended September 30, 2014.

## Accumulated Other Comprehensive Income (Loss):

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

| (In millions)   | September 30,<br>2015 | December 31,<br>2014 |
|---|-----------------------|----------------------|
| Net unrealized gains on cash flow hedges  | \$322                 | \$276                |
| Net unrealized gains (losses) on available-for-sale securities portfolio                              | 180                   | 273                  |
| Net unrealized gains (losses) related to reclassified available-for-sale securities                   | 26                    | 39                   |
| Net unrealized gains (losses) on available-for-sale securities  | 206                   | 312                  |
| Net unrealized losses on available-for-sale securities designated in fair value hedges                | (129)                 | (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   | (18)                  | (29)                 |
| Net unrealized losses on retirement plans   | (253)                 | (272)                |
| Foreign currency translation  | (1,215)               | (660)                |
| Total   | \$(1,101)             | \$(507)              |

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

| (In millions)                   | Nine Months Ended September 30, 2015              |  |   |  |   |   | Total    |
|---------------------------------|---|--|---|--|---|---|----------|
|                                 | Net Unrealized Gains (Losses) on Cash Flow Hedges | Net Unrealized Gains (Losses) on Available-for-Sale Securities | Net Unrealized Losses on Hedges of Investments in Non-U.S. Subsidiaries | Other-Than-Temporary Impairment on Held-to-Maturity Securities | Net Unrealized Foreign Losses on Retirement Plans | Net Unrealized Foreign Currency Translation |          |
| Balance as of December 31, 2014 | \$276   | \$ 192   | \$(14 )   | \$ (29 )   | \$(272 )  | \$(660 )                                    | \$(507 ) |



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|  |       |       |   |       |    |        |      |        |      |                      |
|--|-------|-------|---|-------|----|--------|------|--------|------|----------------------|
| Other comprehensive income (loss) before reclassifications | 44    | (112  | ) | —     | 12 | —      | (555 | )      | (611 | )                    |
| Amounts reclassified into earnings                         | 2     | (3    | ) | —     | (1 | )      | 19   | —      | 17   |                      |
| Other comprehensive income (loss)                          | 46    | (115  | ) | —     | 11 | 19     | (555 | )      | (594 | )                    |
| Balance as of September 30, 2015                           | \$322 | \$ 77 |   | \$(14 | )  | \$ (18 | )    | \$(253 | )    | \$(1,215 ) \$(1,101) |

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| (In millions)  | Nine Months Ended September 30, 2014                                   |  |   |   |   |           |  |  |          |
|--|--|--|---|---|---|-----------|--|--|----------|
|  | Net<br>Unrealized<br>Gains<br>(Losses)<br>on<br>Cash<br>Flow<br>Hedges | Net<br>Unrealized<br>Gains<br>(Losses)<br>on<br>Available-for-Sale<br>Securities | Net<br>Unrealized<br>Losses on<br>Hedges of<br>Net<br>Investments<br>in<br>Non-U.S.<br>Subsidiaries | Other-Than-Temporary<br>Impairment on<br>Held-to-Maturity<br>Securities | Net<br>Unrealized<br>Foreign<br>Losses on<br>Currency<br>Translation<br>Plans |           |  |  | Total    |
| Balance as of December 31, 2013                            | \$161  | \$ (221 )  | \$ (14 )  | \$ (47 )  | \$ (203 )   | \$ 229    |  |  | \$(95 )  |
| Other comprehensive income (loss) before reclassifications | 54   | 425  | —   | 15  | (1 )  | (518 )    |  |  | (25 )    |
| Amounts reclassified into earnings                         | 2  | (9 )   | —   | 1   | 19  | —         |  |  | 13       |
| Other comprehensive income (loss)                          | 56   | 416  | —   | 16  | 18  | (518 )    |  |  | (12 )    |
| Balance as of September 30, 2014                           | \$217  | \$ 195   | \$ (14 )  | \$ (31 )  | \$ (185 )   | \$ (289 ) |  |  | \$(107 ) |

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

| (In millions)  | Three Months Ended                 |      | Affected Line Item in Consolidated Statement of Income         |
|--|------------------------------------|------|--|
|  | September 30, 2015                 | 2014 |  |
|  | Amounts Reclassified into Earnings |      |  |
| Cash flow hedges:  |                                    |      |  |
| Interest-rate contracts  | \$1                                | \$1  | Net interest revenue   |
| Available-for-sale securities:   |                                    |      |  |
| Net realized gains from sales of available-for-sale securities                                       | (1 )                               | —    | Net gains (losses) from sales of available-for-sale securities |
| Retirement plans:  |                                    |      |  |
| Amortization of actuarial losses, net of related taxes of (\$3) and tax benefit of \$3, respectively | 4                                  | 2    | Compensation and employee benefits expenses                    |
| Total reclassifications out of AOCI  | \$4                                | \$3  |  |
| (In millions)  | Nine Months Ended                  |      | Affected Line Item in Consolidated Statement of Income         |
|  | September 30, 2015                 | 2014 |  |
|  | Amounts Reclassified into Earnings |      |  |
| Cash flow hedges:  |                                    |      |  |

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|  |      |      |  |
|--|------|------|--|
| Interest-rate contracts, net of related tax benefit of \$1 and \$1, respectively   | \$2  | \$2  | Net interest revenue   |
| Available-for-sale securities:   |      |      |  |
| Net realized gains from sales of available-for-sale securities, net of related tax benefit of \$1 and related taxes of (\$6), respectively | (3   | ) (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 (\$4) and (\$2), respectively  | 19   | 19   | Compensation and employee benefits expenses                      |
| Total reclassifications out of AOCI  | \$17 | \$13 |  |

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,

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CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

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 September 30, 2015, State Street and State Street Bank exceeded all regulatory capital adequacy requirements to which they were subject. As of September 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 September 30, 2015 that have changed the capital categorization of State Street Bank.

