

STATE STREET CORP  
Form 10-Q  
November 06, 2013  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549  
Form 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2013

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 001-07511

STATE STREET CORPORATION

(Exact name of registrant as specified in its charter)

Massachusetts

04-2456637

(State or other jurisdiction of incorporation)

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

One Lincoln Street

02111

Boston, Massachusetts

(Address of principal executive office)

(Zip Code)

617-786-3000

(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer 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, 2013 was 439,001,221.



STATE STREET CORPORATION  
QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTERLY PERIOD ENDED  
SEPTEMBER 30, 2013

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
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GENERAL

State Street Corporation, or the parent company, is a financial holding company headquartered in Boston, Massachusetts. Unless otherwise indicated or unless the context requires otherwise, all references in this Management's Discussion and Analysis to "State Street," "we," "us," "our" or similar terms mean State Street Corporation and its subsidiaries on a consolidated basis. Our principal banking subsidiary is State Street Bank and Trust Company, or State Street Bank. As of September 30, 2013, we had consolidated total assets of \$217.18 billion, consolidated total deposits of \$154.20 billion, consolidated total shareholders' equity of \$20.43 billion and 29,230 employees. With \$26.03 trillion of assets under custody and administration and \$2.24 trillion of assets under management as of September 30, 2013, we are a leading specialist in meeting the needs of institutional investors worldwide.

We have two lines of business:

Investment Servicing provides services for mutual funds, collective investment funds and other investment pools, corporate and public retirement plans, insurance companies, foundations and endowments worldwide. Products include custody, product- and participant-level accounting, daily pricing and administration; master trust and master custody; record-keeping; 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 range of investment management strategies, specialized investment management advisory services and other financial services, such as securities finance, for corporations, public funds, and other sophisticated investors. Management strategies offered by SSgA include passive and active, such as enhanced indexing, using quantitative and fundamental methods for both U.S. and non-U.S. equity and fixed-income securities. SSgA also offers exchange-traded funds, or ETFs.

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 in note 16 to the consolidated financial statements included in this Form 10-Q.

In July 2013, Moody's Investors Service announced that it had placed the long-term ratings of State Street and State Street Bank on review for possible downgrade. Moody's made a similar announcement regarding two other major U.S. trust and custody banks. Other major independent credit rating agencies did not take similar actions. In September 2013, Moody's Investors Service announced that it was continuing to review the long-term ratings of State Street and State Street Bank and the two other major U.S. trust and custody banks. In addition, in August 2013, Moody's also undertook a review of its systemic support assumptions for the eight largest U.S. banks, including State Street.

This Management's Discussion and Analysis is part of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2013, and updates the Management's Discussion and Analysis in our Annual Report on Form 10-K for the year ended December 31, 2012, referred to as our 2012 Form 10-K, and in our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2013 and June 30, 2013, all of which we previously filed with the SEC. You should read the financial information contained in this Management's Discussion and Analysis and elsewhere in this Form 10-Q in conjunction with the financial and other information contained in those reports. Certain previously reported amounts presented in this Form 10-Q have been reclassified to conform to current-period presentation.

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

The significant accounting policies that require us to make estimates and assumptions that are difficult, subjective or complex about matters that are uncertain and may change in subsequent periods are accounting for fair value measurements; other-than-temporary impairment of investment securities; and impairment of goodwill and other

intangible assets. These significant accounting policies require the most subjective or complex judgments, and underlying estimates and assumptions could be subject to revision as new information becomes available. An understanding of the judgments, estimates and assumptions underlying these significant accounting policies is essential in order to understand our reported consolidated results of operations and financial condition.

Additional information about these significant accounting policies is included under “Significant Accounting Estimates” in Management’s Discussion and Analysis in our 2012 Form 10-K. We did not change these significant accounting policies during the first nine months of 2013.

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Certain financial information provided in this Management's Discussion and Analysis is prepared on both a GAAP, or reported basis, and a non-GAAP, or operating basis, including certain non-GAAP measures used in the calculation of identified regulatory capital ratios. We measure and compare certain financial information on an operating basis, as we believe that this presentation supports meaningful comparisons from period to period and the analysis of comparable financial trends with respect to State Street's normal ongoing business operations. We believe that operating-basis financial information, which reports non-taxable revenue, such as interest revenue associated with tax-exempt investment securities, on a fully taxable-equivalent basis, facilitates an investor's understanding and analysis of State Street's underlying financial performance and trends in addition to financial information prepared and reported in conformity with GAAP.

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

FORWARD-LOOKING STATEMENTS

This Form 10-Q (including statements in this Management's Discussion and Analysis), 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 that are considered "forward-looking statements" within the meaning of U.S. securities laws, including statements about industry, regulatory, economic and market trends, management's expectations about our financial performance, capital, market growth, acquisitions, joint ventures and divestitures, new technologies, services and opportunities and earnings, management's confidence in our strategies and other matters that do not relate strictly to historical facts. Terminology such as "plan," "expect," "intend," "forecast," "outlook," "believe," "anticipate," "estimate," "seek," "may," "will," "strategy" and "goal," or similar statements or variations of such terms, are intended to identify forward-looking statements, although not all forward-looking statements contain such terms.

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

- the financial strength and continuing viability of the counterparties with which we or our clients do business and to which we have investment, credit or financial exposure, including, for example, the direct and indirect effects on counterparties of the current sovereign-debt risks in the U.S., Europe and other regions;
- financial market disruptions or economic recession, whether in the U.S., Europe, Asia or other regions;
- increases in the volatility of, or declines in the level of, our net interest revenue, changes in the composition or valuation of the assets recorded in our consolidated statement of condition (and our ability to measure the fair value of investment securities) and the possibility that we may change the manner in which we fund those assets;
- the liquidity of the U.S. and international securities markets, particularly the markets for fixed-income securities and inter-bank credits, and the liquidity requirements of our clients;
- the level and volatility of interest rates and the performance and volatility of securities, credit, currency and other markets in the U.S. and internationally;
- 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, 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 the Dodd-Frank Act, the Basel II and Basel III capital and liquidity standards, and European legislation with respect to the levels of regulatory capital we must maintain, our credit exposure to third parties, margin requirements applicable to derivatives, banking and financial activities and other regulatory initiatives in the U.S. and internationally, including regulatory developments that result in changes to our structure or operating model, increased costs or other changes to how we provide services;

• adverse changes in the regulatory capital ratios that we are required to meet, whether arising under the Dodd-Frank Act,



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the Basel II or Basel III capital and liquidity standards or due to changes in regulatory positions, practices or regulations in jurisdictions in which we engage in banking activities, including changes in internal or external data, formulae, models, assumptions or other advanced systems used in calculating 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 regulators for the use, allocation or distribution of our capital or other specific capital actions or programs, including acquisitions, dividends and equity purchases, without which our growth plans, distributions to shareholders, equity purchase programs or other capital initiatives may be restricted;

changes in law or regulation 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;

our ability to promote a strong culture of risk management, operating controls, compliance oversight and governance that meet our expectations or those of our clients and our regulators;

the credit agency ratings of our debt and depository obligations and investor and client perceptions of our financial strength;

delays or difficulties in the execution of our previously announced Business Operations and Information Technology Transformation program, which could lead to changes in our estimates of the charges, expenses or savings associated with the planned program and may cause volatility of our earnings;

the results of, and costs associated with, government investigations, litigation, and similar claims, disputes, or proceedings;

the possibility that our clients will incur substantial losses in investment pools for which we act as agent, and the possibility of significant reductions in the liquidity or valuation of assets underlying those pools;

adverse publicity or other reputational harm;

dependencies on information technology, complexities and costs of protecting the security of our systems and difficulties with protecting our intellectual property rights;

our ability to grow revenue, control expenses, attract and retain highly skilled people and raise the capital necessary to achieve our business goals and comply with regulatory requirements;

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;

potential changes in how and in what amounts clients compensate us for our services, and the mix of services provided by us that clients choose;

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

our ability to recognize emerging needs of our clients and to develop products that are responsive to such trends and profitable to us, the performance of and demand for the products and services we offer, and the potential for new products and services to impose additional costs on us and expose us to increased operational risk;

our ability to anticipate and manage the level and timing of redemptions and withdrawals from our collateral pools and other collective investment products;

our ability to control operational risks, data security breach risks, information technology systems risks and outsourcing risks, and our ability to protect our intellectual property rights, the possibility of errors in the quantitative models we use to manage our business and the possibility that our controls will prove insufficient, fail or be

circumvented;

• changes 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 2012 Form 10-K. Forward-looking statements 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 consolidated results of operations and financial condition.

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Forward-looking statements should not be viewed as predictions, and should not be the primary basis on which investors evaluate State Street. Any investor in State Street should consider all risks and uncertainties disclosed in our SEC filings, including our filings under the Securities Exchange Act of 1934, in particular our reports on Forms 10-K, 10-Q and 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 our website at [www.statestreet.com](http://www.statestreet.com).

## OVERVIEW OF FINANCIAL RESULTS

	Quarters Ended September 30,			Nine Months Ended September 30,		
(Dollars in millions, except per share amounts)	2013	2012	% Change	2013	2012	% Change
Total fee revenue	\$1,883	\$1,719	10 %	\$5,711	\$5,282	8 %
Net interest revenue	546	619	(12 )	1,718	1,916	(10 )
Gains (losses) related to investment securities, net	(4 )	18		(9 )	2	
Total revenue	2,425	2,356	3	7,420	7,200	3
Provision for loan losses	—	—		—	(1 )	
Total expenses	1,722	1,415	22	5,346	5,022	6
Income before income tax expense	703	941	(25 )	2,074	2,179	(5 )
Income tax expense	163	267		491	588	
Net income	\$540	\$674	(20 )	\$1,583	\$1,591	(1 )
Adjustments to net income:						
Dividends on preferred stock	(7 )	(15 )		(20 )	(29 )	
Earnings allocated to participating securities	(2 )	(5 )		(6 )	(11 )	
Net income available to common shareholders	\$531	\$654		\$1,557	\$1,551	
Earnings per common share:						
Basic	\$1.20	\$1.39		\$3.46	\$3.23	
Diluted	1.17	1.36	(14 )	3.40	3.19	7
Average common shares outstanding (in thousands):						
Basic	442,860	472,355		449,742	479,536	
Diluted	452,154	480,010		458,392	485,813	
Cash dividends declared per common share	\$.26	\$.24		\$.78	\$.72	
Return on average common equity	10.8	% 13.3	%	10.4	% 10.7	%

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
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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 2013 presented in the preceding table. More detailed information about our consolidated financial results, including comparisons of our results for the third quarter of 2013 to those for the third quarter of 2012 and for the nine months ended September 30, 2013 to those for the nine months ended September 30, 2012, is provided under "Consolidated Results of Operations," which follows these sections.

**Highlights**

In the third quarter of 2013, under a program approved by our Board of Directors in March 2013 which authorizes us to purchase up to \$2.10 billion of our common stock through March 31, 2014, we purchased approximately 8.2 million shares of our common stock at an average cost of \$68.57 per share and an aggregate cost of approximately \$560 million. As of September 30, 2013, approximately \$980 million remained available for purchases of our common stock under the March 2013 program. In addition, in the third quarter of 2013, we declared a quarterly common stock dividend of \$0.26 per share, totaling approximately \$115 million, which was paid in October 2013. Additional information about our common stock purchase program and our common stock dividends, as well as our preferred stock dividends, is provided under "Financial Condition – Capital" in this Management's Discussion and Analysis.

In 2011 and 2012 combined, our Business Operations and Information Technology Transformation program generated approximately \$198 million of total pre-tax expense savings compared to our 2010 expenses from operations, all else being equal. In 2013, we expect to achieve incremental pre-tax expense savings of approximately \$220 million compared to our 2010 expense base, all else being equal, or approximately \$418 million of total pre-tax expense savings compared to our 2010 expense base, all else being equal, under the program since its inception at the end of 2010. These pre-tax expense savings relate only to the Business Operations and Information Technology Transformation program and are based on projected improvement from our total 2010 expenses from operations. Our actual total expenses have increased since 2010, and may in the future increase or decrease, due to other factors. Additional information about our Business Operations and Information Technology Transformation program is provided under "Consolidated Results of Operations – Expenses" in this Management's Discussion and Analysis.

**Financial Results**

Total revenue in the third quarter of 2013 increased 3% compared to the third quarter of 2012, as a combined 10% increase in aggregate servicing fee and management fee revenue and a 10% increase in trading services revenue, due to increases in foreign exchange trading, were partly offset by declines in securities finance revenue and net interest revenue of 19% and 12%, respectively.

Servicing fee revenue in the third quarter of 2013 increased 10% compared to the third quarter of 2012, mainly the result of stronger global equity markets, the addition of revenue from the Goldman Sachs Administration Services, or GSAS, business, acquired in October 2012, and the impact of net new business installed. Servicing fees generated outside the U.S. in each of the third quarter of 2013 and the third quarter of 2012 were approximately 42% of total servicing fees for those periods. Management fee revenue increased 10% compared to the third quarter of 2012, primarily the result of stronger equity markets and the impact of net new business installed. Management fees generated outside the U.S. in the third quarter of 2013 and the third quarter of 2012 were approximately 37% and 35%, respectively, of total management fees for those periods.

In the third quarter of 2013, trading services revenue, composed of revenue generated by foreign exchange trading and revenue generated by brokerage and other trading services, increased 10% compared to the third quarter of 2012. Foreign exchange trading revenue was up 28%, with estimated indirect foreign exchange revenue up 33% and direct sales and trading foreign exchange revenue up 23%, from the prior-year quarter, with all increases mainly the result of higher client volumes and currency volatility, as well as higher spreads. Brokerage and other trading services revenue declined 7% compared to the third quarter of 2012, primarily reflecting the impact of lower distribution fees

associated with the SPDR® Gold ETF, which resulted from decreases in gold prices and net outflows of ETF assets. Securities finance revenue declined 19% in the third quarter of 2013 compared to the third quarter of 2012, generally the result of lower spreads and slightly lower lending volumes.

Net interest revenue in the third quarter of 2013 declined 12% compared to the third quarter of 2012, generally the result of lower yields on earning assets related to lower global interest rates, partly offset by lower funding costs. The decline in net interest revenue also reflected the continued impact of the reinvestment of paydowns on existing investment securities in lower-yielding investment securities. Net interest revenue in the third quarter of 2013 and the third quarter of 2012 included \$28 million and \$40 million, respectively, of discount accretion related to investment securities added to our consolidated statement of condition in connection with the consolidation of the commercial paper conduits in 2009.

Net interest margin, calculated on fully taxable-equivalent net interest revenue, declined 20 basis points to 1.33% in the third quarter of 2013 from 1.53% in the third quarter of 2012. Continued elevated levels of client deposits, amid continued

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market uncertainty, increased our average interest-earning assets, but negatively affected our net interest margin, as we generally placed a portion of these deposits with central banks and earned the relatively low interest rates paid by the central banks on these balances over the period. Discount accretion, fully taxable-equivalent net interest revenue and net interest margin are discussed in more detail under "Consolidated Results of Operations - Net Interest Revenue" in this Management's Discussion and Analysis.

Total expenses for the third quarter of 2013 increased 22% compared to the third quarter of 2012. Total expenses for the third quarter of 2013 reflected aggregate credits of \$30 million to other expenses, related to gains and recoveries associated with Lehman Brothers-related assets. Total expenses for the third quarter of 2012 reflected a net credit of \$277 million, composed of recoveries of \$362 million associated with the 2008 Lehman Brothers bankruptcy, partly offset by provisions for litigation exposure and other costs of \$85 million. Excluding the credits recorded in the third quarters of 2013 and 2012, total expenses increased 4% in the quarter-to-quarter comparison, to \$1.75 billion (\$1.72 billion plus \$30 million) from \$1.69 billion (\$1.42 billion plus \$277 million).

Compensation and employee benefits expenses were down 1% in the third quarter of 2013 compared to the third quarter of 2012, primarily due to savings associated with the execution of our Business Operations and Information Technology Transformation program and lower benefit costs, partly offset by an increase in costs to support new business and higher incentive compensation. Information systems and communications expenses increased 11% compared to the third quarter of 2012, primarily from the planned transition of certain functions to third-party service providers in connection with the execution of our Business Operations and Information Technology Transformation program and costs to support new business. Transaction processing services expenses were higher by 9%, the result of higher equity market values and higher transaction volumes in the asset servicing business. Finally, other expenses declined 24%, mainly the result of a decline in provisions for litigation exposure and the above-described third-quarter-2013 gains and recoveries associated with Lehman Brothers-related assets. Additional information with respect to our expenses is provided under "Consolidated Results of Operations - Expenses" in this Management's Discussion and Analysis.

In the third quarter of 2013, we secured mandates for approximately \$200 billion of new business in assets to be serviced; of the total, \$57 billion was installed prior to September 30, 2013, with the remaining \$143 billion expected to be installed in the remainder of 2013 and later periods. In the third quarter of 2013, we also installed approximately \$39 billion of new business in assets to be serviced that was awarded to us in periods prior to the third quarter of 2013. The new business not installed by September 30, 2013 was not included in our assets under custody and administration as of that date, and had no impact on our servicing fee revenue in the third quarter of 2013, as the assets are not included until their installation is complete and we begin to service them. Once installed, the assets generate servicing fee revenue in subsequent periods in which the assets are serviced.

We will provide one or more of various services for these new assets to be serviced, including accounting, bank loan servicing, compliance reporting and monitoring, custody, depository banking services, foreign exchange, fund administration, hedge fund servicing, middle office outsourcing, performance and analytics, private equity administration, real estate administration, securities finance, transfer agency, and wealth management services.

In the third quarter of 2013, SSgA had approximately \$15 billion of net lost business in assets to be managed, generally composed of approximately \$20 billion of net outflows from active and enhanced equity funds, partly offset by approximately \$5 billion of net inflows into ETFs.

An additional \$25 billion of new business awarded to SSgA but not installed by September 30, 2013 was not included in our assets under management as of that date, and had no impact on our management fee revenue for the third quarter of 2013, as the assets are not included until their installation is complete and we begin to manage them. Once installed, the assets generate management fee revenue in subsequent periods in which the assets are managed.

**CONSOLIDATED RESULTS OF OPERATIONS**

This section discusses our consolidated results of operations for the third quarter and first nine months of 2013 compared to the same periods in 2012, and should be read in conjunction with the consolidated financial statements and accompanying condensed notes included in this Form 10-Q.



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## TOTAL REVENUE

Additional information with respect to the sources of our revenue, the products and activities that generate it, and the factors that influence the levels of revenue generated during any period is provided under "Consolidated Results of Operations – Total Revenue" in Management's Discussion and Analysis included in our 2012 Form 10-K.

(Dollars in millions)	Quarters Ended September 30,			Nine Months Ended September 30,			
	2013	2012	% Change	2013	2012	% Change	
Fee revenue:							
Servicing fees	\$1,211	\$1,100	10	% \$3,587	\$3,264	10	%
Management fees	276	251	10	816	733	11	
Trading services:							
Foreign exchange trading	147	115	28	464	393	18	
Brokerage and other trading services	109	117	(7)	) 369	374	(1)	)
Total trading services	256	232	10	833	767	9	
Securities finance	74	91	(19)	) 283	331	(15)	)
Processing fees and other	66	45	47	192	187	3	
Total fee revenue	1,883	1,719	10	5,711	5,282	8	
Net interest revenue:							
Interest revenue	643	730	(12)	) 2,030	2,281	(11)	)
Interest expense	97	111	(13)	) 312	365	(15)	)
Net interest revenue	546	619	(12)	) 1,718	1,916	(10)	)
Gains (losses) related to investment securities, net	(4	) 18		(9	) 2		
Total revenue	\$2,425	\$2,356	3	\$7,420	\$7,200	3	

## Fee Revenue

Servicing and management fees collectively composed approximately 79% and 77% of our total fee revenue for the third quarter and first nine months of 2013, respectively, compared to 79% and 76%, respectively, for the corresponding periods in 2012. 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.

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

Generally, management fees are affected, in part, by changes in month-end valuations of assets under management. Management fee revenue is relatively more sensitive to market valuations than servicing fee revenue, since a higher proportion of the underlying services provided, and the associated management fees earned, are dependent on equity and fixed-income values. Additional factors, such as the relative mix of assets managed, changes in service level and other factors, may have a significant effect on our management fee revenue. While certain management fees are directly determined by the value of assets under management and the investment strategy employed, management fees reflect other factors as well, including our relationship pricing for clients using multiple services.

Management fees for actively managed products are generally earned at higher rates than those for passive products. Actively managed products may also involve performance fee arrangements. Performance fees are generated when the performance of certain managed funds 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, assuming all other factors remain constant, that a 10% increase or decrease in worldwide equity valuations would result in a corresponding change in our total revenue of approximately 2%. If fixed-income security valuations were to increase or decrease by 10%, we would anticipate, assuming all other factors remain constant, a corresponding change of approximately 1% in our total revenue.

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The following table presents selected average quarter and year-to-date 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 in the table below.

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

## INDEX

	Daily Averages of Indices			Averages of Month-End Indices			Quarter-End Indices		
	Quarters Ended September 30,			Quarters Ended September 30,			As of September 30,		
	2013	2012	% Change	2013	2012	% Change	2013	2012	% Change
S&P 500®	1,675	1,401	20 %	1,667	1,409	18 %	1,682	1,441	17 %
NASDAQ®	3,641	3,027	20	3,663	3,041	20	3,771	3,116	21
MSCI EAFE®	1,748	1,468	19	1,747	1,474	19	1,818	1,511	20
	Daily Averages of Indices			Averages of Month-End Indices					
	Nine Months Ended			Nine Months Ended					
	September 30,			September 30,					
	2013	2012	% Change	2013	2012	% Change			
S&P 500®	1,601	1,367	17 %	1,602	1,376	16 %			
NASDAQ®	3,400	2,954	15	3,416	2,978	15			
MSCI EAFE®	1,708	1,470	16	1,707	1,478	15			

## Servicing Fees

Servicing fees increased 10% for both the third quarter and first nine months of 2013 compared to the same periods in 2012, primarily as a result of stronger global equity markets, the addition of revenue from the GSAS business, acquired in October 2012, and the impact of net new business installed on current-period revenue. The combined daily averages of equity market indices, individually presented in the foregoing "INDEX" table, increased approximately 20% in the third quarter of 2013 compared to the third quarter of 2012, and increased approximately 16% in the year-to-date comparison. For the third quarter and first nine months of 2013, servicing fees generated outside the U.S. were approximately 42% and 41%, respectively, of total servicing fees, compared to approximately 42% for each of the third quarter and first nine months of 2012.

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

## ASSETS UNDER CUSTODY AND ADMINISTRATION

(In billions)	September 30, 2013	December 31, 2012	September 30, 2012
Mutual funds	\$6,524	\$5,852	\$5,828
Collective funds	6,013	5,363	4,912
Pension products	5,446	5,339	5,258
Insurance and other products	8,050	7,817	7,443
Total	\$26,033	\$24,371	\$23,441

## FINANCIAL INSTRUMENT MIX OF ASSETS UNDER CUSTODY AND ADMINISTRATION

(In billions)	September 30, 2013	December 31, 2012	September 30, 2012
Equities	\$13,849	\$12,276	\$12,021
Fixed-income	8,894	8,885	8,518
Short-term and other investments	3,290	3,210	2,902

Total	\$26,033	\$24,371	\$23,441
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AND RESULTS OF OPERATIONS (Continued)GEOGRAPHIC MIX OF ASSETS UNDER CUSTODY AND ADMINISTRATION<sup>(1)</sup>

(In billions)	September 30, 2013	December 31, 2012	September 30, 2012
United States	\$18,998	\$17,711	\$17,066
Other Americas	739	752	703
Europe/Middle East/Africa	5,219	4,801	4,636
Asia/Pacific	1,077	1,107	1,036
Total	\$26,033	\$24,371	\$23,441

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

The increase in total assets under custody and administration from December 31, 2012 to September 30, 2013 primarily resulted from stronger global equity markets and net client cash inflows, as well as net new business installations. The increase in total assets under custody and administration from September 30, 2012 to September 30, 2013 primarily resulted from stronger global equity markets, net client cash inflows and net new business installations. Asset levels as of September 30, 2013 did not reflect the \$143 billion of new business in assets to be serviced that was awarded to us in the third quarter of 2013 but not installed prior to September 30, 2013. The value of assets under custody and administration is a broad measure of the relative size of various markets served. Changes in the values of assets under custody and administration from period to period do not necessarily result in proportional changes in our servicing fee revenue.

## Management Fees

Management fees increased 10% and 11% during the third quarter and first nine months of 2013, respectively, compared to the same periods in 2012, primarily the result of stronger equity market valuations and the impact of net new business installed on current-period revenue. Combined average month-end equity market indices, individually presented in the foregoing "INDEX" table, increased approximately 19% in the third quarter of 2013 compared to the third quarter of 2012, and increased approximately 15% in the year-to-date comparison. For the third quarter and first nine months of 2013, management fees generated outside the U.S. were approximately 37% and 36%, respectively, of total management fees, compared to 35% and 36%, respectively, for the same periods in 2012.

The following tables present the components and geographic mix of assets under management as of the dates indicated:

## ASSETS UNDER MANAGEMENT

(In billions)	September 30, 2013	December 31, 2012	September 30, 2012
Passive:			
Equities	\$867	\$755	\$727
Fixed-income	282	293	295
Exchange-traded funds <sup>(1)</sup>	360	337	337
Other <sup>(2)</sup>	240	215	203
Total passive	1,749	1,600	1,562
Active: <sup>(3)</sup>			
Equities	40	46	46
Fixed-income	14	17	17
Other	52	53	53
Total active	106	116	116
Cash	386	370	387
Total	\$2,241	\$2,086	\$2,065

<sup>(1)</sup> Includes SPDR® Gold Fund, for which State Street is not the investment manager, but acts as distribution agent.

<sup>(2)</sup> Includes currency, alternatives, assets passed to sub-advisors and multi-asset class solutions.

<sup>(3)</sup> Decline as of September 30, 2013 compared to December 31, 2012 mainly resulted from net outflows, partly offset by market appreciation and impact of foreign currency translation.

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AND RESULTS OF OPERATIONS (Continued)GEOGRAPHIC MIX OF ASSETS UNDER MANAGEMENT<sup>(1)</sup>

(In billions)	September 30, 2013	December 31, 2012	September 30, 2012
United States	\$1,555	\$1,410	\$1,402
Other Americas <sup>(2)</sup>	1	21	16
Europe/Middle East/Africa	378	353	342
Asia/Pacific	307	302	305
Total	\$2,241	\$2,086	\$2,065

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

<sup>(2)</sup> As of September 30, 2013, substantially all of the assets were managed in the U.S.

The increase in total assets under management as of September 30, 2013 compared to December 31, 2012 resulted from stronger equity market valuations during the nine-month period in the values of the assets managed, partly offset by net lost business of \$11 billion. The net lost business of \$11 billion was generally composed of approximately \$15 billion of net outflows from equity funds, approximately \$6 billion of net outflows from ETFs and approximately \$8 billion of net outflows from fixed-income and other funds, partly offset by approximately \$18 billion of net inflows into managed cash.

The following table presents activity in assets under management for the twelve months ended September 30, 2013:

## ASSETS UNDER MANAGEMENT

(In billions)	
September 30, 2012	\$2,065
Net lost business	(1 )
Market appreciation <sup>(1)</sup>	22
December 31, 2012	2,086
Net lost business	(11 )
Market appreciation <sup>(1)</sup>	166
September 30, 2013	\$2,241

<sup>(1)</sup> Amounts include the impact of foreign currency translation.

The net lost business of \$11 billion in the first nine months of 2013 presented in the table did not include \$25 billion of new asset management business awarded to SSgA in the third quarter of 2013 but not installed prior to September 30, 2013. This new business will be reflected in assets under management in future periods after installation, and will generate management fee revenue in subsequent periods.

## Trading Services

The following table summarizes the components of trading services revenue for the periods indicated:

	Quarters Ended September 30,			Nine Months Ended September 30,			
(Dollars in millions)	2013	2012	% Change	2013	2012	% Change	
Foreign exchange trading:							
Direct sales and trading	\$74	\$60	23 %	\$241	\$197	22 %	
Indirect foreign exchange trading	73	55	33	223	196	14	
Total foreign exchange trading	147	115	28	464	393	18	
Brokerage and other trading services:							
Electronic foreign exchange trading	52	51	2	182	160	14	
Other trading, transition management and brokerage	57	66	(14 )	187	214	(13 )	
Total brokerage and other trading services	109	117	(7 )	369	374	(1 )	

Total trading services revenue	\$256	\$232	10	\$833	\$767	9
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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
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Trading services revenue is composed of revenue generated by foreign exchange, or FX, trading, as well as revenue generated by brokerage and other trading services. We earn FX trading revenue by acting as a principal market maker. We offer a range of FX products, services and execution models. Most of our FX products and execution services can be grouped into three broad categories, which are further explained below: "direct sales and trading FX," "indirect FX" and "electronic FX trading." With respect to electronic FX trading, we provide an execution venue but do not act as agent or principal.

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

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

The changes in trading services revenue in the third quarter and first nine months of 2013 compared to the same periods in 2012, composed of separate changes related to FX trading and brokerage and other trading services, is explained below.

Total FX trading revenue increased 28% and 18% in the third quarter and first nine months of 2013 compared to the same periods in 2012, primarily the result of higher client volumes and higher currency volatility, as well as higher spreads. Aggregate client volumes increased 18% and 32% in the quarterly and nine-month comparisons, respectively. In the same comparisons, volatility increased 12% and 8%, respectively.

We enter into FX transactions with clients and investment managers that contact our trading desk directly. These trades are all executed at negotiated rates. We refer to this activity, and our principal market-making activities, as "direct sales and trading FX." Alternatively, clients or their investment managers may elect to route FX transactions to our FX desk through our asset-servicing operation; we refer to this activity as "indirect FX." We execute indirect FX trades as a principal at rates disclosed to our clients. We calculate revenue for indirect FX using an attribution methodology based on estimated effective mark-ups/downs and observed client volumes. All other FX trading revenue, other than this indirect FX revenue estimate, is considered by us to be direct sales and trading FX revenue. Our clients can transition to either direct sales and trading FX execution, including our "Street FX" service that enables our clients to define their FX execution strategy and automate the FX trade execution process, in which State Street continues to act as a principal market maker, or to one of our electronic trading platforms.

For the third quarter and first nine months of 2013, our estimated indirect FX revenue increased 33% and 14%, respectively. For the third quarter and first nine months of 2013 compared to the same periods in 2012, our direct sales and trading FX revenue increased 23% and 22%, respectively. The increases in all comparisons were mainly the result of higher client volumes and higher currency volatility, as well as higher spreads.

Total brokerage and other trading services revenue declined 7% and 1% in the third quarter and first nine months of 2013, respectively, compared to the same periods in 2012.

Our clients may choose to execute FX transactions through one of our electronic trading platforms. This service generates revenue through a "click" fee. Revenue from such electronic FX trading increased 2% and 14% in the third quarter and the first nine months of 2013 compared to the same periods in 2012, mainly due to increases in client volumes. In the third quarter and first nine months of 2013, other trading, transition management and brokerage revenue declined 14% and 13%, respectively, compared to the same periods in 2012. The decrease in the quarterly comparison mainly resulted from a decline in distribution fees associated with the SPDR® Gold ETF, which resulted from decreases in gold prices and net outflows of ETF assets. In the nine-month comparison, the decline in distribution fees associated with the SPDR® Gold ETF and a decline in transition management revenue contributed to the decrease. With respect to the SPDR® Gold ETF, fees earned by us as distribution agent are recorded in other



trading, transition management and brokerage revenue within brokerage and other trading services revenue, and not in management fee revenue.

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

#### Securities Finance

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

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We also participate in securities lending transactions as a principal. As principal, we borrow securities from the lending client and then lend such securities to the subsequent borrower, either a State Street client or a broker/dealer. Our involvement as principal is utilized when the lending client is unable to, or elects not to, transact directly with the market and requires us to execute the transaction and furnish the securities. In our role as principal, we provide support to the transaction through our credit rating, and we have the ability to source securities through our assets under custody and administration.

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. In the third quarter and first nine months of 2013, securities finance revenue declined 19% and 15%, respectively, compared to the same periods in 2012, mainly due to lower spreads and slightly lower lending volumes. Average spreads declined 27% and 17% in the third quarter and first nine months of 2013, respectively, compared to the same periods in 2012. Securities on loan averaged approximately \$316 billion and \$320 billion for the third quarter and first nine months of 2013, respectively, compared to approximately \$321 billion and \$330 billion, respectively, for the same periods in 2012, a 2% and 3% decline, respectively.

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

**Processing Fees and Other**

Processing fees and other revenue increased 47% and 3% in the third quarter and first nine months of 2013, respectively, compared to the same periods in 2012. The increases were primarily the result of higher fee revenue associated with our investment in bank-owned life insurance. The year-to-date increase also benefited from a gain from the sale of an investment by one of our joint ventures. These increases were partly offset in both comparisons by the impact of positive fair-value adjustments recorded in 2012 related to our withdrawal from our fixed-income trading initiative and hedge ineffectiveness recorded in 2013.

**NET INTEREST REVENUE**

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

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AND RESULTS OF OPERATIONS (Continued)

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

	Quarters Ended September 30,							
	2013				2012			
(Dollars in millions; fully taxable-equivalent basis)	Average Balance	Interest Revenue/Expense	Rate		Average Balance	Interest Revenue/Expense	Rate	
Interest-bearing deposits with banks	\$25,270	\$29	.46	%	\$26,553	\$31	.47	%
Securities purchased under resale agreements	5,895	8	.54		7,773	15	.72	
Trading account assets	802	—	—		610	—	—	
Investment securities	115,552	582	2.02		113,899	658	2.31	
Loans and leases	13,859	58	1.66		11,626	58	1.99	
Other interest-earning assets	11,927	1	.02		8,136	—	—	
Average total interest-earning assets	\$173,305	\$678	1.56		\$168,597	\$762	1.80	
Interest-bearing deposits:								
U.S.	\$5,735	\$1	.06	%	\$11,624	\$5	.14	%
Non-U.S.	99,253	16	.06		89,658	32	.14	
Securities sold under repurchase agreements	8,757	—	—		7,757	—	—	
Federal funds purchased	247	—	—		722	—	—	
Other short-term borrowings	3,413	15	1.63		4,759	18	1.55	
Long-term debt	8,824	59	2.67		6,408	52	3.20	
Other interest-bearing liabilities	6,777	6	.35		6,359	4	.25	
Average total interest-bearing liabilities	\$133,006	\$97	.29		\$127,287	\$111	.35	
Interest-rate spread			1.27	%			1.45	%
Net interest revenue—fully taxable-equivalent basis		\$581				\$651		
Net interest margin—fully taxable-equivalent basis			1.33	%			1.53	%
Tax-equivalent adjustment		(35	)			(32	)	
Net interest revenue—GAAP basis		\$546				\$619		

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	Nine Months Ended September 30, 2013				2012			
(Dollars in millions; fully taxable-equivalent basis)	Average Balance	Interest Revenue/Expense	Rate		Average Balance	Interest Revenue/Expense	Rate	
Interest-bearing deposits with banks	\$28,014	\$91	.43	%	\$25,776	\$108	.56	%
Securities purchased under resale agreements	5,799	33	.76		7,735	37	.63	
Trading account assets	723	—	—		659	—	—	
Investment securities	117,877	1,809	2.05		112,109	2,044	2.43	
Loans and leases	13,537	193	1.91		11,232	184	2.19	
Other interest-earning assets	10,666	4	.04		7,253	2	.03	
Average total interest-earning assets	\$176,616	\$2,130	1.61		\$164,764	\$2,375	1.93	
Interest-bearing deposits:								
U.S.	\$9,006	\$10	.14	%	\$7,192	\$12	.22	%
Non-U.S.	100,365	68	.09		88,250	115	.17	
Securities sold under repurchase agreements	8,358	—	—		7,828	1	.01	
Federal funds purchased	303	—	—		835	—	—	
Other short-term borrowings	3,894	46	1.55		4,723	54	1.53	
Long-term debt	8,146	169	2.77		7,160	172	3.20	
Other interest-bearing liabilities	6,517	19	.39		6,023	11	.25	
Average total interest-bearing liabilities	\$136,589	\$312	.30		\$122,011	\$365	.40	
Interest-rate spread			1.31	%			1.53	%
Net interest revenue—fully taxable-equivalent basis		\$1,818				\$2,010		
Net interest margin—fully taxable-equivalent basis			1.38	%			1.63	%
Tax-equivalent adjustment		(100)	)			(94)	)	
Net interest revenue—GAAP basis		\$1,718				\$1,916		

For the first nine months of 2013 compared to the first nine months of 2012, average total interest-earning assets increased, mainly the result of the investment of elevated levels of client deposits in purchases of investment securities as well as in interest-bearing deposits with banks. During the past year, our clients have continued to place elevated levels of deposits with us, as low global interest rates have made deposits attractive relative to other investment options. Those client deposits determined to be transient in nature have been placed with various central banks globally, whereas deposits determined to be more stable have been invested in our securities portfolio or elsewhere to support growth in other client-related activities.

Average loans and leases were higher in the same nine-month comparison, due to growth in short-duration advances to our mutual fund clients. Higher levels of cash collateral provided in connection with our role as principal in certain securities finance activities drove other interest-earning assets higher as this business grew. While these activities support our overall profitability, they put downward pressure on our net interest margin.

Net interest revenue decreased 12% for the third quarter of 2013 compared to the third quarter of 2012 and decreased 10% for the first nine months of 2013 compared to the first nine months of 2012. The decreases were primarily the result of lower yields on earning assets related to lower global interest rates, partly offset by lower funding costs. The decreases also reflected the continued impact of the reinvestment of paydowns on existing investment securities in lower-yielding investment securities. These decreases in net interest revenue were partly offset by the impact of growth in the investment portfolio.

Subsequent to the commercial paper conduit consolidation in 2009, we have recorded aggregate discount accretion in interest revenue of \$1.87 billion (\$621 million in 2009, \$712 million in 2010, \$220 million in 2011, \$215 million in 2012 and \$106 million in the first nine months of 2013). 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 accretion.

Depending on the factors discussed above, among others, we anticipate that, until the former conduit securities remaining in our investment portfolio mature or are sold, discount accretion will continue to contribute, though in declining amounts, to

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our net interest revenue. Assuming that we hold the remaining former conduit securities to maturity, all else being equal, we expect the remaining former conduit securities carried in our investment portfolio as of September 30, 2013 to generate aggregate discount accretion in future periods of approximately \$603 million over their remaining terms, with approximately half of this aggregate discount accretion to be recorded over the next four years.

Changes in the components of interest-earning assets and interest-bearing liabilities are discussed in more detail below. Additional detail about the components of interest revenue and interest expense is provided in note 13 to the consolidated financial statements included in this Form 10-Q.

Interest-bearing deposits with banks, which include cash balances maintained at the Federal Reserve, the European Central Bank and other non-U.S. central banks to satisfy reserve requirements, averaged \$25.27 billion for the third quarter of 2013, compared to \$26.55 billion for the third quarter of 2012. For the first nine months of 2013, such deposits averaged \$28.01 billion, compared to \$25.78 billion for the first nine months of 2012. Both comparisons reflected the impact of the placement of elevated levels of client deposits, which were determined to be transient in nature and were placed with various central banks globally. In 2013, our investment of these elevated client deposits has been diversified in part through purchases of investment securities. If client deposits remain at or close to current elevated levels, we expect to continue to invest client deposits in either money market assets, including central bank deposits, or in investment securities, depending on our assessment of the underlying characteristics of the deposits.

Our average investment securities portfolio increased to \$115.55 billion for the third quarter of 2013 from \$113.90 billion for the third quarter of 2012, and in the year-to-date comparison increased to \$117.88 billion from \$112.11 billion. The increases were generally the result of ongoing purchases of securities, partly offset by maturities, sales and paydowns. Period-end portfolio balances are more significantly influenced by the timing of purchases, sales and runoff; as a result, average portfolio balances are a more effective indication of trends in portfolio activity. As of September 30, 2013, securities rated "AAA" and "AA" represented approximately 88% of our investment portfolio, consistent with the composition of our portfolio as of September 30, 2012.

Loans and leases averaged \$13.86 billion for the third quarter of 2013 compared to \$11.63 billion for the third quarter of 2012, and \$13.54 billion for the first nine months of 2013, up from \$11.23 billion in the 2012 period. The increases were mainly related to mutual fund lending, which averaged \$8.59 billion for the third quarter of 2013 compared to \$6.32 billion for the third quarter of 2012. Overall, the proportion of short-duration liquidity declined to approximately 25% of our average loan-and-lease portfolio for the third quarter of 2013 from approximately 27% for the third quarter of 2012. Short-duration advances provide liquidity to clients in support of their investment activities related to securities settlement.