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## 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 September 30, 2015 <sup>(1)</sup> | Basel III Standardized Approach September 30, 2015 <sup>(2)</sup> | Basel III Advanced Approaches December 31, 2014 <sup>(1)</sup> | Basel III Transitional Approach December 31, 2014 <sup>(3)</sup> | Basel III Advanced Approaches September 30, 2015 <sup>(1)</sup> | Basel III Standardized Approach September 30, 2015 <sup>(2)</sup> | Basel III Advanced Approaches December 31, 2014 <sup>(1)</sup> | Basel III Transitional Approach December 31, 2014 <sup>(3)</sup> |
| Common shareholders' equity:  |   |   |  |  |   |   |  |  |
| Common stock and related surplus  | \$10,246  | \$10,246  | \$10,295   | \$10,295   | \$10,924  | \$10,924  | \$10,867   | \$10,867   |
| Retained earnings   | 15,795  | 15,795  | 14,882   | 14,882   | 10,886  | 10,886  | 9,416  | 9,416  |
| Accumulated other comprehensive income (loss)   | (1,177 )  | (1,177 )  | (641 )   | (641 )   | (1,011 )  | (1,011 )  | (535 )   | (535 )   |
| Treasury stock, at cost   | (6,143 )  | (6,143 )  | (5,158 )   | (5,158 )   | —   | —   | —  | —  |
| Total   | 18,721  | 18,721  | 19,378   | 19,378   | 20,799  | 20,799  | 19,748   | 19,748   |
| Regulatory capital adjustments:   |   |   |  |  |   |   |  |  |
| Goodwill and other intangible assets, net of associated deferred tax liabilities <sup>(4)</sup> | (5,987 )  | (5,987 )  | (5,869 )   | (5,869 )   | (5,687 )  | (5,687 )  | (5,577 )   | (5,577 )   |
| Other adjustments   | (62 )   | (62 )   | (36 )  | (36 )  | (92 )   | (92 )   | (128 )   | (128 )   |
| Common equity tier 1 capital  | 12,672  | 12,672  | 13,473   | 13,473   | 15,020  | 15,020  | 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   | (94 )   | (94 )   | (145 )   | (145 )   | —   | —   | —  | —  |
| Tier 1 capital  | 15,518  | 15,518  | 15,764   | 15,764   | 15,020  | 15,020  | 14,043   | 14,043   |
| Qualifying subordinated   | 1,438   | 1,438   | 1,618  | 1,618  | 1,452   | 1,452   | 1,634  | 1,634  |

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|   |                             |                             |                             |                             |                             |                             |                             |                             |                             |       |
|---|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-------|
| long-term debt  |                             |                             |                             |                             |                             |                             |                             |                             |                             |       |
| Trust preferred capital securities phased out of tier 1 capital | 713                         | 713                         | 475                         | 475                         | —                           | —                           | —                           | —                           |                             |       |
| ALLL and other  | 12                          | 69                          | —                           | —                           | 9                           | 69                          | —                           | —                           |                             |       |
| Other adjustments   | 2                           | 2                           | 4                           | 4                           | —                           | —                           | —                           | —                           |                             |       |
| Total capital   | \$ 17,683                   | \$ 17,740                   | \$ 17,861                   | \$ 17,861                   | \$ 16,481                   | \$ 16,541                   | \$ 15,677                   | \$ 15,677                   |                             |       |
| Risk-weighted assets:   |                             |                             |                             |                             |                             |                             |                             |                             |                             |       |
| Credit risk   | \$ 55,914                   | \$ 103,004                  | \$ 66,874                   | \$ 87,502                   | \$ 50,936                   | \$ 97,803                   | \$ 59,836                   | \$ 84,433                   |                             |       |
| Operational risk  | 44,014                      | NA                          | 35,866                      | NA                          | 43,413                      | NA                          | 35,449                      | NA                          |                             |       |
| Market risk <sup>(5)</sup>                                      | 4,437                       | 2,761                       | 5,087                       | 2,910                       | 4,397                       | 2,761                       | 5,048                       | 2,909                       |                             |       |
| Total risk-weighted assets                                      | \$ 104,365                  | \$ 105,765                  | \$ 107,827                  | \$ 90,412                   | \$ 98,746                   | \$ 100,564                  | \$ 100,333                  | \$ 87,342                   |                             |       |
| Adjusted quarterly average assets                               | \$ 244,553                  | \$ 244,553                  | \$ 247,740                  | \$ 247,740                  | \$ 239,610                  | \$ 239,610                  | \$ 243,549                  | \$ 243,549                  |                             |       |
| Capital Ratios:   | Minimum Requirements (2015) | Minimum Requirements (2015) | Minimum Requirements (2015) | Minimum Requirements (2015) | Minimum Requirements (2015) | Minimum Requirements (2015) | Minimum Requirements (2015) | Minimum Requirements (2015) | Minimum Requirements (2015) |       |
| Common equity tier 1 capital                                    | 4.5%                        | 4.0%                        | 12.1%                       | 12.0%                       | 12.5%                       | 14.9%                       | 15.2%                       | 14.9%                       | 14.0%                       | 16.1% |
| Tier 1 capital  | 6.0%                        | 5.5%                        | 14.9%                       | 14.7%                       | 14.6%                       | 17.4%                       | 15.2%                       | 14.9%                       | 14.0%                       | 16.1% |
| Total capital   | 8.0%                        | 8.0%                        | 16.9%                       | 16.8%                       | 16.6%                       | 19.8%                       | 16.7%                       | 16.4%                       | 15.6%                       | 17.9% |
| Tier 1 leverage   | 4.0%                        | 4.0%                        | 6.3%                        | 6.3%                        | 6.4%                        | 6.4%                        | 6.3%                        | 6.3%                        | 5.8%                        | 5.8%  |

NA: Not applicable.