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

(In millions)	Quarters Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Average U.S. short-duration advances	\$2,292	\$1,813	\$2,343	\$1,815
Average non-U.S. short-duration advances	1,219	1,319	1,409	1,362
Average total short-duration advances	\$3,511	\$3,132	\$3,752	\$3,177

The increases in average short-duration advances for the third quarter and first nine months of 2013 compared to the third quarter and first nine months of 2012 were mainly the result of higher trading volumes and volatility influenced by stronger overall market valuations.

Average other interest-earning assets increased to \$11.93 billion for the third quarter of 2013 from \$8.14 billion for the third quarter of 2012, and to \$10.67 billion from \$7.25 billion in the year-to-date comparison. These increases were primarily the result of higher levels of cash collateral provided in connection with our participation in principal securities finance transactions.

Aggregate average interest-bearing deposits increased to \$104.99 billion for the third quarter of 2013 from \$101.28 billion for the third quarter of 2012, and increased to \$109.37 billion from \$95.44 billion in the year-to-date comparison. These increases mainly reflected higher levels of interest-bearing demand deposit accounts, as low

interest rates worldwide made deposits attractive to our clients relative to other investment options. In addition, non-U.S. transaction accounts associated with new and existing business in assets under custody and administration continued to grow, although there has been a modest decline in non-interest bearing deposits following the expiration of the FDIC's Transaction Account Guarantee, or TAG, program effective December 31, 2012. Future deposit levels will be influenced by the underlying asset servicing business, as well as market conditions, including the general levels of U.S. and non-U.S. interest rates.

Average long-term debt increased to \$8.82 billion for the third quarter of 2013 from \$6.41 billion for the third quarter of 2012, and to \$8.15 billion from \$7.16 billion in the year-to-date comparison. The increases primarily reflected the issuance of

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\$1 billion of extendible notes by State Street Bank in December 2012 and the issuance of \$1.5 billion of senior and subordinated debt in May 2013. These increases were partly offset by maturities of \$1.75 billion of senior debt in the second quarter of 2012.

Average other interest-bearing liabilities increased to \$6.78 billion for the third quarter of 2013 from \$6.36 billion for the third quarter of 2012 and to \$6.52 billion from \$6.02 billion in the year-to-date comparison, primarily the result of higher levels of cash collateral received from clients in connection with our participation in principal securities finance transactions.

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 amount of discount accretion generated by the former conduit securities that remain in our investment securities portfolio; and the yields earned on securities purchased compared to the yields earned on securities sold or matured.

Based on market conditions and other factors, we continue to reinvest the proceeds from paydowns and maturities of investment securities in highly-rated securities, such as U.S. Treasury and agency securities, federal agency mortgage-backed securities and U.S. and non-U.S. mortgage- and asset-backed securities. The pace at which we continue to reinvest and the types of investment securities purchased will depend on the impact of market conditions and other factors over time. We expect these factors and the levels of global interest rates to dictate 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**

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

	Quarters Ended September 30,		Nine Months Ended September 30,	
(In millions)	2013	2012	2013	2012
Net realized gains from sales of available-for-sale securities	\$6	\$24	\$11	\$29
Losses from other-than-temporary impairment	(8	) (4	) (8	) (50
Losses reclassified (from) to other comprehensive income	(2	) (2	) (12	) 23
Net impairment losses recognized in consolidated statement of income	(10	) (6	) (20	) (27
Gains (losses) related to investment securities, net	\$(4	) \$18	\$(9	) \$2
Impairment associated with expected credit losses	(8	) (1	) (8	) (14
Impairment associated with management's intent to sell impaired securities prior to recovery in value	—	—	(6	) —
Impairment associated with adverse changes in timing of expected future cash flows	(2	) (5	) (6	) (13
Net impairment losses recognized in consolidated statement of income	\$(10	) \$(6	) \$(20	) \$(27

From time to time, in connection with our ongoing management of our investment securities portfolio, we sell available-for-sale securities to manage risk, to take advantage of favorable market conditions, or for other reasons. In the first nine months of 2013, we sold approximately \$8.09 billion of such investment securities and recorded net realized gains of \$11 million. In the first nine months of 2012, we sold approximately \$4.21 billion of such investment securities and recorded net realized gains of \$29 million.

The net realized gains recorded in the first nine months of 2012 reflected a loss of \$46 million from the second-quarter sale of all of our Greek investment securities, which had an aggregate carrying value of approximately \$91 million. These securities, which were previously classified as held to maturity, were sold as a result of the effect of significant



deterioration in the creditworthiness of the underlying collateral, including significant downgrades of the securities' external credit ratings.

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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## EXPENSES

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

	Quarters Ended September 30,			Nine Months Ended September 30,		
(Dollars in millions)	2013	2012	% Change	2013	2012	% Change
Compensation and employee benefits	\$903	\$916	(1 )%	\$2,855	\$2,922	(2 )%
Information systems and communications	235	211	11	707	610	16
Transaction processing services	185	170	9	551	523	5
Occupancy	113	115	(2 )	343	349	(2 )
Claims resolution	—	(362 )		—	(362 )	
Acquisition costs	18	13		52	41	
Restructuring charges, net	12	15		22	45	
Other:						
Professional services	98	89	10	280	266	5
Amortization of other intangible assets	53	46	15	160	145	10
Securities processing costs	14	2		24	26	
Regulator fees and assessments	23	15		55	44	
Other	68	185	(63 )	297	413	(28 )
Total other	256	337	(24 )	816	894	(9 )
Total expenses	\$1,722	\$1,415	22	\$5,346	\$5,022	6
Number of employees at period-end	29,230	29,650				

## Expenses

Total expenses for the third quarter and first nine months of 2013 increased 22% and 6%, respectively, compared to the third quarter and first nine months of 2012.

Total expenses for the third quarter of 2013 reflected aggregate credits of \$30 million in other expenses, presented in "other" in the table above, related to gains and recoveries associated with Lehman Brothers-related assets. Total expenses for the first nine months of 2013 reflected aggregate credits of \$57 million (the \$30 million described above plus an additional \$27 million recorded in the second quarter of 2013) in other expenses, presented in "other" in the nine-month table above, related to recoveries associated with Lehman Brothers-related assets.

Total expenses for the third quarter of 2012 reflected a net credit of \$277 million, composed of recoveries of \$362 million associated with the 2008 Lehman Brothers bankruptcy, presented separately in the table above, partly offset by provisions for litigation exposure and other costs of \$85 million, the latter presented in "other" in the table above. Excluding the credits of \$30 million and \$277 million recorded in the third quarters of 2013 and 2012, respectively, as well as the aggregate credits of \$57 million recorded in the first nine months of 2013, total expenses in the quarterly and nine-month comparisons increased 4% and 2%, respectively.

The declines in compensation and employee benefits expenses in both comparisons primarily resulted from lower staffing levels and associated savings related to the execution of our Business Operations and Information Technology Transformation program and lower benefit costs, partly offset by expenses to support new business and higher incentive compensation. Compensation and employee benefits expenses in the third quarter and first nine months of 2013 included approximately \$22 million and \$64 million, respectively, of costs related to our continuing execution of the Business Operations and Information Technology Transformation program, compared to approximately \$22 million and \$62 million, respectively, for the same periods in 2012. These costs are not expected to recur subsequent to full execution of the program.

The increases in information systems and communications expenses in the third quarter and first nine months of 2013 compared to the same periods in 2012 were primarily the result of the planned transition of certain functions to third-party service providers associated with components of our technology infrastructure and application maintenance and support, as part of the Business Operations and Information Technology Transformation program, as

well as costs to support new business.

Additional information with respect to the impact of the Business Operations and Information Technology Transformation program on future compensation and employee benefits and information systems and communications expenses is provided in the following “Restructuring Charges” section.

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The increases in transaction processing services expenses in the third quarter and first nine months of 2013 compared to the same periods in 2012 generally reflected higher equity market values and higher transaction volumes in the asset servicing business.

The decreases in other expenses in the third quarter and first nine months of 2013 compared to the same periods in 2012 were mainly the result of a decline in litigation-related provisions. In addition, other expenses for the third quarter and first nine months of 2013 reflected the above-described credits associated with Lehman Brothers-related assets. These credits were partly offset by higher professional services fees, the addition of amortization of other intangible assets associated with the GSAS acquisition, which was completed in October 2012, and, in the quarterly comparison, a higher level of securities processing costs.

**Acquisition Costs**

For the third quarter and first nine months of 2013, we incurred acquisition costs related to previously disclosed acquisitions of \$18 million and \$52 million, respectively, compared to \$13 million and \$41 million, respectively, for the same periods in 2012.

**Restructuring Charges**

Information with respect to our Business Operations and Information Technology Transformation program and our 2011 and 2012 expense control measures, including charges, employee reductions and aggregate activity in the related accruals, is provided in the following sections.

**Business Operations and Information Technology Transformation Program**

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

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

To implement this program, we expect to incur aggregate pre-tax restructuring charges of approximately \$400 million to \$450 million over the four-year period ending December 31, 2014. To date, we have recorded aggregate restructuring charges of \$375 million in our consolidated statement of income, as presented in the following table by type of cost:

(In millions)	Employee-Related Costs	Real Estate Consolidation	Information Technology Costs	Total
2010	\$ 105	\$51	\$—	\$ 156
2011	85	7	41	133
2012	27	20	20	67
First nine months of 2013	9	11	(1	) 19
Total	\$ 226	\$89	\$60	\$ 375

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

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

execution of the business operations transformation component of the program, we have identified 1,234 additional involuntary terminations and role eliminations, including 263 in the first nine months of 2013. As of September 30, 2013, we have eliminated 1,168 of these positions.

In connection with the continuing execution of the program, we achieved approximately \$86 million of pre-tax expense savings in 2011, and incremental pre-tax expense savings of approximately \$112 million in 2012, compared to our 2010 total expenses from operations. As of December 31, 2012, we have achieved total pre-tax expense savings of approximately \$198

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million since the program's inception in 2010. Incremental pre-tax expense savings to be achieved in 2013 are forecasted to be approximately \$220 million.

Excluding the expected aggregate restructuring charges of \$400 million to \$450 million described earlier, we expect the program to reduce our pre-tax expenses from operations, on an annualized basis, by approximately \$575 million to \$625 million by the end of 2014 compared to 2010, all else being equal, with the full effect to be realized in 2015. We expect the business operations transformation component of the program to result in approximately \$450 million of these savings, with the majority of these savings expected to be achieved by the end of 2013. In addition, we expect the information technology transformation component of the program to result in approximately \$150 million of savings.

These pre-tax savings relate only to the Business Operations and Information Technology Transformation program and are based on projected improvement from our total 2010 expenses from operations. Our actual total expenses have increased since 2010, and may in the future increase or decrease, due to other factors. The majority of the annual savings will affect compensation and employee benefits expenses. These savings will be modestly offset by increases in information systems and communications expenses as we execute the program.

**2011 Expense Control Measures**

In the fourth quarter of 2011, in connection with expense control measures designed to calibrate our expenses to our outlook for our capital markets-facing businesses in 2012, we took two actions. First, we withdrew from our fixed-income trading initiative, in which we traded in fixed-income securities and derivatives as principal with our custody clients and other third-parties that trade in these securities and derivatives. Second, we undertook other targeted staff reductions. As a result of these actions, we recorded aggregate pre-tax restructuring charges and credits of \$119 million in our consolidated statement of income, as presented in the following table by type of cost:

(In millions)	Employee-Related Costs	Fixed-Income Trading Portfolio	Asset and Other Write-Offs	Total
2011	\$ 62	\$38	\$20	\$120
2012	3	(9	) 5	(1
Total	\$ 65	\$29	\$25	\$119

Employee-related costs included severance, benefits and outplacement services. We identified 442 employees to be involuntarily terminated as their roles were eliminated. As of September 30, 2013, we had substantially completed these reductions.

Costs for the fixed-income trading portfolio resulted primarily from fair-value adjustments to the initiative's trading portfolio related to our decision to withdraw from the initiative. In connection with our withdrawal, in 2012, we wound down that initiative's remaining trading portfolio. Costs for asset and other write-offs were related to asset write-downs and contract terminations.

**2012 Expense Control Measures**

In the fourth quarter of 2012, in connection with expense control measures designed to better align our expenses to our business strategy and related outlook for 2013, we identified additional targeted staff reductions. As a result of these actions, we have recorded aggregate pre-tax restructuring charges of \$136 million in our consolidated statement of income, as presented in the following table by type of cost:

(In millions)	Employee-Related Costs	Asset and Other Write-Offs	Total
2012	\$ 129	\$4	\$133
First nine months of 2013 <sup>(1)</sup>	(2	) 5	3
Total	\$ 127	\$9	\$136

<sup>(1)</sup> Total charges included \$1 million in the third quarter of 2013.

Employee-related costs included severance, benefits and outplacement services. Costs for asset and other write-offs were primarily related to contract terminations. We originally identified involuntary terminations and role

eliminations of 960 employees (630 positions after replacements). As of September 30, 2013, 720 positions had been eliminated through voluntary and involuntary terminations.

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## Aggregate Restructuring-Related Accrual Activity

The following table presents aggregate activity associated with accruals that resulted from the charges associated with the Business Operations and Information Technology Transformation program and the 2011 and 2012 expense control measures:

(In millions)	Employee- Related Costs	Real Estate Consolidation	Information Technology Costs	Fixed-Income Trading Portfolio	Asset and Other Write-Offs	Total
Initial accrual	\$105	\$51	\$—	\$—	\$—	\$156
Payments	(15)	(4)	—	—	—	(19)
Balance as of December 31, 2010	90	47	—	—	—	137
Additional accruals for Business Operations and Information Technology Transformation program	85	7	41	—	—	133
Accruals for 2011 expense control measures	62	—	—	38	20	120
Payments and adjustments	(75)	(15)	(8)	—	(5)	(103)
Balance as of December 31, 2011	162	39	33	38	15	287
Additional accruals for Business Operations and Information Technology Transformation program	27	20	20	—	—	67
Additional accruals for 2011 expense control measures	3	—	—	(9)	5	(1)
Accruals for 2012 expense control measures	129	—	—	—	4	133
Payments and adjustments	(126)	(10)	(48)	(29)	(11)	(224)
Balance as of December 31, 2012	195	49	5	—	13	262
Additional accruals for Business Operations and Information Technology Transformation program	9	11	(1)	—	—	19
Additional accruals for 2012 expense control measures	(2)	—	—	—	5	3
Payments and adjustments	(125)	(11)	(4)	—	(8)	(148)
Balance as of September 30, 2013	\$77	\$49	\$—	\$—	\$10	\$136

## INCOME TAX EXPENSE

Income tax expense was \$163 million in the third quarter of 2013 compared to \$267 million in the third quarter of 2012. In the first nine months of 2013 and 2012, income tax expense was \$491 million and \$588 million, respectively. Our effective tax rate for the first nine months of 2013 was 23.7%, compared to 27.0% for the first nine months of 2012, with the decline mainly the result of the tax effect of the net credit related to recoveries associated with the 2008 Lehman Brothers bankruptcy, which was reflected in results of operations as additional income tax expense in the third quarter of 2012.



#### LINE OF BUSINESS INFORMATION

We have two lines of business: Investment Servicing and Investment Management. Given our services and management organization, the results of operations for these lines of business are not necessarily comparable with those of other companies, including companies in the financial services industry. Information about our two lines of business, as well as the revenues, expenses and capital allocation methodologies associated with them, is provided in note 24 to the consolidated financial statements included in our 2012 Form 10-K.

The following tables provide a summary of our line of business results for the periods indicated. The “Other” column for the third quarter and first nine months of 2013 included net acquisition and restructuring costs of \$30 million and \$74 million, respectively, and certain provisions for litigation exposure and other costs of \$5 million and \$20 million, respectively. The third quarter and first nine months of 2012 included the \$362 million credit related to recoveries associated with the 2008 Lehman Brothers bankruptcy, as well as certain provisions for litigation exposure and other costs of \$85 million and \$107 million, respectively, and net acquisition and restructuring costs of \$28 million and \$86 million, respectively. In addition, the first nine months of 2012 included the net realized loss from the sale of all of our Greek investment securities. The amounts in the

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"Other" columns were not allocated to State Street's business lines. Results for 2012 reflect reclassifications, for comparative purposes, related to management changes in methodology associated with funds transfer pricing and expense allocation reflected in results for 2013.

	Quarters Ended September 30,			Investment			Other		Total	
	Investment Servicing		% Change	Management		% Change				
(Dollars in millions, except where otherwise noted)	2013	2012	Q3 2013 vs. Q3 2012	2013	2012	Q3 2013 vs. Q3 2012	2013	2012	2013	2012
Fee revenue:										
Servicing fees	\$1,211	\$1,100	10 %	\$—	\$—		\$—	\$—	\$1,211	\$1,100
Management fees	—	—		276	251	10 %	—	—	276	251
Trading services	242	208	16	14	24	(42 )	—	—	256	232
Securities finance	69	81	(15 )	5	10	(50 )	—	—	74	91
Processing fees and other	60	38	58	6	7	(14 )	—	—	66	45
Total fee revenue	1,582	1,427	11	301	292	3	—	—	1,883	1,719
Net interest revenue	527	600	(12 )	19	19	—	—	—	546	619
Gains (losses) related to investment securities, net	(4 )	18		—	—		—	—	(4 )	18
Total revenue	2,105	2,045	3	320	311	3	—	—	2,425	2,356
Total expenses	1,496	1,459	3	191	205	(7 )	35	(249 )	1,722	1,415
Income before income tax expense	\$609	\$586	4	\$129	\$106	22	\$(35 )	\$249	\$703	\$941
Pre-tax margin	29 %	29 %		40 %	34 %				29 %	40 %
Average assets (in billions)	\$197.7	\$192.1		\$3.6	\$3.7				\$201.3	\$195.8

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(Dollars in millions, except where otherwise noted)	Nine Months Ended September 30,			Investment Management			Other		Total	
	Investment Servicing		% Change 9 mos. 2013 vs. 9 mos. 2012	Investment Management		% Change 9 mos. 2013 vs. 9 mos. 2012	Other		Total	
	2013	2012		2013	2012		2013	2012	2013	2012
Fee revenue:										
Servicing fees	\$3,587	\$3,264	10 %	\$—	\$—		\$—	\$—	\$3,587	\$3,264
Management fees	—	—		816	733	11 %	—	—	816	733
Trading services	778	695	12	55	72	(24 )	—	—	833	767
Securities finance	255	296	(14 )	28	35	(20 )	—	—	283	331
Processing fees and other	181	183	(1 )	11	4	175	—	—	192	187
Total fee revenue	4,801	4,438	8	910	844	8	—	—	5,711	5,282
Net interest revenue	1,655	1,858	(11 )	63	58	9	—	—	1,718	1,916
Gains (losses) related to investment securities, net	(9 )	48		—	—		—	(46 )	(9 )	2
Total revenue	6,447	6,344	2	973	902	8	—	(46 )	7,420	7,200
Provision for loan losses	—	(1 )		—	—		—	—	—	(1 )
Total expenses	4,628	4,537	2	624	654	(5 )	94	(169 )	5,346	5,022
Income before income tax expense	\$1,819	\$1,808	1	\$349	\$248	41	\$(94 )	\$123	\$2,074	\$2,179
Pre-tax margin	28 %	28 %		36 %	27 %				28 %	30 %
Average assets (in billions)	\$201.9	\$187.2		\$3.8	\$3.8				\$205.7	\$191.0

**Investment Servicing**

Total revenue in the third quarter and first nine months of 2013 for our Investment Servicing line of business, as presented in the preceding tables, increased 3% compared to the third quarter of 2012 and increased 2% in the nine-month comparison. Total fee revenue increased 11% and 8%, respectively, in the same comparisons. The increase in total fee revenue in the quarterly comparison generally resulted from increases in servicing fees, trading services revenue and processing fees and other revenue, partly offset by a decline in securities finance revenue. The increase in the nine-month comparison mainly resulted from increases in servicing fees and trading services revenue, partly offset by a decline in securities finance revenue.

Servicing fees in both the third quarter and first nine months of 2013 increased 10% compared to the same periods in 2012. The increase primarily resulted from stronger global equity markets, the addition of revenue from the October 2012 GSAS acquisition and the impact of net new business installed on current-period revenue.

Trading services revenue in the third quarter and first nine months of 2013 increased 16% and 12%, respectively, compared to the same periods in 2012, mainly due to higher foreign exchange trading revenue associated with higher client volumes and higher currency volatility, as well as higher spreads.

Processing fees and other revenue in the third quarter of 2013 increased 58% compared to the third quarter of 2012, with the increase mainly due to higher fee revenue associated with our investment in bank-owned life insurance. The nine-month comparison showed a slight decline, as the fee revenue from bank-owned life insurance was offset by the impact of positive fair-value adjustments recorded in 2012 related to our withdrawal from our fixed-income trading initiative and hedge ineffectiveness recorded in 2013.

Securities finance revenue in both the third quarter and first nine months of 2013 decreased compared to the same periods in 2012, primarily as a result of lower spreads and slightly lower lending volumes.

Servicing fees and net gains (losses) related to investment securities for our Investment Servicing business line are identical to the respective consolidated results. Refer to "Servicing Fees," 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, securities finance revenue and processing fees and other revenue is provided under "Trading Services," "Securities Finance" and "Processing Fees and Other" in "Total Revenue."

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Net interest revenue in the third quarter and first nine months of 2013 decreased 12% and 11%, respectively, compared to the same periods in 2012. The decrease was primarily driven by lower yields on earning assets related to lower global interest rates, partly offset by lower funding costs. The decrease also reflected the continued impact of the reinvestment of paydowns on existing investment securities in lower-yielding investment securities. A discussion of net interest revenue is provided under "Net Interest Revenue" in "Total Revenue."

Total expenses in the third quarter and first nine months of 2013 increased 3% and 2%, respectively, compared to the same periods in 2012. Both comparisons reflected declines in compensation and employee benefits expenses, primarily driven by savings associated with the execution of our Business Operations and Information Technology Transformation program and lower benefit costs, partly offset by an increase in costs to support new business and higher incentive compensation.

Information systems and communications expenses also increased in both comparisons, primarily the result of the planned transition of certain functions to third-party service providers associated with components of our technology infrastructure and application maintenance and support as part of the Business Operations and Information Technology Transformation program, as well as costs to support new business.

Transaction processing services expenses increased in the same comparisons, reflective of higher equity market values and higher transaction volumes in the asset servicing business. Other expenses increased in both comparisons, mainly the result of the addition of amortization of other intangible assets associated with the GSAS acquisition and higher regulator fees and assessments, including the new Federal Reserve supervisory assessment fee. A discussion of expenses is provided under "Expenses" in "Consolidated Results of Operations."

Investment Management

Total revenue in the third quarter and first nine months of 2013 for our Investment Management line of business, as presented in the preceding tables, increased 3% compared to the third quarter of 2012 and increased 8% in the nine-month comparison. Total fee revenue increased 3% and 8%, respectively, in the same comparisons, generally reflective of an increase in management fees.

Management fees in the third quarter and first nine months of 2013 increased 10% and 11%, respectively, compared to the same periods in 2012. The increase primarily resulted from stronger equity market valuations and the impact of net new business installed on current-period revenue. Management fees for the Investment Management business line are identical to the respective consolidated results. Refer to "Management Fees" in "Total Revenue" in this Management's Discussion and Analysis for a more in-depth discussion.

Trading services revenue decreased in the third quarter and first nine months of 2013 compared to the same periods in 2012, reflecting the impact of lower distribution fees associated with the SPDR® Gold ETF, which resulted from decreases in gold prices and net outflows of ETF assets.

Total expenses in the third quarter and first nine months of 2013 decreased 7% and 5%, respectively, compared to the same periods in 2012, mainly reflective of third-quarter 2013 credits associated with Lehman Brothers-related assets, partly offset by higher professional services fees.

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 short-term investments and deposits that constitute the majority of our liabilities. These liabilities are generally in the form of non-interest-bearing demand deposits; interest-bearing transaction account deposits, which are denominated in a variety of currencies; and repurchase agreements, which generally serve as short-term investment alternatives for our clients.

Deposits and other liabilities generated by client activities are invested in assets that generally match the liquidity and interest-rate characteristics of the liabilities, although the weighted-average maturities of our assets are significantly longer than the contractual maturities of our liabilities. Our assets consist primarily of securities held in our available-for-sale or held-to-maturity portfolios and short-duration financial instruments, such as interest-bearing

deposits 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. The following table presents the components of our average total interest-earning and noninterest-earning assets, average total interest-bearing and noninterest-bearing liabilities, and average preferred and common shareholders' equity for the nine months ended September 30, 2013 and 2012. Additional information about our average statement of condition, primarily our

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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.

(In millions)	Average Balance Nine Months Ended September 30, 2013	Average Balance Nine Months Ended September 30, 2012
Assets:		
Interest-bearing deposits with banks	\$28,014	\$25,776
Securities purchased under resale agreements	5,799	7,735
Trading account assets	723	659
Investment securities	117,877	112,109
Loans and leases	13,537	11,232
Other interest-earning assets	10,666	7,253
Total interest-earning assets	176,616	164,764
Cash and due from banks	3,739	3,798
Other noninterest-earning assets	25,366	22,482
Total assets	\$205,721	\$191,044
Liabilities and shareholders' equity:		
Interest-bearing deposits:		
U.S.	\$9,006	\$7,192
Non-U.S.	100,365	88,250
Total interest-bearing deposits	109,371	95,442
Securities sold under repurchase agreements	8,358	7,828
Federal funds purchased	303	835
Other short-term borrowings	3,894	4,723
Long-term debt	8,146	7,160
Other interest-bearing liabilities	6,517	6,023
Total interest-bearing liabilities	136,589	122,011
Noninterest-bearing deposits	34,838	36,401
Other noninterest-bearing liabilities	13,723	12,632
Preferred shareholders' equity	489	524
Common shareholders' equity	20,082	19,476
Total liabilities and shareholders' equity	\$205,721	\$191,044

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## Investment Securities

The following table presents the carrying values of investment securities by type as of the dates indicated:

(In millions)	September 30, 2013	December 31, 2012
Available for sale:		
U.S. Treasury and federal agencies:		
Direct obligations	\$738	\$841
Mortgage-backed securities	24,575	32,212
Asset-backed securities:		
Student loans <sup>(1)</sup>	14,871	16,421
Credit cards	8,626	9,986
Sub-prime	1,266	1,399
Other	4,901	4,677
Total asset-backed securities	29,664	32,483
Non-U.S. debt securities:		
Mortgage-backed securities	11,001	11,405
Asset-backed securities	5,467	6,218
Government securities	3,541	3,199
Other	4,600	4,306
Total non-U.S. debt securities	24,609	25,128
State and political subdivisions	9,298	7,551
Collateralized mortgage obligations	5,158	4,954
Other U.S. debt securities	5,045	5,298
U.S. equity securities	39	31
Non-U.S. equity securities	2	1
U.S. money-market mutual funds	680	1,062
Non-U.S. money-market mutual funds	174	121
Total	\$99,982	\$109,682
Held to Maturity:		
U.S. Treasury and federal agencies:		
Direct obligations	\$5,003	\$5,000
Mortgage-backed securities	100	153
Asset-backed securities:		
Student loans <sup>(1)</sup>	1,502	—
Credit cards	531	—
Other	818	16
Total asset-backed securities	2,851	16
Non-U.S. debt securities:		
Mortgage-backed securities	4,109	3,122
Asset-backed securities	1,486	434
Government securities	16	3
Other	190	167
Total non-U.S. debt securities	5,801	3,726
State and political subdivisions	61	74
Collateralized mortgage obligations	2,882	2,410
Total	\$16,698	\$11,379



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

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

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

Our portfolio is concentrated in securities with high credit quality, with approximately 88% of the carrying value of the portfolio rated "AAA" or "AA" as of September 30, 2013. The following table presents the percentages of the carrying value of the portfolio, by external credit rating, as of the dates indicated:

	September 30, 2013		December 31, 2012	
AAA <sup>(1)</sup>	69	%	69	%
AA	19		19	
A	7		7	
BBB	3		3	
Below BBB	2		2	
	100	%	100	%

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

As of September 30, 2013, the investment portfolio of approximately 10,680 securities was diversified with respect to asset class. Approximately 75% of the aggregate carrying value of the portfolio as of that date was composed of mortgage-backed and asset-backed securities. The asset-backed portfolio, of which approximately 97% of the carrying value 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.

Our investment securities portfolio represented approximately 54% of our consolidated total assets as of both September 30, 2013 and December 31, 2012, and the gross interest revenue generated by our investment securities portfolio represented approximately 22% of our consolidated total gross revenue for each of the third quarter and first nine months of 2013, compared to approximately 25% and 26% of our consolidated total gross revenue for the third quarter and first nine months of 2012, respectively.

Our investment securities portfolio represents a greater proportion of our consolidated statement of condition as described above, and our loan-and-lease portfolio represents a smaller proportion (approximately 7% and 6% of our consolidated total assets as of September 30, 2013 and December 31, 2012, respectively), in comparison to many other major banking organizations. In some respects, the accounting and regulatory treatment of our investment securities portfolio may be less favorable to us than a more traditional held-for-investment lending portfolio or a portfolio of U.S. Treasury securities. For example, under the July 2013 Basel III final rule, after-tax changes in the fair value of investment securities classified as available for sale will be included in the determination of tier 1 capital. Since loans held for investment are not subject to a fair-value accounting framework, changes in the fair value of loans (other than incurred credit losses) are not similarly included in the determination of tier 1 capital under the Basel III final rule.

**Non-U.S. Debt Securities**

Approximately 26% of the aggregate carrying value of our investment securities portfolio as of September 30, 2013 was composed of non-U.S. debt securities. The following table presents our non-U.S. debt securities available for sale and held to maturity, included in the preceding table of investment securities carrying values, by significant country of issuer or location of collateral, as of the dates indicated:



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(In millions)	September 30, 2013	December 31, 2012
Available for Sale:		
United Kingdom	\$10,264	\$10,263
Australia	3,609	4,035
Netherlands	3,338	3,006
Canada	2,121	2,274
France	1,560	1,364
Japan	1,037	1,173
Germany	995	1,836
Korea	575	257
Norway	371	210
Finland	265	259
Mexico	133	70
Sweden	74	72
Other	267	309
Total	\$24,609	\$25,128
Held to Maturity:		
Australia	\$2,260	\$2,189
United Kingdom	1,231	920
Netherlands	901	—
Germany	575	—
Italy	269	276
Spain	205	209
Luxembourg	102	—
Other	258	132
Total	\$5,801	\$3,726

Approximately 88% and 87% of the aggregate carrying value of these non-U.S. debt securities was rated “AAA” or “AA” as of September 30, 2013 and December 31, 2012, 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. Approximately 72% of the aggregate carrying value of these non-U.S. debt securities was floating-rate, and accordingly, the securities are considered to have minimal interest-rate risk. As of September 30, 2013, these non-U.S. debt securities had an average market-to-book ratio of 101.3%, and an aggregate pre-tax net unrealized gain of approximately \$378 million, composed of gross unrealized gains of \$476 million and gross unrealized losses of \$98 million. These unrealized amounts included a pre-tax net unrealized gain of \$298 million, composed of gross unrealized gains of \$328 million and gross unrealized losses of \$30 million, associated with non-U.S. debt securities available for sale.

As of September 30, 2013, the underlying collateral for these mortgage- and asset-backed securities primarily included U.K. prime mortgages, Australian and Dutch mortgages and German automobile loans. The securities listed under “Canada” were mainly composed of Canadian government securities. The securities listed under “France” were mainly composed of corporate debt and asset-backed securities. The securities listed under “Japan” were substantially composed of Japanese government securities. The “other” category of available-for-sale securities included approximately \$65 million and \$105 million of securities as of September 30, 2013 and December 31, 2012, respectively, related to Portugal and Ireland, all of which were mortgage-backed securities. The “other” category of held-to-maturity securities included approximately \$130 million of securities as of both September 30, 2013 and December 31, 2012 related to Portugal and Ireland, all of which were mortgage-backed securities.

Our aggregate exposure to Spain, Italy, Ireland and Portugal as of September 30, 2013 did not include any direct sovereign debt exposure to any of these countries. Our indirect exposure to these countries totaled approximately \$732 million, including approximately \$570 million of mortgage- and asset-backed securities with an aggregate pre-tax net unrealized gain of approximately \$39 million as of September 30, 2013, composed of gross unrealized gains of \$63 million and gross unrealized losses of \$24 million. We recorded no other-than-temporary impairment on any of these securities in the third quarter of 2013. We recorded other-than-temporary impairment of \$6 million on certain of these securities in our consolidated statement of income in the first nine months of 2013, all in the second quarter of 2013, associated with management's intent to sell an

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impaired security prior to its recovery in value. We recorded no other-than-temporary impairment on any of these securities in the third quarter of 2012. We recorded other-than-temporary impairment of \$6 million on certain of these securities in our consolidated statement of income in the first nine months of 2012, all in the second quarter of 2012, associated with expected credit losses.

Eurozone crisis tensions appeared to ease in the third quarter of 2013, following renewed volatility at the end of the first quarter of 2013. Economic performance remains weak in Spain, Italy, Ireland and Portugal. Throughout the sovereign debt crisis, the major independent credit rating agencies have downgraded, and may in the future do so again, U.S. and non-U.S. financial institutions and sovereign issuers which have been, and may in the future be, significant counterparties to us, or whose financial instruments serve as collateral on which we rely for credit risk mitigation purposes. As a result, we may be exposed to increased counterparty risk, leading to negative ratings volatility.

Country risks with respect to Spain, Italy, Ireland and Portugal are identified, assessed and monitored by our Country Risk Committee. Country limits are defined in our credit and counterparty risk guidelines, in accordance with our credit and counterparty risk policy. These limits are monitored on a daily basis by Enterprise Risk Management, or ERM. These country exposures are subject to ongoing surveillance and stress test analysis, conducted by the investment portfolio management team. The stress tests performed reflect the structure and nature of the exposure, its past and projected future performance based on macroeconomic and environmental analysis, with key underlying assumptions varied under a range of scenarios, reflecting downward pressure on collateral performance. The results of the stress tests are presented to senior management and ERM as part of the surveillance process.

In addition, ERM conducts separate stress-test analyses and evaluates the structured asset exposures in these countries for the assessment of other-than-temporary impairment. The assumptions used in these evaluations reflect expected downward pressure on collateral performance. Stress scenarios are subject to regular review, and are updated to reflect changes in the economic environment, measures taken in response to the sovereign debt crisis and collateral performance, with particular attention to these specific country exposures.

Municipal Securities

We carried an aggregate of approximately \$9.36 billion and \$7.63 billion of municipal securities, classified as state and political subdivisions in the preceding table of investment securities carrying values, in our investment securities portfolio as of September 30, 2013 and December 31, 2012, respectively. Substantially all of these securities were classified as available for sale, with the remainder classified as held to maturity. We also provided approximately \$8.12 billion and \$8.49 billion of credit and liquidity facilities to municipal issuers as a form of credit enhancement as of the same dates. The following tables present our combined credit exposure to state and municipal obligors that represented 5% or more of our aggregate municipal credit exposure of approximately \$17.48 billion and \$16.12 billion as of September 30, 2013 and December 31, 2012, respectively, across our businesses as of the dates indicated, grouped by state to display geographic dispersion:

September 30, 2013	Total Municipal Securities	Credit and Liquidity Facilities	Total	% of Total Municipal Exposure
(Dollars in millions)				
State of Issuer:				
Texas	\$ 1,250	\$ 1,688	\$ 2,938	17 %
New York	835	965	1,800	10
Massachusetts	964	762	1,726	10
California	253	1,228	1,481	8
Maryland	188	650	838	5
Total	\$ 3,490	\$ 5,293	\$ 8,783	



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December 31, 2012	Total Municipal Securities	Credit and Liquidity Facilities	Total	% of Total Municipal Exposure	
(Dollars in millions)					
State of Issuer:					
Texas	\$ 1,091	\$ 1,957	\$3,048	19	%
New York	486	973	1,459	9	
Massachusetts	869	508	1,377	9	
California	190	1,158	1,348	8	
New Jersey	867	—	867	5	
Florida	148	680	828	5	
Total	\$ 3,651	\$ 5,276	\$8,927		

Our aggregate municipal securities exposure as of September 30, 2013 presented in the foregoing table was concentrated primarily with highly-rated counterparties, with approximately 82% of the obligors rated "AAA" or "AA" as of September 30, 2013. As of that date, approximately 65% and 33% of our aggregate exposure was associated with general obligation and revenue bonds, respectively. In addition, we had no exposures associated with healthcare, industrial development or land development bonds. The portfolios are also diversified geographically; the states that represent our largest exposure are 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 an available-for-sale security or a held-to-maturity security is further assessed to determine whether such impairment is other-than-temporary. When the impairment is deemed to be other-than-temporary, we record the loss in our consolidated statement of income. In addition, for debt securities available for sale and held to maturity, we record impairment in our consolidated statement of income when management intends to sell (or may be required to sell) the securities before they recover in value, or when management expects the present value of cash flows expected to be collected from the securities to be less than the amortized cost of the impaired security (a credit loss).

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

(In millions)	September 30, 2013 <sup>(1)</sup>			December 31, 2012 <sup>(1)</sup>		
	Amortized Cost	Net Unrealized Gains(Losses)	Fair Value	Amortized Cost	Net Unrealized Gains(Losses)	Fair Value
Available for sale <sup>(2)</sup>	\$99,747	\$ 235	\$99,982	\$108,563	\$ 1,119	\$109,682
Held to maturity <sup>(2)</sup>	16,698	(155 )	16,543	11,379	282	11,661
Total investment securities	116,445	80	116,525	119,942	1,401	121,343
Net after-tax unrealized gain		\$ 45			\$ 885	

<sup>(1)</sup> Amounts as of September 30, 2013 and December 31, 2012 excluded the remaining net unrealized losses primarily related to reclassifications of securities available for sale to securities held to maturity in 2008, recorded in accumulated other comprehensive income within shareholders' equity in our consolidated statement of condition. Refer to note 10 to the consolidated financial statements included in this Form 10-Q.

<sup>(2)</sup> Securities available for sale are carried at fair value, with after-tax net unrealized gains and losses recorded in accumulated other comprehensive income. Securities held to maturity are carried at cost, and unrealized gains and losses are not recorded in our consolidated financial statements.

The declines in the net unrealized gains as of September 30, 2013 compared to December 31, 2012 presented above were primarily attributable to changes in interest rates in 2013.



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, more fully described in note 3 to the consolidated

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financial statements included in this Form 10-Q, 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 other-than-temporary impairment of \$10 million and \$20 million in the third quarter and first nine months of 2013, respectively, compared to \$6 million and \$27 million in the third quarter and first nine months of 2012, respectively. Additional information with respect to this other-than-temporary impairment is provided in note 3 to the consolidated financial statements included in this Form 10-Q.

Given the exposure of our investment securities portfolio, particularly mortgage- and asset-backed securities, to residential mortgage and other consumer credit risks, the performance of the U.S. housing market continues to be a factor in the portfolio's credit performance. As such, our assessment of other-than-temporary impairment relies, in part, on our estimates of trends in national housing prices in addition to trends in unemployment rates, interest rates and the timing of defaults. Generally, indices that measure trends in national housing prices are published in arrears. As of June 30, 2013, national housing prices, according to the Case-Shiller National Home Price Index, had declined by approximately 23% peak-to-current. Overall, our evaluation of other-than-temporary impairment as of September 30, 2013 included an expectation of a U.S. housing recovery characterized by relatively modest growth in national housing prices over the next few years. In connection with our assessment of other-than-temporary impairment with respect to relevant securities in our investment portfolio in future periods, we will consider trends in national housing prices that we observe at those times, including the Case-Shiller National Home Price Index, in addition to trends in unemployment rates, interest rates and the timing of defaults.

The other-than-temporary impairment of our investment securities portfolio continues to be sensitive to our estimates of future cumulative losses. However, given our recent more positive outlook for U.S. national housing prices, our sensitivity analysis indicates, as of September 30, 2013, that our investment securities portfolio is currently less exposed to the overall housing price outlook relative to other factors, including unemployment rates and interest rates, than it was as of December 31, 2012.