<sup>(1)</sup> Common equity tier 1 capital, tier 1 capital and total capital ratios as of September 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 September 30, 2015 and December 31, 2014 were calculated in conformity with the Basel III final rule.

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

<sup>(3)</sup> 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.

<sup>(4)</sup> Amounts for State Street and State Street Bank as of September 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 September 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.

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Note 12. Derivative Financial Instruments

We use derivative financial instruments to support our clients' needs and to manage our interest-rate and currency risk. In undertaking these activities, we assume positions in both the foreign exchange and interest-rate markets by buying and selling cash instruments and using derivative financial instruments, including foreign exchange forward contracts, foreign exchange and interest-rate options and interest-rate swaps, interest-rate forward contracts and interest-rate futures. For information on our derivative instruments, including the related accounting policies, refer to note 16 on pages 173 to 179 in the 2014 Form 10-K.

Derivative financial instruments are also subject to credit and counterparty risk, which we manage by performing credit reviews, maintaining individual counterparty limits, entering into netting arrangements and requiring the receipt of collateral. Cash collateral received from and provided to counterparties in connection with derivative financial instruments is recorded in accrued expenses and other liabilities and other assets, respectively, in our consolidated statement of condition. As of September 30, 2015 and December 31, 2014, we had recorded approximately \$1.45 billion and \$1.79 billion, respectively, of cash collateral received from counterparties and approximately \$2.50 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 September 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 September 30, 2015 totaled approximately \$1.41 billion, against which we had \$14 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 September 30, 2015 was approximately \$1.39 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

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## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## (UNAUDITED)

weighted-average life of approximately 5.4 years as of September 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 seven senior notes and two subordinated notes from fixed rates to floating rates. The senior notes mature in 2017, 2018, 2020, 2021, 2023, 2024 and 2025 and pay fixed interest at annual rates of 5.38%, 1.35%, 2.55%, 4.38%, 3.70%, 3.30% and 3.55%, respectively. The subordinated notes mature in 2018 and 2023 and pay 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)                                      | September 30,<br>2015 | December 31,<br>2014 |
|--|-----------------------|----------------------|
| Derivatives not designated as hedging instruments: |                       |                      |
| Interest-rate contracts:                           |                       |                      |
| Swap agreements and forwards                       | \$360                 | \$645                |
| Options and caps purchased                         | 1                     | 7                    |
| Options and caps written                           | 1                     | 7                    |
| Futures  | 16,078                | 3,939                |
| Foreign exchange contracts:                        |                       |                      |
| Forward, swap and spot                             | 1,345,774             | 1,231,344            |
| Options purchased                                  | 989                   | 2,767                |
| Options written                                    | 938                   | 2,404                |
| Credit derivative contracts:                       |                       |                      |
| Credit swap agreements                             | 37                    | 191                  |
| Commodity and equity contracts:                    |                       |                      |
| Commodity <sup>(1)</sup>                           | 138                   | 26                   |
| Equity <sup>(1)</sup>                              | 53                    | 2                    |
| Other:   |                       |                      |
| Stable value contracts                             | 23,588                | 23,409               |
| Deferred value awards <sup>(2)</sup>               | 351                   | 210                  |
| Derivatives designated as hedging instruments:     |                       |                      |
| Interest-rate contracts:                           |                       |                      |
| Swap agreements                                    | 9,407                 | 6,077                |
| Foreign exchange contracts:                        |                       |                      |
| Forward and swap                                   | 13,052                | 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."

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## 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:

|  |                                   |
|--|-----------------------------------|
|  | September 30, 2015 <sup>(1)</sup> |
| (In millions)                            | Fair Value Hedges                 |
| Investment securities available for sale | \$1,707                           |
| Long-term debt <sup>(2)</sup>            | 7,700                             |
| Total                                    | \$9,407                           |
|  | December 31, 2014                 |
| (In millions)                            | Fair Value Hedges                 |
| Investment securities available for sale | \$2,577                           |
| Long-term debt <sup>(2)</sup>            | 3,500                             |
| Total                                    | \$6,077                           |

<sup>(1)</sup> As of September 30, 2015 there were no interest-rate contracts designated as cash flow hedges.

<sup>(2)</sup> As of September 30, 2015, these fair value hedges increased the carrying value of long-term debt presented in our consolidated statement of condition by \$217 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 September 30, |                                 |                   |                                 |
|----------------|----------------------------------|---------------------------------|-------------------|---------------------------------|
|                | 2015                             |                                 | 2014              |                                 |
|                | Contractual Rates                | Rate Including Impact of Hedges | Contractual Rates | Rate Including Impact of Hedges |
| Long-term debt | 3.59                             | % 2.35                          | 3.44              | % 2.64                          |
|                | Nine Months Ended September 30,  |                                 |                   |                                 |
|                | 2015                             |                                 | 2014              |                                 |
|                | Contractual Rates                | Rate Including Impact of Hedges | Contractual Rates | Rate Including Impact of Hedges |
| Long-term debt | 3.60                             | % 2.51                          | 3.45              | % 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<sup>(1)</sup>

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

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|  |          |          |
|--|----------|----------|
| Foreign exchange contracts                     | \$10,102 | \$14,626 |
| Interest-rate contracts                        | 3        | 15       |
| Other derivative contracts                     | 5        | 2        |
| Total  | \$10,110 | \$14,643 |
| Derivatives designated as hedging instruments: |          |          |
| Foreign exchange contracts                     | \$632    | \$509    |
| Interest-rate contracts                        | 229      | 62       |
| Total  | \$861    | \$571    |