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

Our evaluation of potential other-than-temporary impairment of mortgage-backed securities with collateral located in Spain, Italy, Ireland and Portugal takes into account government intervention in the corresponding mortgage markets and assumes a negative baseline macroeconomic environment for this region, due to a combination of slower economic growth and government austerity measures. Our baseline view assumes a recessionary period characterized by high unemployment and by additional declines in housing prices of between 10% and 18% across these four countries. Our evaluation of other-than-temporary impairment in our base case does not assume a disorderly sovereign debt restructuring or a break-up of the Eurozone.

In addition, we perform stress testing and sensitivity analysis in order to assess the impact of more severe assumptions on potential other-than-temporary impairment. We estimate, for example, that in more stressful scenarios in which unemployment, gross domestic product and housing prices in these four countries deteriorate more than we expected as of September 30, 2013, other-than-temporary impairment could increase by a range of approximately \$13 million to \$39 million. This sensitivity estimate is based on a number of factors, including, but not limited to, the level of housing prices and the timing of defaults. To the extent that such factors differ significantly from management's current expectations, resulting loss estimates may differ materially from those stated.

Excluding other-than-temporary impairment recorded in the first nine months of 2013, management considers the aggregate decline in fair value of the remaining investment securities and the resulting gross unrealized losses as of

September 30, 2013 to be temporary and not the result of any material changes in the credit characteristics of the securities. Additional information about these net unrealized losses and our assessment of impairment is provided in note 3 to the consolidated financial statements included in this Form 10-Q.

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## Loans and Leases

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

(In millions)	September 30, 2013	December 31, 2012
Institutional:		
U.S.	\$12,091	\$9,645
Non-U.S.	3,321	2,251
Commercial real estate:		
U.S.	166	411
Total loans and leases	15,578	12,307
Allowance for loan losses	(22	) (22
Loans and leases, net of allowance for loan losses	\$15,556	\$12,285

Additional information about these loan-and-lease segments, including underlying classes, is provided in note 4 to the consolidated financial statements included in this Form 10-Q, and in note 5 to the consolidated financial statements included in our 2012 Form 10-K.

During the third quarter of 2013, we further diversified our loan-and-lease exposure by investing in the non-investment-grade lending market through participations in loan syndications. These senior secured bank loans, which are included in the commercial-and-financial class within the institutional segment presented in the table above, totaled approximately \$375 million as of September 30, 2013. In addition, as of the same date, we had binding unfunded commitments totaling an additional \$139 million to participate in such syndications. We expect to increase our level of participation in these loan syndications in future periods. We had no investment in senior secured bank loans as of December 31, 2012.

These loans, which we have rated "speculative" under our internal risk-rating framework (refer to note 4 to the consolidated financial statements included in this Form 10-Q), are externally rated "BBB," "BB" or "B," with approximately 90% of the loans rated "BB" or "B." These loans present more significant exposure to potential credit losses. However, we seek to mitigate such exposure, in part through the limitation of our investment to larger, more liquid credits underwritten by major global financial institutions, the application of our internal credit analysis process to each potential investment, and diversification by counterparty and industry segment. As of September 30, 2013, we had no allowance for loan losses with respect to these commercial-and-financial loans.

Aggregate short-duration advances to our clients included in the institutional segment were \$4.65 billion and \$3.30 billion as of September 30, 2013 and December 31, 2012, respectively. As of September 30, 2013 and December 31, 2012, unearned income deducted from our investment in leveraged lease financing was \$124 million and \$131 million, respectively, for U.S. leases and \$306 million and \$334 million, respectively, for non-U.S. leases.

As of September 30, 2013 and December 31, 2012, we held an aggregate of approximately \$130 million and \$197 million, respectively, of commercial real estate loans which were modified in troubled debt restructurings. No impairment loss was recognized upon restructuring of the loans, as the discounted cash flows of the modified loans exceeded the carrying amount of the original loans as of the modification date. No loans were modified in troubled debt restructurings in the first nine months of 2013 or in all of 2012.

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

(In millions)	Nine Months Ended September 30,	
	2013	2012
Allowance for loan losses:		
Beginning balance	\$22	\$22
Provision for loan losses:		
Commercial real estate	—	(1
Recoveries:		)

Commercial real estate	—	1
Ending balance	\$22	\$22

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## Cross-Border Outstandings

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

Additional information with respect to the nature of our cross-border outstandings is provided under "Financial Condition - Cross-Border Outstandings" in Management's Discussion and Analysis included in our 2012 Form 10-K. The following table presents our cross-border outstandings in countries in which we do business, and which amounted to at least 1% of our consolidated total assets as of the dates indicated. The aggregate of the total cross-border outstandings presented in the table represented approximately 18% and 22% of our consolidated total assets as of September 30, 2013 and December 31, 2012, respectively.

(In millions)	Investment Securities and Other Assets	Derivatives and Securities on Loan	Total Cross-Border Outstandings
September 30, 2013			
United Kingdom	\$ 13,353	\$ 1,488	\$ 14,841
Australia	6,993	336	7,329
Netherlands	4,372	545	4,917
Germany	2,968	164	3,132
Japan	2,951	161	3,112
Canada	2,257	445	2,702
France	1,864	611	2,475
December 31, 2012			
United Kingdom	\$ 18,046	\$ 1,033	\$ 19,079
Australia	7,585	328	7,913
Japan	6,625	1,041	7,666
Germany	7,426	220	7,646
Netherlands	3,130	188	3,318
Canada	2,730	500	3,230

There were no aggregate cross-border outstandings in countries which amounted to between 0.75% and 1% of our consolidated total assets as of September 30, 2013. Aggregate cross-border outstandings in countries which amounted to between 0.75% and 1% of our consolidated total assets as of December 31, 2012 totaled approximately \$1.81 billion and \$1.70 billion to France and Luxembourg, respectively.

Several European countries, particularly Spain, Italy, Ireland and Portugal, have experienced credit deterioration associated with weaknesses in their economic and fiscal situations. With respect to this ongoing uncertainty, we are closely monitoring our exposure to these countries. We had no direct sovereign debt exposure to these countries in our investment securities portfolio as of September 30, 2013. We had aggregate indirect exposure in the portfolio of approximately \$732 million as of September 30, 2013, including \$570 million of mortgage- and asset-backed securities, composed of \$269 million in Spain, \$106 million in Italy, \$118 million in Ireland and \$77 million in Portugal.



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The following table presents our cross-border outstandings in each of these countries as of the dates indicated:

(In millions)	Investment Securities and Other Assets	Derivatives and Securities on Loan	Total Cross-Border Outstandings
September 30, 2013			
Ireland	\$391	\$272	\$ 663
Italy	619	4	623
Spain	269	26	295
Portugal	77	—	77
December 31, 2012			
Italy	\$937	\$1	\$ 938
Ireland	342	277	619
Spain	277	16	293
Portugal	76	—	76

As of September 30, 2013, none of the exposures in these countries was individually greater than 0.75% of our consolidated total assets. The aggregate exposures consisted primarily of interest-bearing deposits, investment securities, loans, including short-duration advances, and foreign exchange contracts. We had not recorded any other-than-temporary impairment associated with expected credit losses, or provisions for loan losses, with respect to any of our exposure to these countries as of September 30, 2013.

**Capital**

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

**Regulatory Capital**

Our objective with respect to regulatory capital management is to maintain a strong capital base in order to provide financial flexibility for our business needs, including funding corporate growth and supporting clients' cash management needs, and to provide protection against loss to depositors and creditors. We strive to maintain an appropriate level of capital, commensurate with our risk profile, on which an attractive return to shareholders is expected to be realized over both the short and long term, while protecting our obligations to depositors and creditors and complying with regulatory capital adequacy requirements. Our capital management process focuses on our risk exposures, our regulatory capital requirements, the evaluations of the major independent credit rating agencies that assign ratings to our public debt and our capital position relative to our peers.

Additional information about our capital management process is provided under "Financial Condition—Capital" in Management's Discussion and Analysis included in our 2012 Form 10-K.

The following table presents regulatory capital ratios and the related components of capital and total risk-weighted assets for State Street and State Street Bank as of the dates indicated. As of September 30, 2013, State Street and State Street Bank met all capital adequacy requirements to which they were subject, and regulatory capital ratios for State Street and State Street Bank exceeded the currently applicable regulatory minimum and "well capitalized" thresholds.



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(Dollars in millions)	Currently Applicable Regulatory Guidelines <sup>(1)</sup>		State Street		State Street Bank	
	Minimum	Well Capitalized	September 30, 2013	December 31, 2012	September 30, 2013	December 31, 2012
Risk-based ratios:						
Tier 1 capital	4	% 6	% 17.3	% 19.1	% 16.1	% 17.3
Total capital	8	10	19.8	20.6	18.8	19.1
Tier 1 leverage ratio	4	5	7.2	7.1	6.5	6.3
Tier 1 capital			\$13,911	\$13,760	\$12,419	\$12,044
Total capital			15,919	14,829	14,515	13,306
Adjusted risk-weighted assets and market risk equivalent assets:						
On-balance sheet assets			63,426	58,238	60,376	55,949
Off-balance sheet equivalent assets			15,696	13,155	15,703	13,144
Market risk equivalent assets			1,240	519	1,240	445
Total risk-weighted assets			\$80,362	\$71,912	\$77,319	\$69,538
Adjusted quarterly average assets			\$193,436	\$192,817	\$189,935	\$189,780

<sup>(1)</sup> State Street Bank must comply with the regulatory guideline for “well capitalized” in order for the parent company to maintain its status as a financial holding company, including maintaining a minimum tier 1 risk-based capital ratio of 6%, a minimum total risk-based capital ratio of 10%, and a minimum tier 1 leverage ratio of 5%. The “well capitalized” guideline requires State Street to maintain a minimum tier 1 risk-based capital ratio of 6% and a minimum total risk-based capital ratio of 10%.

As of September 30, 2013, State Street's and State Street Bank's tier 1 risk-based and total risk-based ratios declined compared to December 31, 2012, primarily the result of increases in total risk-weighted assets. State Street's tier 1 capital in the same comparison increased slightly, as the positive effect of net income and other comprehensive income was partly offset by purchases by us of our common stock and declarations of common stock dividends in the first nine months of 2013. The increases in State Street's and State Street Bank's total capital in the same comparison were primarily the result of the May 2013 issuance of \$1 billion of subordinated debt, which qualifies as tier 2 capital. The increases in total risk-weighted assets for both entities as of September 30, 2013 compared to December 31, 2012 were primarily associated with higher on-balance sheet assets, due to higher levels of loans and other assets, as well as an increase in off-balance sheet equivalent assets, mainly associated with an increase in exposure associated with our participation in principal securities finance transactions. The increases in the tier 1 leverage ratios for both entities as of September 30, 2013 compared to December 31, 2012 mainly resulted from the increases in tier 1 capital, partly offset by slight increases in adjusted quarterly average assets, as balance sheet levels remained elevated in 2013.

**Common Stock**

In the third quarter of 2013, under a program approved by our Board of Directors in March 2013 which authorizes us to purchase up to \$2.10 billion of our common stock through March 31, 2014, we purchased approximately 8.2 million shares of our common stock at an average cost of \$68.57 per share and an aggregate cost of approximately \$560 million. From April 1, 2013 through September 30, 2013, we purchased approximately 16.7 million shares of our common stock under this program at an average per-share and aggregate cost of \$67.12 and \$1.12 billion, respectively. As of September 30, 2013, approximately \$980 million remained available for purchases of our common stock under the March 2013 program.

In the first quarter of 2013, we completed a \$1.80 billion program, authorized by the Board in March 2012, with our purchase of 6.5 million shares at an average per-share and aggregate cost of \$54.95 and approximately \$360 million, respectively.

In the first nine months of 2013, under the March 2013 and March 2012 programs, we purchased in the aggregate approximately 23.2 million shares of our common stock at an average per-share cost of \$63.69 and an aggregate cost of approximately \$1.48 billion.

In the third quarter of 2013, we declared a quarterly common stock dividend of \$0.26 per share, totaling approximately \$115 million, which was paid in October 2013. In the first nine months of 2013, we declared aggregate common stock dividends of \$0.78 per share, totaling approximately \$350 million, compared to aggregate common stock dividends of \$0.72 per share, totaling approximately \$346 million, declared in the first nine months of 2012.

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Preferred Stock

In the third quarter of 2013, we declared a quarterly dividend on our non-cumulative perpetual preferred stock, Series C, of \$1,312.50 per share, or approximately \$0.33 per depositary share (represented by depositary shares, each representing a 1/4,000th ownership interest in a share of State Street's non-cumulative perpetual preferred stock, Series C), totaling approximately \$7 million. In the first nine months of 2013, we declared aggregate dividends on our perpetual preferred stock, Series C, of \$3,937.50 per share, or approximately \$0.98 per depositary share, totaling approximately \$20 million. In both the third quarter and first nine months of 2012, dividends on our perpetual preferred stock, Series C, totaled approximately \$8 million. In the third quarter and first nine months of 2012, we declared dividends on our non-cumulative perpetual preferred stock, Series A, totaling approximately \$7 million and \$21 million, respectively. We redeemed our perpetual preferred stock, Series A, in the fourth quarter of 2012.

Basel Capital Framework

The currently applicable minimum regulatory capital requirements enforced by U.S. banking regulators are based on a 1988 international accord, commonly referred to as Basel I, which was developed by the Basel Committee on Banking Supervision, or Basel Committee.

Basel II Framework

In 2004, the Basel Committee released an enhanced capital adequacy framework, referred to as Basel II. Basel II requires large and internationally active banking organizations, such as State Street, which generally rely on sophisticated risk management and measurement systems, to better align the use of those systems with their determination of regulatory capital requirements. Basel II adopts a three-pillar framework for addressing capital adequacy and minimum capital requirements, which incorporates Pillar 1, the measurement of credit risk, market risk and operational risk; Pillar 2, supervisory review, which addresses the need for a banking organization to assess its capital adequacy relative to the risks underlying its business activities, rather than only with respect to its minimum regulatory capital requirements; and Pillar 3, market discipline, which imposes public disclosure requirements on a banking organization intended to allow the assessment of key information about the organization's risk profile and its associated level of regulatory capital.

In 2007, U.S. banking regulators jointly issued final rules to implement the Basel II framework in the U.S. The framework does not supersede or change the existing prompt corrective action and leverage capital requirements applicable to banking organizations in the U.S., and explicitly reserves the regulators' authority to require organizations to hold additional capital where appropriate. Prior to full implementation of the Basel II framework, State Street is required to complete a defined qualification period, during which it must demonstrate that it complies with the related regulatory requirements to the satisfaction of the Federal Reserve. State Street entered its qualification period in 2010.

Basel III Framework

In 2010, in response to the financial crisis and ongoing global financial market dynamics, the Basel Committee proposed two significant reforms to the Basel II capital framework. The first reform was composed of changes to the market risk capital framework associated with Basel I, and was referred to as Basel 2.5; the second reform was composed of comprehensive revisions and enhancements to Basel II, which became known as Basel III.

Market Risk Capital Rule

The Basel Committee introduced significant changes to the then-existing market risk capital framework, aimed at addressing certain issues in that framework highlighted by the 2008 financial crisis. U.S. banking regulators introduced their version of this so-called Basel 2.5, in the form of a proposed new market risk capital rule, in 2011, which included the concept of an incremental risk capital requirement to capture default and credit-quality migration risk for non-securitization credit products. Other revisions placed additional prudential requirements on banking organizations' internal models for measuring market risk and required enhanced qualitative and quantitative disclosures, particularly with respect to banking organizations' securitization activities.

In August 2012, U.S. banking regulators jointly issued a final market risk capital rule to implement the new market risk capital framework in the U.S. The new market risk capital rule, which was effective beginning on January 1,

2013, supplements Basel I and Basel II, and replaces the prior market risk capital framework under Basel I and Basel II in place since 1998, by requiring banking organizations with significant trading activities, as defined in the rule, to adjust their regulatory risk-based capital ratios to reflect the market risk inherent in their trading activities. Among other things, the final rule requires the use of internal models to calculate daily measures of Value-at-Risk, or VaR, that reflect general market risk for certain trading positions defined as “covered positions,” as well as stressed VaR-based measures to supplement the VaR-based measures.

Our adoption of the new market risk capital rule on January 1, 2013 did not significantly affect our or State Street Bank's

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risk-based capital ratios, although it did modestly increase our market risk equivalent assets. The disclosures required by the new rule are provided under "Financial Condition - Market Risk - Trading Activities" in this Management's Discussion and Analysis. Market risk equivalent assets are disclosed in the foregoing "Regulatory Capital" portion of this "Capital" section.

**Basel III**

Basel III proposed to establish more stringent regulatory capital and liquidity requirements, including higher minimum regulatory capital ratios, new capital buffers, higher risk-weighted asset calibrations, more restrictive definitions of qualifying capital, a liquidity coverage ratio and a net stable funding ratio.

In June 2012, U.S. banking regulators introduced Basel III by issuing proposed revisions to the existing Basel II framework. These proposals were intended to incorporate the above-described revisions and enhancements proposed by the Basel Committee, and implement relevant provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act, or Dodd-Frank Act, in order to restructure the U.S. capital rules into a harmonized, codified regulatory capital framework.

In July 2013, U.S. banking regulators jointly issued a final rule implementing the Basel III framework in the U.S. Among other things, the final rule raises the minimum tier 1 risk-based capital ratio from 4% to 6%, adds requirements for a minimum common equity tier 1 capital ratio of 4.5% and a minimum supplementary tier 1 leverage ratio of 3% for so-called "advanced approaches" banking organizations (described below), and implements a capital conservation buffer and a countercyclical capital buffer linked to a banking organization's capital levels. The Basel III final rule also incorporates the new market risk capital rule to create a single and comprehensive capital adequacy framework.

Under the Basel III final rule, a banking organization would be able to make capital distributions and discretionary bonus payments without specified limitations as long as it maintains the required capital conservation buffer of 2.5% over each of the minimum tier 1 and total risk-based capital ratios and the common equity tier 1 capital ratio (plus any potentially applicable countercyclical capital buffer). Banking regulators would establish the minimum countercyclical capital buffer, which is initially set at zero, up to a maximum of 2.5% above the minimum ratios inclusive of the capital conservation buffer, under certain economic conditions. As of January 1, 2019, the date that full implementation is required, and assuming no countercyclical buffer, the minimum Basel III capital ratios, including the capital conservation buffer, will be 8.5% for tier 1 risk-based capital, 10.5% for total risk-based capital, and 7% for common equity tier 1 capital, in order for State Street to make capital distributions and discretionary bonus payments without limitation. Each of these Basel III ratios is calculated differently under the Basel III final rule than those similar ratios calculated under Basel I, and therefore these Basel III ratios are not comparable with the Basel I ratios presented in the foregoing table at the beginning of this "Regulatory Capital" section.

The Basel III final rule provides for two frameworks: the "standardized" approach, intended to replace Basel I, and the "advanced" approach, applicable to advanced approaches banking organizations, like State Street, as originally defined under Basel II. Once phased in, the Basel III final rule will change the manner in which our regulatory capital ratios are calculated, will reduce our calculated regulatory capital, and, as noted above, will increase the minimum regulatory capital that we will be required to maintain. Under the Basel III final rule, we will be subject to the lower of our regulatory capital ratios calculated under the standardized approach and those calculated under the advanced approach in the assessment of our capital adequacy under the prompt corrective action framework.

Provisions of the Basel III final rule will become effective under a transition timetable which begins on January 1, 2014. These provisions will supersede or modify corresponding elements of the Basel I and Basel II risk-based and leverage capital requirements and prompt corrective action framework. The requirement for the capital conservation buffer will be phased in beginning on January 1, 2016, with full implementation by January 1, 2019.

The timing of application of the provisions of the Basel III final rule related to the calculation of risk-weighted assets under the advanced approach will depend on State Street's completion of a required qualification period, but will in no case occur earlier than January 1, 2014. During its qualification period, State Street must demonstrate that it complies with the related Basel III requirements to the satisfaction of the Federal Reserve.

#### Estimated Basel III Tier 1 Common Ratio

As described above, the Basel III final rule adds a requirement for a minimum common equity tier 1 capital ratio, or tier 1 common ratio. The tier 1 common ratio is a measurement of capital representing tier 1 capital, reduced by the deduction of "non-common elements," such as trust preferred capital securities and preferred stock, divided by total risk-weighted assets. The tier 1 common ratio is not formally required under Basel I, although it is used by regulators and by management to monitor and assess State Street's capital position, both individually and relative to other financial institutions, and management believes it may be of interest to investors.

The following table presents State Street's tier 1 common ratio as of September 30, 2013, calculated using Basel I standards, and our estimated tier 1 common ratios as of September 30, 2013, calculated in conformity with the Basel III final rule under both the standardized approach and the advanced approach. These estimated Basel III tier 1 common ratios are

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preliminary, reflect tier 1 common equity calculated under the Basel III final rule as applicable on its January 1, 2014 effective date, and are based on our present interpretations, expectations and understanding of the Basel III final rule, as we currently understand the final rule's impact. As indicated above, under the Basel III final rule, we will be subject to the lower of our tier 1 common ratio calculated under the standardized approach and such ratio calculated under the advanced approach in the assessment of our capital adequacy under the prompt corrective action framework.

September 30, 2013	Currently Applicable Regulatory Requirements <sup>(1)</sup>	Basel III Final Rule Standardized Approach (Estimated) <sup>(2)</sup>	Basel III Final Rule Advanced Approach (Estimated) <sup>(2)</sup>	
(Dollars in millions)				
Tier 1 capital	\$13,911	\$13,199	\$13,199	
Less:				
Trust preferred capital securities	950	475	475	
Preferred stock	490	490	490	
Plus:				
Other	—	56	56	
Tier 1 common capital	12,471	12,290	12,290	
Total risk-weighted assets	80,362	120,454	108,954	
Tier 1 common ratio	15.5	% 10.2	% 11.3	%
Minimum tier 1 common ratio requirement, assuming full implementation on January 1, 2019		4.5	% 4.5	%
Capital conservation buffer, assuming full implementation on January 1, 2019		2.5	2.5	
Minimum tier 1 common ratio requirement, including capital conservation buffer, assuming full implementation on January 1, 2019 <sup>(3)</sup>		7.0	7.0	

<sup>(1)</sup> Using Basel I standards, the tier 1 common ratio was calculated by dividing (a) tier 1 risk-based capital, calculated in conformity with Basel I, less non-common elements including qualifying trust preferred capital securities and qualifying perpetual preferred stock, or tier 1 common capital, by (b) total risk-weighted assets, calculated in conformity with Basel I.

<sup>(2)</sup> As of September 30, 2013, for purposes of the calculations in conformity with the Basel III final rule, capital and total risk-weighted assets under both the standardized approach and the advanced approach were calculated using our estimates, based on the provisions of the final rule expected to affect capital in 2014. The tier 1 common ratio was calculated by dividing (a) tier 1 common capital, as described in footnote (1), but with tier 1 risk-based capital calculated in conformity with the final rule, by (b) total risk-weighted assets, calculated in conformity with the Basel III final rule. These estimated Basel III tier 1 common ratios are preliminary, reflect tier 1 common equity calculated under the Basel III final rule as applicable on its January 1, 2014 effective date, and are based on our present interpretations, expectations and understanding of the final rule, as we currently understand the final rule's impact.

• Under both the standardized and advanced approaches, tier 1 risk-based capital decreased by \$712 million, as a result of applying the estimated effect of the Basel III final rule to Basel I tier 1 risk-based capital of \$13.911 billion as of September 30, 2013.

• Under both the standardized and advanced approaches, estimated tier 1 common capital used in the calculation of the tier 1 common ratio was \$12.290 billion, reflecting the adjustments to Basel I tier 1 risk-based capital described in the first bullet above. Tier 1 common capital used in the calculation was therefore calculated as adjusted tier 1 risk-based capital of \$13.199 billion less non-common elements of capital, composed of trust preferred capital securities of \$475 million, preferred stock of \$490 million, and other adjustments of \$56 million as of September 30, 2013, resulting in estimated tier 1 common capital of \$12.290 billion. As of September 30, 2013, there was no qualifying minority

interest in subsidiaries.

- Under the standardized approach, total risk-weighted assets used in the calculation of the estimated tier 1 common ratio increased by \$40.092 billion as a result of applying the provisions of the Basel III final rule to Basel I total risk-weighted assets of \$80.362 billion as of September 30, 2013. Under the advanced approach, total risk-weighted assets used in the calculation of the estimated tier 1 common ratio increased by \$28.592 billion as a result of applying the provisions of the final rule to Basel I total risk-weighted assets of \$80.362 billion as of September 30, 2013.

The primary differences between total risk-weighted assets under Basel I and total risk-weighted assets under the Basel III final rule include the following: under Basel I, credit risk is quantified using pre-determined risk weights and asset classes, and in part, uses external credit ratings, while the Basel III final rule, specifically the standardized and advanced approaches, introduces a broader range of pre-determined risk weights and asset classes, uses certain alternatives to external credit ratings, includes additional adjustments for operational risk (under the advanced approach) and counterparty credit risk, and revises the treatment of equity exposures. In particular, asset



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securitization exposures receive higher risk weights under both the standardized and advanced approaches in the Basel III final rule compared to Basel I.

(3) The minimum tier 1 common ratio requirement does not reflect the countercyclical capital buffer under the Basel III final rule, or the capital buffer for global systemically important banks prescribed by the Basel Committee (refer to "Systemically Important Banks" below); such countercyclical capital buffer, which is initially set at zero, would be established by banking regulators under certain economic conditions, and U.S. banking regulators have not yet issued a proposal to implement the prescribed capital buffer for systemically important financial institutions.

The estimated Basel III tier 1 common ratio as of September 30, 2013 presented above, calculated under the advanced approach in conformity with the Basel III final rule, reflects calculations and determinations with respect to our capital and related matters as of September 30, 2013, based on State Street and external data, quantitative formulae, statistical models, historical correlations and assumptions, collectively referred to as "advanced systems," in effect and used by State Street for those purposes as of the time we filed this Form 10-Q. Significant components of these advanced systems involve the exercise of judgment by us and our regulators, and our advanced systems may not accurately represent or calculate the scenarios, circumstances, outputs or other results for which they are designed or intended. Due to the influence of changes in these advanced systems, whether resulting from changes in data inputs, regulation or regulatory supervision or interpretation, State Street-specific or market activities or experiences or other updates or factors, we expect that our advanced systems and our capital ratios calculated in conformity with the Basel III final rule will change and may be volatile over time, and that those latter changes or volatility could be material as calculated and measured from period to period.

**Impact of Basel III Final Rule**

Our current assessment of the implications of the Basel III final rule indicates a potential impact which could be material to our businesses and our profitability, as well as to our regulatory capital ratios. One significant provision in the final rule would require us to apply the "Simplified Supervisory Formula Approach," referred to as the SSFA, in the risk-weighting of asset securitization exposures, such as asset-backed securities, carried in our investment securities portfolio. The approach required by Basel II utilizes the ratings-based approach, under which external credit ratings are used to risk-weight such exposures. The Dodd-Frank Act prohibits the use of external credit ratings in the risk-weighting of asset securitization exposures. Currently, our investment portfolio contains significant holdings of mortgage- and asset-backed securities that are highly rated by credit rating agencies, but for which the SSFA would apply higher regulatory risk weights compared to the approach required by Basel I and Basel II. In contrast, certain of our securities with lower credit ratings would receive lower regulatory risk weights if the SSFA were applied.

Based on the composition of our investment portfolio with respect to the types of securities and related external credit ratings as of September 30, 2013, our application of the SSFA would materially increase our total regulatory risk-weighted assets relative to those calculated in conformity with Basel I, and correspondingly decrease our regulatory risk-based capital ratios relative to those calculated in conformity with Basel I; as a result, we are re-evaluating the composition of our investment portfolio in order to maintain an investment strategy appropriately aligned with our maintenance of an appropriate level of regulatory capital. Depending on future market conditions, this re-evaluation could result in the reinvestment of our portfolio securities into different types of investments, which could materially affect our consolidated results of operations by reducing our net interest revenue.

Certain of the provisions in the Basel III final rule, including the requirement to apply the SSFA, will become effective beginning on January 1, 2014, although certain provisions will be implemented, in whole or in part, in later periods. The provisions of the SSFA discussed above related to the standardized approach become effective beginning on January 1, 2015. As such, a significant number of the securities currently held in our investment portfolio that are highly rated by credit agencies are expected to mature or pay down over the intervening period, and we would currently anticipate replacing those securities pursuant to our reinvestment program in a manner that would seek to manage our risk appetite, our return objectives and our levels of regulatory capital. As a result of our balance sheet management efforts, all else being equal, we would anticipate being able, prior to January 1, 2015, to significantly offset the impact of application of the SSFA on our total regulatory risk-weighted assets and our regulatory risk-based

capital ratios.

In addition, the qualification of trust preferred capital securities as tier 1 capital will be phased out 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 multi-year transition period beginning on January 1, 2016. We had trust preferred capital securities of \$950 million outstanding as of September 30, 2013.

There remains considerable uncertainty with respect to multiple provisions of the Basel III final rule, and the timing and manner in which they will be applied to us. In particular, the timing under which we will complete our required qualification period, as determined by the Federal Reserve, and our transition to the calculation of risk-based capital ratios that incorporate the advanced approach, remain uncertain. Models implemented under the Basel III final rule, particularly those implementing

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the advanced approach, remain subject to regulatory review and approval. The full effects of the Basel III final rule on State Street and State Street Bank are therefore subject to further evaluation and also to further regulatory guidance, action or rule-making. In general, we expect to be held to the most stringent of the various provisions in the Basel III final rule; however, we anticipate that we will be able to comply with the relevant Basel III regulatory capital and liquidity requirements when and as applied to us.

**Supplementary Leverage Ratio Framework**

In July 2013, U.S. banking regulators jointly issued a Notice of Proposed Rulemaking, or NPR, which proposes to enhance leverage ratio standards for the largest, most systemically significant U.S. banking organizations. The July 2013 NPR applies to any U.S. top-tier bank holding company with at least \$700 billion in consolidated total assets or at least \$10 trillion in total assets under custody, referred to as a covered bank holding company, and any insured depository institution subsidiary of such bank holding company. We expect the standards to apply to State Street and State Street Bank based on our total assets under custody.

Under Basel I, the tier 1 leverage ratio is calculated by dividing tier 1 capital by adjusted quarterly average assets. While Basel II did not incorporate a leverage ratio, the Basel III final rule provides for a leverage ratio similar to Basel I, as well as a supplementary leverage ratio for advanced approaches banking organizations. This supplementary leverage ratio adds certain off-balance sheet exposures, such as those related to derivative contracts and unfunded lending commitments, to the denominator of the ratio calculation.

Under the July 2013 NPR, covered bank holding companies would be required to maintain a supplementary tier 1 leverage ratio of at least 5%, which is 2% above the similar minimum Basel III supplementary tier 1 leverage ratio of 3%. Failure to exceed the 5% supplementary tier 1 leverage ratio would subject covered bank holding companies to restrictions on capital distributions and discretionary bonus payments. In addition to the leverage buffer for covered bank holding companies, the July 2013 NPR would require insured depository institution subsidiaries of covered bank holding companies, like State Street Bank, to maintain a 6% supplementary tier 1 leverage ratio to be considered "well capitalized." State Street is among the eight largest, most systemically significant U.S. banking organizations to which the July 2013 NPR would apply, if finalized as currently proposed. The July 2013 NPR would not apply to all banking organizations with which we compete. If finalized as currently proposed, the new supplementary tier 1 leverage ratio requirements will be effective beginning on January 1, 2018. The July 2013 NPR is a proposed rule, and remains subject to interpretation, regulatory guidance, industry and other comment and issuance in the form of a final rule.

**Liquidity Coverage and Net Stable Funding Ratios**

In October 2013, U.S. banking regulators issued an NPR intended to implement in the U.S. the Basel Committee's Liquidity Coverage Ratio, or LCR. The proposed LCR standard is intended to promote the short-term resilience of the liquidity risk profile of internationally active banking organizations, improving the banking industry's ability to absorb shocks arising from financial and economic stress, and improving the measurement and management of liquidity risk. Among other things, the proposed LCR standard would require a covered banking organization to maintain an amount of high-quality liquid assets, or HQLA, equal to or greater than 100% of the banking organization's total net cash outflows over a 30-calendar-day period of significant liquidity stress, as defined. The October 2013 NPR would be phased in beginning on January 1, 2015, with full implementation by January 1, 2017. As an internationally active banking organization, State Street expects to be subject to the LCR standard.

The October 2013 NPR is a proposed rule and remains subject to interpretation, regulatory guidance, industry and other comment and issuance in the form of a final rule. The specification of the various elements of the LCR in the final rule, such as the eligibility of assets as HQLA, the calculation of net outflows and the timing of indeterminate maturities, could have a material effect on our business activities, including the management and composition of our investment securities portfolio and our ability to extend committed contingent credit facilities to our clients.

The Basel Committee has also proposed a Net Stable Funding Ratio, or NSFR, which will establish a one-year liquidity standard representing the proportion of long-term assets funded by long-term stable funding, scheduled for global implementation in 2018. U.S. banking regulators have not yet issued a proposal to implement the NSFR.

**Systemically Important Banks**

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 28 institutions worldwide that have been identified by the Financial Stability Board, or FSB, and the Basel Committee as “global systemically important banks,” or G-SIBs. Our designation as a G-SIB will require us to maintain an additional capital buffer, ranging between 1% and 2.5%, above the Basel III minimum common equity tier 1 capital ratio of 4.5%, based on a number of factors, as evaluated by banking regulators. Factors in this evaluation will include our size, interconnectedness, substitutability, complexity and cross-jurisdictional activities. In November 2012, the FSB designated us as a category-1 organization, with a

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capital surcharge of 1%, although this designation and the associated additional capital buffer are subject to change. U.S. banking regulators have not yet issued a proposal to implement the G-SIB capital surcharge.

We expect these additional capital requirements for G-SIBs to be phased in beginning on January 1, 2016, with full implementation by January 1, 2019. Assuming completion of the phase-in period for the capital conservation buffer, and no countercyclical buffer, the minimum capital ratios as of January 1, 2019, including the capital conservation buffer and G-SIB capital surcharge, would be 9.5% for tier 1 risk-based capital, 11.5% for total risk-based capital, and 8% 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.

**Economic Capital**

We define economic capital as the capital required to protect holders of our senior debt, and obligations higher in priority, against unexpected economic losses over a one-year period at a level consistent with the solvency of a firm with our target "Aa3/AA-" senior bank debt rating. Economic capital requirements are one of several important measures used by management and our Board to assess the adequacy of our capital levels in relation to State Street's risk profile. Due to the evolving nature of quantification techniques, we expect to periodically refine the methodologies, assumptions, and information used to estimate our economic capital requirements, which could result in a different amount of capital needed to support our business activities.

We measure returns on economic capital and economic profit (defined by us as net income available to common shareholders after deduction of State Street's cost of equity capital) by line of business. This economic profit will be used by management and the Board to gauge risk-adjusted performance over time. Accordingly, the measurement and evaluation of risk-adjusted performance have become integral parts of our internal process for allocating resources (for example, capital and information technology spending) by line of business. In addition, return on economic capital and economic profit are two of several measures used in our evaluation of the viability of a new business or product initiative and for merger-and-acquisition analysis.

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

- **Market risk:** the risk of adverse financial impact due to fluctuations in market prices, primarily as they relate to our trading activities;

- **Interest-rate risk:** the risk of loss in non-trading asset-and-liability management positions, primarily the impact of adverse movements in interest rates on the repricing mismatches that exist between the assets and liabilities carried in our consolidated statement of condition;

- **Credit risk:** the risk of loss that may result from the default or downgrade of a borrower or counterparty;

- **Operational risk:** the risk of loss from inadequate or failed internal processes and systems, human error, or from external events, which is generally consistent with the Basel II definition; and

- **Business risk:** the risk of negative earnings resulting from adverse changes in business factors, including changes in the competitive environment, changes in the operational economics of our business activities, and the effect of strategic and reputational risks.

Economic capital for each of these five categories is estimated on a stand-alone basis using scenario analysis and statistical modeling techniques applied to internally-generated and, in some cases, external information. These individual results are then aggregated at the State Street consolidated level.

**Liquidity**

The objective of liquidity management is to provide for the ability to meet our financial obligations in a timely and cost-effective manner, and maintain sufficient flexibility to fund strategic corporate initiatives as they arise. Effective management of liquidity involves assessing the potential mismatch between the future cash needs of our clients and our available sources of cash under both normal and adverse economic and business conditions. Significant uses of liquidity, described more fully below, consist primarily of funding client deposit withdrawals and outstanding commitments to extend credit or commitments to purchase securities as they are drawn upon. Liquidity is provided by

the maintenance of broad access to the global capital markets and by the asset structure in our consolidated statement of condition. Additional information about our liquidity is provided under “Financial Condition - Liquidity” in Management's Discussion and Analysis included in our 2012 Form 10-K.

We generally 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 broader access to funding products and markets limited to banks, specifically the federal funds market and the Federal Reserve's

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discount window. The parent company is managed to a more conservative liquidity profile, reflecting narrower market access. The parent company typically holds enough cash, primarily in the form of interest-bearing deposits with its banking subsidiaries, to meet its current debt maturities and cash needs, as well as those projected over the next one-year period.

The sources of our liquidity consist primarily of (1) access to the global capital markets and (2) liquid assets carried in our consolidated statement of condition. Our ability to source incremental funding at reasonable rates of interest from wholesale investors in the capital markets is the first source of liquidity we would access to accommodate our uses of liquidity described below. Our on-balance sheet liquid assets are also an integral component of our liquidity management strategy. These assets provide liquidity through maturities of the assets, but more importantly, they provide us with the ability to raise funds by pledging the securities as collateral for borrowings or through outright sales.

In addition, State Street Bank is a member of the Federal Home Loan Bank of Boston. This membership allows for advances of liquidity in varying terms against high-quality collateral, which helps facilitate asset-and-liability management of depository institutions. No Federal Home Loan Bank advances were outstanding as of September 30, 2013 or December 31, 2012.

Each of the above-described sources of liquidity is used in our management of daily cash needs and is available in a crisis scenario should we need to accommodate potential large, unexpected demand for funds.

Significant uses of our liquidity generally result from the following: withdrawals of unsecured 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. Client deposits are generated mainly from our investment servicing activities, and are invested in a combination of investment securities and short-duration financial instruments whose mix is determined by the characteristics of the deposits. Most of the client deposits are payable on demand or are short-term in nature, which characteristics mean that withdrawals can potentially occur quickly and in significant amounts. Similarly, clients can request disbursement of funds under commitments to extend credit, or can overdraw their deposit accounts rapidly and in significant volumes. In addition, a sizeable volume of unanticipated funding requirements, such as significant draw-downs of existing lines of credit, could require additional liquidity. These demands on liquidity can be more substantial during periods of market disruption or uncertainty.

Material risks to sources of short-term liquidity could include, among other things, adverse changes in the perception in the financial markets of our financial condition or our liquidity needs, and downgrades by major independent credit rating agencies of our deposits and our debt securities. Such changes in perception, or downgrades of our deposits or our debt securities, could restrict our ability to access the capital markets and could lead to withdrawals of unsecured deposits by our clients.

In managing our liquidity, from time to time we issue term wholesale certificates of deposit, or CDs, and invest those funds in short-duration financial instruments, which are carried in our consolidated statement of condition and which would be available to meet our cash needs. As of September 30, 2013, no CDs were outstanding, compared to \$13.56 billion as of December 31, 2012, as client deposits remained stable.

While maintenance of our high investment-grade credit rating is of primary importance to our liquidity management program, our on-balance sheet liquid assets represent significant liquidity that we can directly control, and provide a source of cash in the form of principal maturities and the ability to borrow from the capital markets using our securities as collateral. Our net liquid assets consist primarily of cash balances at central banks in excess of regulatory requirements and other short-duration liquid assets, such as interest-bearing deposits with banks, which are multi-currency instruments invested with major multi-national banks, and high-quality, marketable investment securities not already pledged, which generally are more liquid than other types of assets and can be sold or borrowed against to generate cash quickly.