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

Derivative Liabilities<sup>(1)</sup>

| (In millions)                                      | Fair Value         |                   |
|--|--------------------|-------------------|
|  | September 30, 2015 | December 31, 2014 |
| Derivatives not designated as hedging instruments: |                    |                   |
| Foreign exchange contracts                         | \$10,269           | \$14,922          |
| Other derivative contracts                         | 105                | 70                |
| Interest-rate contracts                            | 2                  | 16                |
| Total  | \$10,376           | \$15,008          |
| Derivatives designated as hedging instruments:     |                    |                   |
| Interest-rate contracts                            | \$205              | \$223             |
| Foreign exchange contracts                         | 28                 | 3                 |
| Total  | \$233              | \$226             |

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

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## 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 September 30,   |       | Nine Months Ended September 30, |       |
| (In millions)                                      |   | 2015   | 2014  | 2015                            | 2014  |
| Derivatives not designated as hedging instruments: |   |  |       |                                 |       |
| Foreign exchange contracts                         | Trading services revenue  | \$177  | \$163 | \$546                           | \$441 |
| Interest-rate contracts                            | Trading services revenue  | —  | 1     | (1)                             | —     |
| Credit derivative contracts                        | Processing fees and other revenue   | —  | —     | —                               | (1)   |
| Other derivative contracts                         | Trading services revenue  | (1)  | 1     | 1                               | 1     |
| Total  |   | \$176  | \$165 | \$546                           | \$441 |

|  | Location of (Gain) Loss on Derivative in Consolidated Statement of Income | Amount of (Gain) Loss on Derivative Recognized in Consolidated Statement of Income |      |                                 |      |
|--|---|--|------|---------------------------------|------|
|  |   | Three Months Ended September 30,   |      | Nine Months Ended September 30, |      |
| (In millions)                                      |   | 2015   | 2014 | 2015                            | 2014 |
| Derivatives not designated as hedging instruments: |   |  |      |                                 |      |
| Other derivative contracts                         | Compensation and employee benefits  | \$28   | \$18 | \$121                           | \$89 |
| Total  |   | \$28   | \$18 | \$121                           | \$89 |

|  | Location of Gain (Loss) on Derivative in Consolidated Statement of Income | Amount of Gain (Loss) on Derivative Recognized in Consolidated Statement of Income |                                      | Hedged Item in Fair Value Hedging Relationship | Location of Gain (Loss) on Hedged Item in Consolidated Statement of Income | Amount of Gain (Loss) on Hedged Item Recognized in Consolidated Statement of Income |                                      |
|--|---|--|--------------------------------------|--|--|---|--------------------------------------|
|  |   | Three Months Ended September 30, 2015  | Nine Months Ended September 30, 2015 |  |  | Three Months Ended September 30, 2015   | Nine Months Ended September 30, 2015 |
| (In millions)                                |   |  |                                      |  |  |   |                                      |
| Derivatives designated as fair value hedges: |   |  |                                      |  |  |   |                                      |
| Foreign exchange contracts                   | Processing fees and other revenue   | \$(80)   | \$(132)                              | Investment securities                          | Processing fees and other revenue  | \$80  | \$132                                |
| Foreign exchange contracts                   | Processing fees and other revenue   | (13)   | 102                                  | FX deposit                                     | Processing fees and other revenue  | 13  | (102)                                |
| Interest-rate contracts                      | Processing fees and other revenue   | (25)   | (13)                                 | Available-for-sale securities                  | Processing fees and other revenue <sup>(1)</sup>                           | 26  | 14                                   |

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|  |   |  |                    |  |  |   |     |                    |    |
|--|---|--|--------------------|--|--|---|-----|--------------------|----|
| Interest-rate contracts                      | Processing fees and other revenue   | 182  | 165                | Long-term debt                                 | Processing fees and other revenue  | (176  | )   | (159               | )  |
| Total  |   | \$64   | \$122              |  |  | \$(57   | )   | \$(115             | )  |
|  | 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   | Nine Months Ended  |  |  | Three Months Ended  |     | Nine Months Ended  |    |
| (In millions)                                |   | September 30, 2014   | September 30, 2014 |  |  | September 30, 2014  |     | September 30, 2014 |    |
| Derivatives designated as fair value hedges: |   |  |                    |  |  |   |     |                    |    |
| Foreign exchange contracts                   | Processing fees and other revenue   | \$(82  | )                  | Investment securities                          | Processing fees and other revenue  | \$82  |     | \$22               |    |
| Interest-rate contracts                      | Processing fees and other revenue   | 24   | (17                | )  | Available-for-sale securities  | Processing fees and other revenue <sup>(1)</sup>                                    | (23 | )                  | 15 |
| Interest-rate contracts                      | Processing fees and other revenue   | (8   | )                  | Long-term debt                                 | Processing fees and other revenue  | 9   |     | (80                | )  |
| Total  |   | \$(66  | )                  |  |  | \$68  |     | \$(43              | )  |

<sup>(1)</sup> Represents amounts reclassified out of or into other comprehensive income, or OCI. For the three and nine months ended September 30, 2015, \$16 million and \$9 million, respectively, of unrealized losses on available-for-sale securities designated in fair value hedges were recognized in OCI. For the three and nine months ended September 30, 2014, \$14 million and \$9 million, respectively, of unrealized gains and losses, respectively, on available-for-sale securities designated in fair value hedges were recognized in OCI.