As of September 30, 2013, the value of our consolidated net liquid assets, as we define them, totaled \$127.81 billion, compared to \$149.02 billion as of December 31, 2012. For the third quarter and first nine months of 2013, consolidated average net liquid assets were \$108.48 billion and \$113.57 billion, respectively, compared to \$117.02

billion and \$114.06 billion for the third quarter and first nine months of 2012, respectively. Due to the unusual size and volatile nature of client deposits as of quarter-end, we maintained cash balances in excess of regulatory requirements of approximately \$30.39 billion at the Federal Reserve, the ECB and other non-U.S. central banks as of September 30, 2013, compared to \$41.11 billion as of December 31, 2012. As of September 30, 2013, the value of the parent company's net liquid assets totaled \$2.98 billion, compared with \$3.80 billion as of December 31, 2012. The parent company's liquid assets consisted primarily of overnight placements with its banking subsidiaries. Aggregate investment securities carried at \$48.28 billion as of September 30, 2013, compared to \$46.66 billion as of December 31, 2012, were designated as pledged for public and trust deposits, borrowed funds and for other purposes as provided by law, and are excluded from the liquid assets calculation, unless pledged internally between State Street affiliates. Liquid assets included securities pledged to the Federal Reserve Bank of Boston to secure State Street Bank's ability to borrow



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from their discount window should the need arise. This access to primary credit is an important source of back-up liquidity for State Street Bank. As of September 30, 2013, State Street Bank had no outstanding primary credit borrowings from the discount window.

Based on our level of consolidated liquid assets and our ability to access the capital markets for additional funding when necessary, including our ability to issue debt and equity securities under our current universal shelf registration, management considers State Street's overall liquidity as of September 30, 2013 to be sufficient to meet its current commitments and business needs, including accommodating the transaction and cash management needs of its clients. We maintain an effective universal shelf registration that allows for the public offering and sale of debt securities, capital securities, common stock, depository shares and preferred stock, and warrants to purchase such securities, including any shares into which the preferred stock and depository shares may be convertible, or any combination thereof. In May 2013, we issued an aggregate of \$1.50 billion of long-term debt, composed of \$500 million of 1.35% senior notes due May 15, 2018 and \$1.0 billion of 3.1% subordinated notes due May 15, 2023. Additional information about this issuance is provided in note 7 to the consolidated financial statements included in this Form 10-Q. 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.

We currently maintain a corporate commercial paper program, under which we are able to issue up to \$3 billion of commercial paper with original maturities of up to 270 days from the date of issuance. As of September 30, 2013, we had \$1.26 billion of commercial paper outstanding under this corporate program, compared to \$2.32 billion as of December 31, 2012.

As of September 30, 2013, State Street Bank had Board authority to issue unsecured senior debt securities from time to time, provided that the aggregate principal amount of such unsecured senior debt outstanding at any one time does not exceed \$5 billion. As of the same date, \$4 billion was available for issuance pursuant to this authority. As of September 30, 2013, State Street Bank had Board authority to issue up to \$1.5 billion of subordinated debt. As of the same date, \$500 million was available for issuance pursuant to this authority.

State Street Bank currently maintains a line of credit with a financial institution of CAD \$800 million, or approximately \$778 million as of September 30, 2013, 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, 2013, no balance was outstanding on this line of credit.

**Risk Management**

The global scope of our business activities requires that we balance what we perceive to be the primary risks in our businesses with a comprehensive and well-integrated risk management function. The identification, assessment, monitoring, mitigation and reporting of risks are essential to the financial performance and successful management of our businesses. These risks, if not effectively managed, can result in current losses to State Street as well as erosion of our capital and damage to our reputation. Our systematic approach allows for an assessment of risks within a framework for evaluating opportunities for the prudent use of capital that appropriately balances risk and return. We have a disciplined approach to risk that involves all levels of management. The Board, through its Risk and Capital Committee, provides oversight and review of our overall risk management programs, including the approval of key risk management policies and the periodic review of State Street's "Risk Appetite Statement," which is an integral part of our overall Internal Capital Adequacy Assessment Process, or ICAAP. The Risk Appetite Statement outlines the quantitative limits and qualitative goals that define and constrain our risk appetite and defines responsibilities for measuring and monitoring risk against limits, which are reported regularly to the Board. In addition, State Street utilizes a variety of key risk indicators to monitor risk on a more granular level. ERM, a corporate group, provides risk oversight, support and coordination to allow for consistent identification, measurement and management of risks across business units separate from the business units' activities, and is responsible for the formulation and maintenance of enterprise-wide risk management policies and guidelines. In addition, ERM establishes and reviews approved limits and, in collaboration with business unit management, monitors key risks. The Chief Risk Officer, or CRO, manages ERM and reports to both the Chief Executive Officer and the Board's Risk and Capital Committee.

The execution of duties with respect to the management of people, products, business operations and processes is the responsibility of business unit managers. The function of risk management is designing and directing the implementation of risk management programs and processes consistent with corporate and regulatory standards, and providing oversight of the business-owned risks. Accordingly, risk management is a shared responsibility between ERM and the business units, and requires joint efforts in goal setting, program design and implementation, resource management, and performance evaluation between business and functional units. In addition, Corporate Audit separately assesses the effectiveness of business units and risk management in the execution of their responsibilities.

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Responsibility for risk management is overseen by a series of management committees, as well as the Board's Risk and Capital Committee. The Management Risk and Capital Committee, or MRAC, co-chaired by our CRO and Chief Financial Officer, is the senior management decision-making body for risk and capital issues, and is responsible for aligning State Street's strategy, budget, risk appetite and capital adequacy. Our Asset, Liability and Capital Committee, or ALCCO, chaired by our Treasurer, oversees the management of our consolidated statement of condition, the management of our global liquidity and interest-rate risk positions, our regulatory and economic capital, the determination of the framework for capital allocation and strategies for capital structure, and debt and equity issuances.

State Street's risk management program is supported by the activities of a number of corporate risk oversight committees, chaired by senior executives in ERM. Our Fiduciary Review Committee reviews and assesses the risk management programs of those units in which State Street serves in a fiduciary capacity. Our Credit Risk and Policy Committee is responsible for cross-business unit review and oversight of credit and counterparty risk, as well as the review, recommendation and approval of material policies, procedures and guidelines governing the identification, measurement, analysis and control of material credit risk across State Street. Our Country Risk Committee oversees the identification, assessment, monitoring, reporting and mitigation, where necessary, of country risks. Our Operational Risk Committee provides cross-business oversight of operational risk to identify, measure, manage and control operational risk consistently across State Street. Our Model Assessment Committee provides support and input concerning technical modeling issues and validates financial models utilized by our business units.

While we believe that our risk management program is effective in managing the risks in our businesses, external factors may create risks that cannot always be identified or anticipated.

Market Risk

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. State Street is exposed to market risk in both its trading and certain of its non-trading, or asset-and-liability management, activities. The market risk management processes related to these activities, discussed in further detail below, apply to both on- and off-balance sheet exposures.

In the conduct of our trading and investment activities, we assume market risk. The level of market risk that we assume is a function of our overall risk appetite, business objectives and liquidity needs, our clients' requirements and market volatility, and our execution against those factors. Market risk associated with our trading activities is discussed below under "Trading Activities." Market risk associated with our non-trading activities, which consists primarily of interest-rate risk, is discussed under "Asset-and-Liability Management Activities."

Trading Activities

We engage in trading activities primarily to support our clients' needs and to contribute to our overall corporate earnings and liquidity. In connection with certain of these trading activities, we enter into a variety of derivative financial instruments to support our clients' needs and to manage our interest-rate and currency risk. These activities are generally intended to generate trading services revenue and to manage potential earnings volatility. In addition, we provide services related to derivatives in our role as both a manager and a servicer of financial assets. Our clients use derivatives to manage the financial risks associated with their investment goals and business activities. With the growth of cross-border investing, our clients often enter into foreign exchange forward contracts to convert currency for international investments and to manage the currency risk in their international investment portfolios. As an active participant in the foreign exchange markets, we provide foreign exchange forward and option contracts in support of these client needs, and also act as a dealer in the currency markets.

As part of our trading activities, we assume positions in the foreign exchange and interest-rate markets by buying and selling cash instruments and entering into derivative instruments, including foreign exchange forward contracts, foreign exchange and interest-rate options and interest-rate swaps, interest-rate forward contracts, and interest-rate futures. As of September 30, 2013, the aggregate notional amount of these derivative contracts was \$1.13 trillion, of which \$1.12 trillion was composed of foreign exchange forward, swap and spot contracts. In the aggregate, we seek to

match positions closely with the objective of minimizing related currency and interest-rate risk. All foreign exchange contracts are valued daily at current market rates. Additional information about derivative instruments entered into in connection with our trading activities is provided in note 11 to the consolidated financial statements included in this Form 10-Q.

#### Governance

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

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The Trading and Markets Risk Committee, or TMRC, is a management committee that oversees all market risk-taking activities across State Street associated with trading. The TMRC, which reports to the MRAC, is composed of members of ERM, our Global Markets business, our Global Treasury group, our senior executives who manage our trading businesses, and other members of management who possess specialized knowledge and expertise. Under authority delegated by the MRAC, the TMRC is responsible for the formulation of guidelines, strategies and work flows with respect to the measurement, monitoring and control of our trading market risk, and also approves market risk tolerance limits and dealing authorities. The TMRC meets regularly to monitor the management of our trading market risk activities.

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

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

Corporate Audit separately assesses the design and operating effectiveness of the market risk controls within our business units and ERM. Other related responsibilities of Corporate Audit include the periodic review of compliance, by ERM and the business units, with market risk policies, guidelines, and corporate standards, as well as relevant regulatory requirements. We are subject to regular monitoring, reviews and supervisory exams of our market risk function by the Federal Reserve. In addition, we are regulated by the SEC, the Financial Industry Regulatory Authority and the U.S. Commodities Futures Trading Commission.

**Risk Appetite**

Our corporate market risk appetite is specified in policy statements that outline the governance, responsibilities and requirements surrounding the identification, measurement, analysis, management and communication of market risk arising from our trading activities. These policy statements also set forth the market risk control framework to monitor, support, manage and control this portion of our risk appetite. All groups involved in the management and control of market risk associated with trading activities are required to comply with the qualitative and quantitative elements of these policy statements. Our trading market risk control framework is composed of the following components:

- A trading market risk management process led by ERM, separate from the business units' discrete activities;
- Clearly defined responsibilities and authorities for the primary groups involved in trading market risk management;
- A trading market risk measurement methodology that captures correlation effects and allows aggregation of market risk across risk types, markets and business lines;
- Daily monitoring, analysis, and reporting of market risk exposures associated with trading activities against market risk limits;
- A defined limit structure and escalation process in the event of a market risk limit excess;
- Use of VaR models to measure the one-day market risk exposure of trading positions;
- Use of VaR as a ten-day-based regulatory capital measure of the market risk exposure of trading positions;
- Use of non-VaR-based limits and other controls;
- Use of stressed-VaR models, stress-testing analysis and scenario analysis to support the trading market risk measurement and management process by assessing how portfolios and global business lines perform under extreme market conditions;

• Use of back-testing as a diagnostic tool to assess the accuracy of VaR models and other risk management techniques;  
• and

• A new-product-approval process that requires market risk teams to assess trading-related market risks and apply risk tolerance limits to proposed new products and business activities.

State Street uses its ICAAP to assess its overall capital and liquidity in relation to its risk profile and provide a comprehensive strategy for maintaining appropriate capital and liquidity levels. With respect to market risk associated with trading activities, our risk management and our calculations of regulatory capital and economic capital are based primarily on our internal VaR models and stress-testing analysis. As discussed in detail under “Value-at-Risk” below, VaR is measured daily by ERM.

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The TRMC oversees our market risk exposure in relation to limits established within our risk appetite framework. These limits define threshold levels for VaR- and stressed VaR-based measures and are applicable to all trading positions subject to regulatory capital requirements. These limits serve to prevent any undue concentration of market risk exposure, in light of the primarily non-proprietary nature of our trading activities. The risk appetite framework and associated limits are reviewed and approved by the Risk and Capital Committee of the Board.

**Covered Positions**

Our trading positions are subject to regulatory market risk capital requirements if they meet the regulatory definition of a "covered position." The identification of covered positions for inclusion in our market risk capital framework is governed by our covered positions policy. This policy outlines the standards we use to determine whether a trading position is a covered position.

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

We use spot rates, forward points, yield curves and discount factors imported from third-party sources to measure the value of our covered positions, and we use such values to mark our covered positions to market on a daily basis. These values are subject to independent validation by us in order to evaluate reasonableness and consistency with market experience. The mark-to-market gain or loss on spot transactions is calculated by applying the spot rate to the foreign currency principal and comparing the resultant base currency amount to the original transaction principal. The mark-to-market gain or loss on a forward foreign exchange contract or forward cash flow contract is determined as the difference between the life-to-date (historical) value of the cash flow and the value of the cash flow at the inception of the transaction. The mark-to-market gain or loss on interest-rate swaps is determined by discounting the future cash flows from each leg of the swap transaction.

**Value-at-Risk, Stress Testing and Stressed VaR**

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

We utilize an internal VaR model to calculate our regulatory market risk capital requirements. We use a historical simulation model to calculate daily VaR- and stressed VaR-based measures for our covered positions in conformity with regulatory requirements effective beginning on January 1, 2013. Our VaR model seeks to capture identified material risk factors associated with our covered positions, including risks arising from market movements such as changes in foreign exchange rates, interest rates and option-implied volatilities.

We have adopted standards and guidelines to value our covered positions which govern our VaR- and stressed VaR-based measures. Our regulatory VaR-based measure is calculated based on a one-tail, 99% confidence interval and a ten-business-day holding period, using a historical observation period of two years. We also use the same platform to calculate a one-tail, 99% confidence interval, one-business-day VaR for internal risk management purposes. A 99% one-tail confidence interval implies that daily trading losses are not expected to exceed the estimated VaR more than 1% of the time, or less than three business days out of a year.

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

regulatory capital. These changes could result in material changes in those risk measurements and related measures as calculated and compared from period to period.

Value-at-Risk

VaR measures are based on two years of historical price movements for instruments and related risk factors to which we have exposure. The instruments in question are limited to foreign exchange spot, forward and options contracts and interest-rate contracts, including futures and interest-rate swaps. These instruments tend to exhibit a high degree of liquidity relative to



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other available capital markets instruments. As a result, the VaR measures shown reflect our ability to rapidly adjust exposures in highly dynamic markets. For this reason, risk inventory, in the form of net open positions, across all currencies is typically limited. In addition, long and short positions in major, as well as minor, currencies provide risk offsets that limit our potential downside exposure.

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

All VaR measures are subject to limitations and must be interpreted accordingly. Some of the limitations of our VaR methodology include the following:

Compared to a shorter observation period, a two-year observation period is slower to reflect increases in market volatility, and temporary increases in market volatility will affect the calculation of VaR for a longer period; however, a two-year VaR would also not reflect all past periods of volatility in the markets, because such past volatility is no longer in the observation period; consequently, in periods of sudden increases in volatility or increasing volatility, in each case relative to the prior two-year period, the calculation of VaR may understate current risk;

The VaR-based measure is calibrated to a specified level of confidence and does not indicate the potential magnitude of losses beyond this confidence level;

In certain cases, VaR-based measures approximate the impact of changes in risk factors on the values of positions and portfolios; this may happen because the number of inputs included in the VaR model is necessarily limited; for example, yield curve risk factors do not exist for all future dates;

The use of historical market information may not be predictive of future events, particularly those that are extreme in nature; this "backward-looking" limitation can cause VaR to understate or overstate risk;

The effect of extreme and rare market movements is difficult to estimate; this may result from non-linear risk sensitivities as well as the potential for actual volatility and correlation levels to differ from assumptions implicit in the VaR calculations; and

Intra-day risk is not captured.

**Stress Testing and Stressed VaR**

We have an enterprise-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, and we also perform stress testing as part of the Federal Reserve's CCAR process. Stress testing is conducted, analyzed and reported at the corporate, trading desk, division and risk-factor level (for example, exchange risk, interest-rate risk and volatility risk).

We calculate a stressed VaR-based measure using the same model we use to calculate VaR, but with model inputs calibrated to historical data from a range of continuous twelve-month periods that reflect significant financial stress. For each portfolio, the stress period is determined algorithmically by seeking the one-year time horizon that produces the largest ten-business-day VaR from within the available historical data. This historical data set includes the financial crisis of 2008, the highly volatile period surrounding the Eurozone sovereign debt crisis and the Standard & Poor's downgrade of U.S. Treasury debt in August 2011. As the historical data set used to determine the stress period expands over time, future market stress events will be automatically incorporated. The sixty-day moving average of our stressed VaR-based measure was approximately \$27 million during the twelve months ended September 30, 2013, compared to a sixty-day moving average of approximately \$19 million during the twelve months ended June 30, 2013 and a sixty-day moving average of approximately \$16 million during the twelve months ended March 31, 2013. The increase in the sixty-day moving average for the twelve months ended September 30, 2013 compared to the twelve months ended June 30, 2013 was associated with the model changes described below following the VaR and stressed-VaR tables.

We perform scenario analysis daily 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. Relevant scenarios are chosen from an inventory of historical financial stresses and applied to our current portfolio. These historical event scenarios involve spot foreign exchange, credit, equity, unforeseen geo-political events and natural disasters, and government and central bank intervention scenarios. Examples of the specific historical scenarios we incorporate in our stress testing program may include the Asian financial crisis of 1997, the September 11, 2001 terrorist attacks in the U.S., and the 2008 financial crisis. We continue to update our inventory of historical stress scenarios as new stress conditions emerge in the financial markets.

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As each of the historical stress events is associated with a different time horizon, we normalize results by scaling down the longer horizon events to a ten-day horizon and keeping the shorter horizon events (i.e., events that are shorter than ten days) at their original terms. We also conduct sensitivity analysis daily to calculate the impact of a large predefined shock in a specific risk factor or a group of risk factors on our current portfolio. These predefined shocks include parallel and non-parallel yield curve shifts and foreign exchange spot and volatility surface shifts. In a parallel shift scenario, we apply a constant factor shift across all yield curve tenors. In a non-parallel shift scenario, we apply different shock levels to different tenors of a yield curve, rather than shifting the entire curve by a constant amount. Non-parallel shifts include steepening, flattening and butterflies.

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

#### Validation and Back-Testing

We perform daily back-testing to assess the accuracy of our VaR-based model in estimating loss at the stated confidence level. This back-testing involves the comparison of estimated VaR model outputs to actual profit-and-loss, 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. Back-testing is also performed at the sub-portfolio level to identify products or risk components that may lead to potential exceptions.

Our market risk models are subject to regular review and validation by our model validation group within ERM and overseen by our Model Assessment Committee. The Model Assessment Committee, chaired by a senior executive in ERM, was established for the purpose of providing recommendations on technical modeling issues to the corporate oversight committees. The Model Assessment Committee includes members with expertise in modeling methodologies and has representation from the various business units throughout State Street. As part of its responsibilities, the Model Assessment Committee considers technical modeling issues for our market risk models, including the selection of an appropriate modeling approach, the setting of key model input assumptions, the deployment of substantive model changes, the deployment of new models as needed, and the monitoring of ongoing model performance.

Our market risk models are governed by our model risk governance guidelines, in accordance with our model risk governance policy, which outline the standards we use to assess the conceptual soundness and effectiveness of our models. Consistent with regulatory requirements, our market risk regulatory capital model is subject to an annual review process. The process identifies the areas of model risk for the three model components: input, processing and output. The model testing is concentrated in the areas of model risk identified by the Model Validation Group. The results of this annual review are communicated to the Model Assessment Committee, which then assigns "Pass," "Pass with Reservations," "Recommend a Full Scope Review," or "Fail" to the outcome.

Our model validation process also evaluates the integrity of our VaR models through the use of regular outcome analysis. Such outcome analysis includes back-testing, which compares the VaR model's predictions to actual outcomes using out-of-sample information. The Model Validation Group examined back-testing results for the market risk regulatory capital model used for 2012. Consistent with regulatory guidance, the back-testing compared "clean" P&L, defined above, with the one-day VaR produced by the model. The back-testing was performed for a time period not used for model development. The number of occurrences where "clean" trading-book P&L exceeded the one-day VaR was within our expected VaR tolerance level.

#### Market Risk Reporting

Our ERM market risk function is responsible for market risk monitoring and reporting. We use a variety of systems and controlled market feeds from third-party services to compile data for several daily, weekly, and monthly management reports.

Our business units and trading market risk teams review daily P&L, market risk limit exceptions, open positions, interest-rate and option sensitivities and VaR reports on a daily basis. Market risk limit exceptions are also reported to and reviewed by the global head of Market Risk. We produce and review several other reports that summarize relevant market risk metrics, including VaR, on a periodic basis.

The following tables present VaR associated with our trading activities for covered positions held during the first nine months of 2013 and as of September 30, 2013, June 30, 2013 and March 31, 2013, as measured by our VaR methodology. Comparative information for 2012 is not presented, as we did not measure VaR for those periods under the regulatory requirements effective beginning on January 1, 2013.