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## 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 |                                      |
|---|--|--------------------------------------|---|---|--------------------------------------|--|--|--------------------------------------|
|   | Three Months Ended September 30, 2015  | Nine Months Ended September 30, 2015 |   | Three Months Ended September 30, 2015   | Nine Months Ended September 30, 2015 |  | Three Months Ended September 30, 2015  | Nine Months Ended September 30, 2015 |
| Derivatives designated as cash flow hedges: |  |                                      |   |   |                                      |  |  |                                      |
| Interest-rate contracts                     | \$—  | \$—                                  | Net interest revenue  | \$(1 )  | \$(3 )                               | Net interest revenue   | \$—  | \$—                                  |
| Foreign exchange contracts                  | 40   | 81                                   | Net interest revenue  | —   | —                                    | Net interest revenue   | 2  | 6                                    |
| Total                                       | \$40   | \$81                                 |   | \$(1 )  | \$(3 )                               |  | \$2  | \$6                                  |
|   |  |                                      |   |   |                                      |  |  |                                      |
| (In millions)                               | Amount of Gain (Loss) on Derivative Recognized in Other Comprehensive Income |                                      | Location of Gain (Loss) Reclassified from OCI to Consolidated Statement of Income | Amount of Gain (Loss) Reclassified from OCI to Consolidated Statement of Income |                                      | Location of Gain (Loss) on Derivative Recognized in Consolidated Statement of Income | Amount of Gain (Loss) on Derivative Recognized in Consolidated Statement of Income |                                      |
|   | Three Months Ended September 30, 2014  | Nine Months Ended September 30, 2014 |   | Three Months Ended September 30, 2014   | Nine Months Ended September 30, 2014 |  | Three Months Ended September 30, 2014  | Nine Months Ended September 30, 2014 |
| Derivatives designated as cash flow hedges: |  |                                      |   |   |                                      |  |  |                                      |
| Interest-rate contracts                     | \$(1 )   | \$(3 )                               | Net interest revenue  | \$(1 )  | \$(3 )                               | Net interest revenue   | \$1  | \$3                                  |
| Foreign exchange contracts                  | 92   | 28                                   | Net interest revenue  | —   | —                                    | Net interest revenue   | 2  | 4                                    |



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|       |      |      |        |        |     |     |
|-------|------|------|--------|--------|-----|-----|
| Total | \$91 | \$25 | \$(1 ) | \$(3 ) | \$3 | \$7 |
|-------|------|------|--------|--------|-----|-----|

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## 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 September 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 \$8.56 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 \$6.54 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:<br><br>(In millions)                              | September 30, 2015   |   |   | December 31, 2014  |   |   |
|---|--|---|---|--|---|---|
|   | Gross<br>Amounts of<br>Recognized<br>Assets <sup>(1)</sup> | Gross<br>Amounts<br>Offset in<br>Statement of<br>Condition <sup>(2)</sup> | Net Amounts<br>of Assets<br>Presented in<br>Statement of<br>Condition | Gross<br>Amounts of<br>Recognized<br>Assets <sup>(1)</sup> | Gross<br>Amounts<br>Offset in<br>Statement of<br>Condition <sup>(2)</sup> | Net Amounts<br>of Assets<br>Presented in<br>Statement of<br>Condition |
| Derivatives:  |  |   |   |  |   |   |
| Foreign exchange contracts                                | \$10,734   | \$(4,729)   | ) \$6,005   | \$15,135   | \$(6,275)   | ) \$8,860   |
| Interest-rate contracts                                   | 232  | (9)   | ) 223   | 77   | (21)  | ) 56  |
| Equity derivative contracts                               | 1  | (1)   | ) —   | —  | —   | ) —   |
| Other derivative contracts                                | 4  | (3)   | ) 1   | 2  | (1)   | ) 1   |
| Cash collateral netting                                   | —  | (842)   | ) (842)   | ) —  | (983)   | ) (983)   |
| Total derivatives   | \$10,971   | \$(5,584)   | ) \$5,387   | \$15,214   | \$(7,280)   | ) \$7,934   |
| Other financial instruments:                              |  |   |   |  |   |   |
| Resale agreements and securities borrowing <sup>(3)</sup> | \$67,065   | \$(36,705)  | ) \$30,360  | \$47,488   | \$(29,157)  | ) \$18,331  |
| Total derivatives and other financial instruments         | \$78,036   | \$(42,289)  | ) \$35,747  | \$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 \$30,360 million as of September 30, 2015 were \$9,155 million of resale agreements and \$21,205 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.

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## STATE STREET CORPORATION

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

| (In millions)                                       | September 30, 2015   |                         |                        |                              | December 31, 2014  |                         |                        |                              |
|---|--|-------------------------|------------------------|------------------------------|--|-------------------------|------------------------|------------------------------|
|   | Net Amount<br>of Assets<br>Presented in<br>Statement of<br>Condition | Counterparty<br>Netting | Collateral<br>Received | Net<br>Amount <sup>(2)</sup> | Net Amount<br>of Assets<br>Presented in<br>Statement of<br>Condition | Counterparty<br>Netting | Collateral<br>Received | Net<br>Amount <sup>(2)</sup> |
| Derivatives   | \$5,387  | \$—                     | \$(410 )               | \$4,977                      | \$7,934  | \$—                     | \$(1,490 )             | \$6,444                      |
| Resale<br>agreements<br>and securities<br>borrowing | 30,360   | (48 )                   | (29,780 )              | 532                          | 18,331   | (128 )                  | (18,157 )              | 46                           |
| Total   | \$35,747   | \$(48 )                 | \$(30,190 )            | \$5,509                      | \$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)  | September 30, 2015  |   |  | December 31, 2014   |   |  |
|--|---|---|--|---|---|--|
|  | Gross<br>Amounts of<br>Recognized<br>Liabilities <sup>(1)</sup> | Gross<br>Amounts<br>Offset in<br>Statement of<br>Condition <sup>(2)</sup> | Net Amounts<br>of Liabilities<br>Presented in<br>Statement of<br>Condition | Gross<br>Amounts of<br>Recognized<br>Liabilities <sup>(1)</sup> | Gross<br>Amounts<br>Offset in<br>Statement of<br>Condition <sup>(2)</sup> | Net Amounts<br>of Liabilities<br>Presented in<br>Statement of<br>Condition |
| Derivatives:   |   |   |  |   |   |  |
| Foreign exchange<br>contracts                                  | \$10,297  | \$(4,729 )  | \$5,568  | \$14,925  | \$(6,275 )  | \$8,650  |
| Interest-rate contracts  | 207   | (9 )  | 198  | 239   | (20 )   | 219  |
| Equity derivative<br>contracts                                 | 1   | (1 )  | —  | —   | —   | —  |
| Other derivative<br>contracts                                  | 104   | (3 )  | 101  | 70  | (1 )  | 69   |
| Cash collateral netting  | —   | (1,751 )  | (1,751 )   | —   | (2,630 )  | (2,630 )   |
| Total derivatives  | \$10,609  | \$(6,493 )  | \$4,116  | \$15,234  | \$(8,926 )  | \$6,308  |
| Other financial instruments:                                   |   |   |  |   |   |  |
| Repurchase agreements<br>and securities lending <sup>(3)</sup> | \$48,002  | \$(36,705 )   | \$11,297   | \$44,562  | \$(29,157 )   | \$15,405   |
| Total derivatives and<br>other financial<br>instruments        | \$58,611  | \$(43,198 )   | \$15,413   | \$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 \$11,297 million as of September 30, 2015 were \$7,760 million of repurchase agreements and \$3,537 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.

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## STATE STREET CORPORATION

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## (UNAUDITED)

| (In millions)  | September 30, 2015  |                         |                        | December 31, 2014            |   |                         |                        |                              |
|--|---|-------------------------|------------------------|------------------------------|---|-------------------------|------------------------|------------------------------|
|  | Net Amount<br>of Liabilities<br>Presented in<br>Statement of<br>Condition | Counterparty<br>Netting | Collateral<br>Provided | Net<br>Amount <sup>(2)</sup> | Net Amount<br>of Liabilities<br>Presented in<br>Statement of<br>Condition | Counterparty<br>Netting | Collateral<br>Provided | Net<br>Amount <sup>(2)</sup> |
| Derivatives  | \$4,116   | \$—                     | \$(58)                 | \$4,058                      | \$6,308   | \$—                     | \$(19)                 | \$6,289                      |
| Repurchase<br>agreements<br>and<br>securities<br>lending | 11,297  | (48)                    | (9,053)                | 2,196                        | 15,405  | (128)                   | (13,872)               | 1,405                        |
| Total  | \$15,413  | \$(48)                  | \$(9,111)              | \$6,254                      | \$21,713  | \$(128)                 | \$(13,891)             | \$7,694                      |

<sup>(1)</sup> Amounts subject to netting arrangements which have been determined to be legally enforceable.

<sup>(2)</sup> 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 September 30, 2015:

| (In millions)   | September 30, 2015                       |                              |                                 |                     |
|---|--|------------------------------|---------------------------------|---------------------|
|   | Remaining<br>Overnight and<br>Continuous | Contractual<br>Up to 30 days | Maturity of the<br>30 – 90 days | Agreements<br>Total |
| Repurchase agreements   |  |                              |                                 |                     |
| US Treasury and agency securities   | \$39,883                                 | \$—                          | \$—                             | \$39,883            |
| Non-US sovereign debt   | —  | 178                          | —                               | 178                 |
| Total   | \$39,883                                 | \$178                        | \$—                             | \$40,061            |
| Securities lending transactions   |  |                              |                                 |                     |
| Equity securities   | 7,435                                    | —                            | 506                             | 7,941               |
| Total   | \$7,435                                  | \$—                          | \$506                           | \$7,941             |
| Gross amount of recognized liabilities for repurchase agreements and securities lending | \$47,318                                 | \$178                        | \$506                           | \$48,002            |



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## 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 September 30, |       | Nine Months Ended September 30, |         |
|--|----------------------------------|-------|---------------------------------|---------|
|  | 2015                             | 2014  | 2015                            | 2014    |
| Interest revenue:                            |                                  |       |                                 |         |
| Deposits with banks                          | \$53                             | \$53  | \$161                           | \$138   |
| Investment securities:                       |                                  |       |                                 |         |
| U.S. Treasury and federal agencies           | 178                              | 165   | 537                             | 493     |
| State and political subdivisions             | 57                               | 58    | 173                             | 173     |
| Other investments                            | 227                              | 320   | 733                             | 957     |
| Securities purchased under resale agreements | 18                               | 9     | 45                              | 27      |
| Loans and leases                             | 79                               | 64    | 229                             | 183     |
| Other interest-earning assets                | 2                                | 2     | 7                               | 5       |
| Total interest revenue                       | 614                              | 671   | 1,885                           | 1,976   |
| Interest expense:                            |                                  |       |                                 |         |
| Deposits                                     | 28                               | 33    | 67                              | 66      |
| Short-term borrowings                        | 1                                | —     | 5                               | 4       |
| Long-term debt                               | 62                               | 60    | 185                             | 186     |
| Other interest-bearing liabilities           | 10                               | 8     | 34                              | 34      |
| Total interest expense                       | 101                              | 101   | 291                             | 290     |
| Net interest revenue                         | \$513                            | \$570 | \$1,594                         | \$1,686 |

## 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 September 30, |      | Nine Months Ended September 30, |      |
|---|----------------------------------|------|---------------------------------|------|
|   | 2015                             | 2014 | 2015                            | 2014 |
| Acquisition costs                         | \$7                              | \$12 | \$15                            | \$48 |
| Restructuring charges, net                | 3                                | 8    | 4                               | 33   |
| Total acquisition and restructuring costs | \$10                             | \$20 | \$19                            | \$81 |

## Acquisition Costs

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

## Restructuring Charges

In the nine months ended September 30, 2015, we recorded net restructuring charges of \$4 million compared to \$33 million in the nine months ended September 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 | (4    | ) | (4   | ) | —   |   | (8   | ) |
| Additional accruals for 2012 expense control measures   | —     |   | —    |   | 11  |   | 11   |   |
| Payments and adjustments  | (21   | ) | (8   | ) | (13 | ) | (42  | ) |
| Balance as of September 30, 2015  | \$15  |   | \$12 |   | \$5 |   | \$32 |   |

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.

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## 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:

| (Dollars in millions, except per share amounts)   | Three Months Ended September 30, |         |
|---|----------------------------------|---------|
|   | 2015                             | 2014    |
| Net income  | \$585                            | \$560   |
| Less:   |                                  |         |
| Preferred stock dividends   | (42                              | ) (18   |
| Dividends and undistributed earnings allocated to participating securities <sup>(1)</sup> | —                                | —       |
| Net income available to common shareholders   | \$543                            | \$542   |
| Average common shares outstanding (in thousands):   |                                  |         |
| Basic average common shares   | 406,612                          | 421,974 |
| Effect of dilutive securities: common stock options and common stock awards               | 5,555                            | 7,762   |
| Diluted average common shares   | 412,167                          | 429,736 |
| Anti-dilutive securities <sup>(2)</sup>   | 619                              | 876     |
| Earnings per Common Share:  |                                  |         |
| Basic   | \$1.34                           | \$1.28  |
| Diluted <sup>(3)</sup>  | 1.32                             | 1.26    |
| (Dollars in millions, except per share amounts)   | Nine Months Ended September 30,  |         |
|   | 2015                             | 2014    |
| Net income  | \$1,416                          | \$1,545 |
| Less:   |                                  |         |
| Preferred stock dividends   | (102                             | ) (43   |
| Dividends and undistributed earnings allocated to participating securities <sup>(1)</sup> | (1                               | ) (2    |
| Net income available to common shareholders   | \$1,313                          | \$1,500 |
| Average common shares outstanding (in thousands):   |                                  |         |
| Basic average common shares   | 409,816                          | 426,775 |
| Effect of dilutive securities: common stock options and common stock awards               | 5,956                            | 7,735   |
| Diluted average common shares   | 415,772                          | 434,510 |
| Anti-dilutive securities <sup>(2)</sup>   | 675                              | 1,502   |
| Earnings per Common Share:  |                                  |         |
| Basic   | \$3.20                           | \$3.52  |
| Diluted <sup>(3)</sup>  | 3.16                             | 3.45    |

(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.

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## STATE STREET CORPORATION

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

|  | Three Months Ended September 30, |         |                       |       |         |          |         |         |
|--|----------------------------------|---------|-----------------------|-------|---------|----------|---------|---------|
|  | Investment Servicing             |         | Investment Management |       | Other   |          | Total   |         |
|  | 2015                             | 2014    | 2015                  | 2014  | 2015    | 2014     | 2015    | 2014    |
| (Dollars in millions, except where otherwise noted)  |                                  |         |                       |       |         |          |         |         |
| Servicing fees                                       | \$1,294                          | \$1,302 | \$—                   | \$—   | \$—     | \$—      | \$1,294 | \$1,302 |
| Management fees                                      | —                                | —       | 287                   | 316   | —       | —        | 287     | 316     |
| Trading services                                     | 283                              | 266     | 11                    | 12    | —       | —        | 294     | 278     |
| Securities finance                                   | 113                              | 99      | —                     | —     | —       | —        | 113     | 99      |
| Processing fees and other                            | 131                              | 25      | (11 )                 | (8 )  | —       | —        | 120     | 17      |
| Total fee revenue                                    | 1,821                            | 1,692   | 287                   | 320   | —       | —        | 2,108   | 2,012   |
| Net interest revenue                                 | 514                              | 566     | (1 )                  | 4     | —       | —        | 513     | 570     |
| Gains (losses) related to investment securities, net | (2 )                             | —       | —                     | —     | —       | —        | (2 )    | —       |
| Total revenue  | 2,333                            | 2,258   | 286                   | 324   | —       | —        | 2,619   | 2,582   |
| Provision for loan losses                            | 5                                | 2       | —                     | —     | —       | —        | 5       | 2       |
| Total expenses                                       | 1,673                            | 1,642   | 204                   | 236   | 85      | 14       | 1,962   | 1,892   |
| Income before income tax expense                     | \$655                            | \$614   | \$82                  | \$88  | \$(85 ) | \$(14 )  | \$652   | \$688   |
| Pre-tax margin                                       | 28 %                             | 27 %    | 29 %                  | 27 %  |         |          | 25 %    | 27 %    |
| Nine Months Ended September 30,                      |                                  |         |                       |       |         |          |         |         |
|  | Investment Servicing             |         | Investment Management |       | Other   |          | Total   |         |
|  | 2015                             | 2014    | 2015                  | 2014  | 2015    | 2014     | 2015    | 2014    |
| (Dollars in millions, except where otherwise noted)  |                                  |         |                       |       |         |          |         |         |
| Servicing fees                                       | \$3,892                          | \$3,828 | \$—                   | \$—   | \$—     | \$—      | \$3,892 | \$3,828 |
| Management fees                                      | —                                | —       | 892                   | 908   | —       | —        | 892     | 908     |
| Trading services                                     | 869                              | 756     | 30                    | 35    | —       | —        | 899     | 791     |
| Securities finance                                   | 369                              | 331     | —                     | —     | —       | —        | 369     | 331     |
| Processing fees and other                            | 212                              | 122     | (14 )                 | (5 )  | —       | —        | 198     | 117     |
| Total fee revenue                                    | 5,342                            | 5,037   | 908                   | 938   | —       | —        | 6,250   | 5,975   |
| Net interest revenue                                 | 1,593                            | 1,675   | 1                     | 11    | —       | —        | 1,594   | 1,686   |
| Gains (losses) related to investment securities, net | (6 )                             | 4       | —                     | —     | —       | —        | (6 )    | 4       |
| Total revenue  | 6,929                            | 6,716   | 909                   | 949   | —       | —        | 7,838   | 7,665   |
| Provision for loan losses                            | 11                               | 6       | —                     | —     | —       | —        | 11      | 6       |
| Total expenses                                       | 5,389                            | 4,907   | 711                   | 706   | 93      | 157      | 6,193   | 5,770   |
| Income before income tax expense                     | \$1,529                          | \$1,803 | \$198                 | \$243 | \$(93 ) | \$(157 ) | \$1,634 | \$1,889 |
| Pre-tax margin                                       | 22 %                             | 27 %    | 22 %                  | 26 %  |         |          | 21 %    | 25 %    |



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## 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, assumptions and other judgments are applied to quantify the financial

results and assets related to our non-U.S. activities, including our application of funds transfer pricing, our asset-and-liability management policies and our allocation of certain indirect corporate expenses. Management periodically reviews and updates its processes for quantifying the financial results and assets related to our non-U.S. activities.

The following table presents our U.S. and non-U.S. financial results for the periods indicated.

| (In millions)              | Three Months Ended September 30,<br>2015 |         |         | Three Months Ended September 30, 2014 |         |         |
|----------------------------|--|---------|---------|---------------------------------------|---------|---------|
|                            | Non-U.S.                                 | U.S.    | Total   | Non-U.S.                              | U.S.    | Total   |
| Total revenue              | \$1,173                                  | \$1,446 | \$2,619 | \$1,181                               | \$1,401 | \$2,582 |
| Income before income taxes | 341                                      | 311     | 652     | 385                                   | 303     | 688     |
| (In millions)              | Nine Months Ended September 30,<br>2015  |         |         | Nine Months Ended September 30, 2014  |         |         |
|                            | Non-U.S.                                 | U.S.    | Total   | Non-U.S.                              | U.S.    | Total   |
| Total revenue              | \$3,470                                  | \$4,368 | 7,838   | \$3,454                               | \$4,211 | \$7,665 |
| Income before income taxes | 1,033                                    | 601     | 1,634   | 987                                   | 902     | 1,889   |

Non-U.S. assets were \$63.3 billion and \$57.9 billion as of September 30, 2015 and 2014, respectively.

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REVIEW REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Shareholders and Board of Directors of  
State Street Corporation

We have reviewed the consolidated statement of condition of State Street Corporation (the "Corporation") as of September 30, 2015, and the related consolidated statements of income and comprehensive income for the three- and nine-month periods ended September 30, 2015 and 2014, and changes in shareholders' equity, and cash flows for the nine-month periods ended September 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 we expressed an unqualified audit opinion on those consolidated financial statements in our report dated February 20, 2015. 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  
November 6, 2015

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## 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 September 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,<br>shares in thousands) | Total Number<br>of Shares<br>Purchased<br>Under<br>Publicly<br>Announced<br>Program | Average<br>Price Paid<br>Per Share | Approximate<br>Dollar Value<br>of Shares<br>Purchased<br>Under Publicly<br>Announced<br>Program | Approximate<br>Dollar Value<br>of Shares Yet<br>to be<br>Purchased<br>Under<br>Publicly<br>Announced<br>Program |
|---|---|------------------------------------|---|---|
| Period:   |   |                                    |   |   |
| July 1 - July 31, 2015  | —   | \$—                                | \$—   | \$1,450   |
| August 1 - August 31, 2015  | 2,366   | 74.00                              | 175   | 1,275   |
| September 1 - September 30, 2015  | 2,467   | 70.91                              | 175   | 1,100   |
| Total   | 4,833   | \$72.43                            | \$350   | \$1,100   |

## ITEM 6. EXHIBITS

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



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SIGNATURES

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

STATE STREET CORPORATION  
(Registrant)

Date: November 6, 2015                      By:                      /s/ MICHAEL W. BELL  
Michael W. Bell,  
Executive Vice President and Chief Financial Officer (Principal  
Financial Officer)

Date: November 6, 2015                      By:                      /s/ SEAN P. NEWTH  
Sean P. Newth,  
Senior Vice President, Chief Accounting Officer and Controller  
(Principal Accounting Officer)

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EXHIBIT INDEX

|           |  |
|-----------|--|
| 3.2       | By-Laws of State Street Corporation, as amended and restated through October 15, 2015 (filed as Exhibit 3.2 to State Street's current report on Form 8-K (File No. 001-07511) filed with the SEC on October 20, 2015 and incorporated herein by reference)   |
| 4.1       | (Note: none of the instruments defining the rights of the holders of State Street's outstanding long-term debt are in respect of indebtedness in excess of 10% of the total assets of State Street and its subsidiaries on a consolidated basis. State Street agrees to furnish to the SEC upon request, a copy of any such instrument with respect to long-term debt of State Street and its subsidiaries.) |
| 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 nine months ended September 30, 2015 and 2014, (ii) consolidated statement of comprehensive income for the three and nine months ended September 30, 2015 and 2014, (iii) consolidated statement of condition as of September 30, 2015 and December 31, 2014, (iv) consolidated statement of changes in shareholders' equity for the nine months ended September 30, 2015 and 2014, (v) consolidated statement of cash flows for the nine months ended September 30, 2015 and 2014, and (vi) condensed notes to consolidated financial statements.