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VaR - COVERED PORTFOLIOS (TEN-DAY VaR)				As of September 30, 2013	As of June 30, 2013	As of March 31, 2013
Nine Months Ended September 30, 2013						
(In thousands)	Average	Maximum	Minimum	VaR	VaR	VaR
Foreign exchange	\$6,569	\$22,835	\$1,626	\$11,549	\$5,696	\$9,283
Money market/Global Treasury	108	559	24	102	53	365
Total VaR	\$6,530	\$22,834	\$1,641	\$11,496	\$5,657	\$9,017

STRESSED VaR - COVERED PORTFOLIOS (TEN-DAY VaR)				As of September 30, 2013	As of June 30, 2013	As of March 31, 2013
Nine Months Ended September 30, 2013						
(In thousands)	Average	Maximum	Minimum	VaR	VaR	VaR
Foreign exchange	\$21,361	\$43,984	\$4,933	\$32,905	\$15,275	\$26,141
Money market/Global Treasury	280	1,075	56	290	186	900
Total Stressed VaR	\$21,252	\$43,765	\$4,889	\$32,521	\$15,157	\$25,673

The VaR-based measures presented above are primarily a reflection of the overall level of market volatility and State Street's appetite for trading market risk. Overall levels of volatility have been low both on an absolute basis and relative to the historical information observed at the beginning of the period used for the calculations. Both the ten-day VaR-based measures and the stressed VaR-based measures are based on historical changes observed during rolling ten-day periods for the portfolios as of the close of business each day over the past one-year period.

The increase in the VaR and stressed-VaR measures for foreign exchange as of September 30, 2013 compared to June 30, 2013 resulted from the model changes described below, and not from any changes in the third quarter of 2013 in the overall composition of exposure within our portfolio of covered positions.

Beginning on July 1, 2013, we implemented two significant changes to our regulatory VaR and stressed-VaR models. The net effect of the two changes resulted in an increase in our daily VaR-based measure and a more significant increase in our stressed VaR-based measure, both calculated based on a 99% confidence interval. The changes involved the introduction of off-shore yield curves for non-deliverable forward contracts in our portfolios of covered positions and the use of absolute changes in place of relative or percentage changes for interest-rate risk factors (both base curves and spread curves). We may in the future further modify and adjust our models and methodologies used to calculate VaR, subject to regulatory review and approval, and these modifications and adjustments may result in changes in our VaR measures, some of which changes may be significant.

The following table presents VaR associated with our trading activities attributable to foreign exchange rates, interest rates and volatility as of September 30, 2013, June 30, 2013 and March 31, 2013. The totals of the VaR amounts attributable to foreign exchange rates, interest rates and volatility for each VaR component exceeded the component VaR measures presented in the foregoing table as of each period-end, primarily due to the benefits of diversification across risk types. Comparative information for 2012 is not presented, as we did not measure VaR under the regulatory requirements effective beginning on January 1, 2013.

VaR - COVERED PORTFOLIOS (TEN-DAY VaR)									
As of September 30, 2013			As of June 30, 2013			As of March 31, 2013			
(In thousands)	Foreign Exchange	Interest Rate	Volatility	Foreign Exchange	Interest Rate	Volatility	Foreign Exchange	Interest Rate	Volatility
By component:	\$9,704	\$3,194	\$ 454	\$5,531	\$1,808	\$ 650	\$9,543	\$2,265	\$ 492

Foreign exchange/Global  
Markets

Money market/Global

Treasury

Total VaR

49	72	—	50	33	—	376	33	—
\$9,648	\$3,175	\$ 454	\$5,483	\$1,808	\$ 650	\$9,288	\$2,263	\$ 492

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

Asset-and-Liability Management Activities

The primary objective of asset-and-liability management is to provide sustainable and growing net interest revenue, or NIR, under varying economic environments, while protecting the economic value of the assets and liabilities carried in our consolidated statement of condition from the adverse effects of changes in interest rates. While many market factors affect the level of NIR and the economic value of our assets and liabilities, one of the most significant factors is our exposure to movements in interest rates. Most of our NIR is earned from the investment of client deposits generated by our businesses. We invest these client deposits in assets that conform generally to the characteristics of our balance sheet liabilities, including the currency composition of our significant non-U.S. dollar denominated client liabilities, but we manage our overall interest-rate risk position in the context of current and anticipated market conditions and within internally-approved risk guidelines.

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

The economic value of our consolidated statement of condition is a metric designed to best estimate the fair value of assets and liabilities which could be garnered if those assets and liabilities were sold today. The economic values represent discounted cash flows from all financial instruments; therefore, changes in the yield curves, which are used to discount the cash flows, affect the values of these instruments. Additional information about our measurement of fair value is provided in note 2 to the consolidated financial statements included in this Form 10-Q.

Our investment activities and our use of derivative financial instruments are the primary tools used in managing interest-rate risk. We invest in financial instruments with currency, repricing, and maturity characteristics we consider appropriate to manage our overall interest-rate risk position. In addition, we use certain derivative instruments, primarily interest-rate swaps, to alter the interest-rate characteristics of specific balance sheet assets or liabilities. Our use of derivatives is subject to guidelines approved by ALCCO, within which we seek to manage. Additional information about our use of derivatives is provided in note 11 to the consolidated financial statements included in this Form 10-Q.

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

To measure, monitor, and report on our interest-rate risk position, we use NIR simulation, 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, and is generally used in the context of economic capital discussed under "Economic Capital" in "Financial Condition - Capital" in this Management's Discussion and Analysis. Although NIR-at-risk and EVE sensitivity measure interest-rate risk over different time horizons, both utilize consistent assumptions when modeling the positions currently held by State Street; however, NIR-at-risk also incorporates future actions planned by management over the time horizons being modeled.

In calculating our NIR-at-risk, we start with a base amount of NIR that is projected over the next twelve months, assuming our forecasted yield curve over the period. Our existing balance sheet assets and liabilities are adjusted by

the amount and timing of transactions that are forecasted to occur over the next twelve months. That yield curve is then “shocked,” or moved immediately,  $\pm 100$  basis points in a parallel fashion, or at all points along the yield curve. Two new twelve-month NIR projections are then developed using the same balance sheet and forecasted transactions, but with the new yield curves, and compared to the base scenario. We also perform the calculations using interest-rate ramps, which are  $\pm 100$ -basis-point changes in interest rates that are assumed to occur gradually over the next twelve months, rather than immediately as we do with interest-rate shocks.

EVE is based on the change in the present value of all NIR-related principal and interest cash flows for changes in market rates of interest. The present value of existing cash flows with a then-current yield curve serves as the base case. We then apply an immediate parallel shock to that yield curve of  $\pm 200$  basis points and recalculate the cash flows and related present values. A



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

large shock is used to better capture the embedded option risk in our mortgage-backed securities that results from borrowers' prepayment opportunities.

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

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

Based on our current balance sheet composition where fixed-rate assets exceed fixed-rate liabilities, reported results of NIR-at-risk could depict an increase in NIR from a rate increase while EVE presents a loss. A change in this balance sheet profile may result in different outcomes under both NIR-at-risk and EVE. NIR-at-risk depicts the change in the nominal (undiscounted) dollar net interest flows which are generated from the forecasted statement of condition over the next twelve months. As interest rates increase, the interest expense associated with our client deposit liabilities is assumed to increase at a slower pace than the investment returns derived from our current balance sheet or the associated reinvestment of our interest-earning assets, resulting in an overall increase to NIR. EVE, on the other hand, measures the present value change of both principal and interest cash flows based on the current period-end balance sheet. As a result, EVE does not contemplate reinvestment of our assets associated with a change in the interest-rate environment.

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

**NET INTEREST REVENUE AT RISK**

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

The following table presents the estimated exposure of NIR for the next twelve months, calculated as of the dates indicated, due to an immediate  $\pm 100$ -basis-point shift to our internal forecast of global interest rates. Estimated incremental exposures presented below are dependent on management's assumptions, and do not reflect any additional actions management may undertake in order to mitigate some of the adverse effects of changes in interest rates on State Street's financial performance.

(In millions)	Estimated Exposure to Net Interest Revenue	
	September 30, 2013	December 31, 2012

Rate change:

+100 bps shock	\$316	\$156	
–100 bps shock	(224	) (200	)
+100 bps ramp	121	39	
–100 bps ramp	(119	) (96	)

As of September 30, 2013, NIR sensitivity to an upward-100-basis-point shock in global market rates was higher compared to December 31, 2012, due to a higher level of forecasted client deposits. The benefit to NIR for an upward-100-basis-point ramp is less significant than a shock, since market rates are assumed to increase gradually.

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AND RESULTS OF OPERATIONS (Continued)

A downward-100-basis-point shock in global market rates places pressure on NIR, as deposit rates reach their implicit floors due to the exceptionally low global interest-rate environment, and provide little funding relief on the liability side, while assets reset into the lower-rate environment. NIR sensitivity to a downward-100-basis-point shock in market rates as of September 30, 2013 was similar to December 31, 2012, as higher levels of forecasted noninterest-bearing deposits, which improve base NIR, provide no relief as rates fall.

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  $\pm 200$ -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, to evaluate whether the magnitude of the exposure to interest rates is acceptable. Generally, a change resulting from a  $\pm 200$ -basis-point rate shock that is less than 20% of aggregate tier 1 and tier 2 capital is an exposure that management deems acceptable. To the extent that we manage changes in EVE sensitivity within the 20% threshold, we would seek to take action to remain below the threshold if the magnitude of our exposure to interest rates approached that limit.

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

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

	Estimated Sensitivity of Economic Value of Equity			
	September 30, 2013		December 31, 2012	
(Dollars in millions)	Exposure	% of Tier 1/Tier 2 Capital	Exposure	% of Tier 1/Tier 2 Capital
Rate change:				
+200 bps shock	\$(2,259 )	(14.1 )%	\$(2,542 )	(17.0 )%
-200 bps shock	873	5.5	41	0.3

Exposure to upward- and downward-200-basis-point shocks as of September 30, 2013 improved compared to December 31, 2012. A lower concentration of fixed-rate securities in the investment portfolio and hedging activity during the first nine months of 2013 reduced EVE sensitivity to changes in market rates.

**Credit and Counterparty Risk**

Credit and counterparty risk is defined as the risk of financial loss if a borrower or counterparty is either unable or unwilling to repay borrowings or settle a transaction in accordance with underlying contractual terms. We assume credit and counterparty risk for both our on- and off-balance sheet exposures. The extension of credit and the acceptance of counterparty risk by State Street are governed by corporate guidelines based on each counterparty's risk profile, the markets served, counterparty and country concentrations, and regulatory compliance. Our focus on large institutional investors and their businesses requires that we assume concentrated credit risk for a variety of products and durations. We maintain guidelines and procedures to monitor and manage all aspects of credit and counterparty risk that we undertake.

We use an internal rating system to assess our risk of credit loss. State Street's risk-rating process incorporates the use of risk-rating tools in conjunction with management judgment. Qualitative and quantitative inputs are captured in a transparent and replicable manner; following a formal review and approval process, an internal credit rating based on our credit scale is assigned. We evaluate and risk-rate the credit of our counterparties on an individual basis at least annually. Significant exposures are reviewed daily by ERM. Processes for credit approval and monitoring are in place for all extensions of credit. As part of the approval and renewal process, due diligence is conducted based on the size and term of the exposure, as well as the creditworthiness of the counterparty. At any point in time, having one or more counterparties to which our exposure exceeds 10% of our consolidated total shareholders' equity, exclusive of unrealized gains or losses, is not unusual.

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

We provide, on a selective basis, traditional loan products and services to key clients in a manner that is intended to enhance client relationships, increase profitability and manage risk. We employ a relationship model in which credit decisions are based on credit quality and the overall institutional relationship.

An allowance for loan losses is maintained to absorb estimated incurred credit losses in our loan-and-lease portfolio as of the balance sheet date. This allowance is evaluated on a regular basis by management. The provision for loan losses is a charge to current earnings to maintain the overall allowance for loan losses at a level considered appropriate to absorb estimated incurred credit losses in the loan-and-lease portfolio.

We also assume other types of credit exposure with our clients and counterparties. We purchase securities under reverse repurchase agreements, which are agreements to resell. Most repurchase agreements are short-term, with maturities of less than 90 days. Risk is managed through a variety of processes, including establishing the acceptability of counterparties; limiting purchases primarily to low-risk U.S. government securities; taking possession or control of pledged assets; monitoring levels of underlying collateral; and limiting the duration of the agreements. Securities are revalued daily to determine if additional collateral is required from the borrower.

We also provide our clients with off-balance sheet liquidity and credit-enhancement facilities in the form of letters and lines of credit and standby bond-purchase agreements. These exposures are subject to an initial credit analysis, with detailed approval and review processes. These facilities are also actively monitored and reviewed annually. We maintain a separate reserve for estimated probable credit losses related to certain of these off-balance sheet facilities as of the balance sheet date, which is recorded in accrued expenses and other liabilities in our consolidated statement of condition. This reserve is evaluated on a regular basis by management. Provisions to maintain the reserve at a level considered appropriate to absorb estimated probable credit losses in outstanding facilities are charged to other expenses in our consolidated statement of income.

Investments in debt and equity securities, including investments in affiliates, are monitored regularly by Corporate Finance and ERM. Procedures are in place for the assessment of impairment of investment securities, as described in note 3 to the consolidated financial statements included in this Form 10-Q.

**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 \$315.63 billion as of September 30, 2013, compared to \$302.34 billion as of December 31, 2012. We require the borrowers to provide collateral in an amount equal to or in excess of 100% of the fair market value of the securities borrowed. State Street holds the collateral received in connection with its securities lending services as agent, and these holdings are not recorded in its consolidated statement of condition. The securities on loan and the collateral are revalued daily to determine if additional collateral is necessary. We held, as agent, cash and securities totaling \$327.57 billion and \$312.22 billion as collateral for indemnified securities on loan as of September 30, 2013 and December 31, 2012, 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 equal to or 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 are not recorded in our consolidated statement of condition. Of the collateral of \$327.57 billion as of September 30, 2013 and \$312.22 billion as of December 31, 2012 referenced above, \$86.46 billion as of September 30, 2013 and \$80.22 billion as of December 31, 2012 was invested in indemnified repurchase agreements. We or our agents held \$91.88 billion and \$85.41 billion as collateral for indemnified investments in repurchase agreements as of September 30, 2013 and December 31, 2012, respectively.

Additional information about our securities finance activities and other off-balance sheet arrangements is provided in notes 8 and 11 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 - Risk Management - Market Risk” in Management’s Discussion and Analysis, included in this Form 10-Q, is incorporated by reference herein.

**CONTROLS AND PROCEDURES**

State Street has established and maintains disclosure controls and procedures that are designed to ensure that material information related to State Street 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, 2013, State Street’s management carried out an evaluation, with the participation of its 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, 2013.

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, 2013, no changes occurred in State Street’s internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, State Street’s internal control over financial reporting.

STATE STREET CORPORATION  
CONSOLIDATED STATEMENT OF INCOME  
(UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
(Dollars in millions, except per share amounts)				
Fee revenue:				
Servicing fees	\$1,211	\$1,100	\$3,587	\$3,264
Management fees	276	251	816	733
Trading services	256	232	833	767
Securities finance	74	91	283	331
Processing fees and other	66	45	192	187
Total fee revenue	1,883	1,719	5,711	5,282
Net interest revenue:				
Interest revenue	643	730	2,030	2,281
Interest expense	97	111	312	365
Net interest revenue	546	619	1,718	1,916
Gains (losses) related to investment securities, net:				
Net gains (losses) from sales of available-for-sale securities	6	24	11	29
Losses from other-than-temporary impairment	(8)	(4)	(8)	(50)
Losses reclassified (from) to other comprehensive income	(2)	(2)	(12)	23
Gains (losses) related to investment securities, net	(4)	18	(9)	2
Total revenue	2,425	2,356	7,420	7,200
Provision for loan losses	—	—	—	(1)
Expenses:				
Compensation and employee benefits	903	916	2,855	2,922
Information systems and communications	235	211	707	610
Transaction processing services	185	170	551	523
Occupancy	113	115	343	349
Claims resolution	—	(362)	—	(362)
Acquisition and restructuring costs	30	28	74	86
Professional services	98	89	280	266
Amortization of other intangible assets	53	46	160	145
Other	105	202	376	483
Total expenses	1,722	1,415	5,346	5,022
Income before income tax expense	703	941	2,074	2,179
Income tax expense	163	267	491	588
Net income	\$540	\$674	\$1,583	\$1,591
Net income available to common shareholders	\$531	\$654	\$1,557	\$1,551
Earnings per common share:				
Basic	\$1.20	\$1.39	\$3.46	\$3.23
Diluted	1.17	1.36	3.40	3.19
Average common shares outstanding (in thousands):				
Basic	442,860	472,355	449,742	479,536
Diluted	452,154	480,010	458,392	485,813
Cash dividends declared per common share	\$.26	\$.24	\$.78	\$.72



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)

	Three Months Ended September 30,	
(In millions)	2013	2012
Net income	\$540	\$674
Other comprehensive income (loss), net of related taxes:		
Foreign currency translation, net of related taxes of \$66 and \$26, respectively	326	172
Change in net unrealized losses on available-for-sale securities, net of reclassification adjustment and net of related taxes of \$76 and \$326, respectively	111	543
Change in net unrealized losses on available-for-sale securities designated in fair value hedges, net of related taxes of zero and \$(1), respectively	1	(1 )
Other-than-temporary impairment on held-to-maturity securities related to factors other than credit, net of related taxes of \$1 and \$4, respectively	3	7
Change in net unrealized losses on cash flow hedges, net of related taxes of \$(21) and \$3, respectively	(33 )	(5 )
Change in net unrealized losses on retirement plans, net of related taxes of \$6 and \$(7), respectively	1	7
Other comprehensive income (loss)	409	723
Total comprehensive income	\$949	\$1,397

	Nine Months Ended September 30,	
(In millions)	2013	2012
Net income	\$1,583	\$1,591
Other comprehensive income (loss), net of related taxes:		
Foreign currency translation, net of related taxes of \$(27) and \$60, respectively	23	19
Change in net unrealized losses on available-for-sale securities, net of reclassification adjustment and net of related taxes of \$(402) and \$471, respectively	(642 )	794
Change in net unrealized gains on available-for-sale securities designated in fair value hedges, net of related taxes of \$40 and \$9, respectively	61	14
Other-than-temporary impairment on held-to-maturity securities related to factors other than credit, net of related taxes of \$8 and \$6, respectively	14	10
Change in net unrealized losses on cash flow hedges, net of related taxes of \$38 and \$4, respectively	61	(1 )
Change in net unrealized losses on retirement plans, net of related taxes of \$12 and \$(6), respectively	9	9
Other comprehensive income (loss)	(474 )	845
Total comprehensive income	\$1,109	\$2,436

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

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STATE STREET CORPORATION  
CONSOLIDATED STATEMENT OF CONDITION

	September 30, 2013	December 31, 2012
	(Unaudited)	
(Dollars in millions, except per share amounts)		
Assets:		
Cash and due from banks	\$ 3,896	\$ 2,590
Interest-bearing deposits with banks	38,636	50,763
Securities purchased under resale agreements	5,827	5,016
Trading account assets	916	637
Investment securities available for sale	99,982	109,682
Investment securities held to maturity (fair value of \$16,543 and \$11,661)	16,698	11,379
Loans and leases (less allowance for losses of \$22 and \$22)	15,556	12,285
Premises and equipment (net of accumulated depreciation of \$4,319 and \$4,037)	1,816	1,728
Accrued income receivable	2,094	1,970
Goodwill	6,006	5,977
Other intangible assets	2,396	2,539
Other assets	23,357	18,016
Total assets	\$ 217,180	\$ 222,582
Liabilities:		
Deposits:		
Noninterest-bearing	\$ 45,679	\$ 44,445
Interest-bearing—U.S.	6,575	19,201
Interest-bearing—non-U.S.	101,945	100,535
Total deposits	154,199	164,181
Securities sold under repurchase agreements	10,123	8,006
Federal funds purchased	94	399
Other short-term borrowings	3,657	4,502
Accrued expenses and other liabilities	19,929	17,196
Long-term debt	8,748	7,429
Total liabilities	196,750	201,713
Commitments, guarantees and contingencies (note 8)		
Shareholders' equity:		
Preferred stock, no par, 3,500,000 shares authorized:		
Series C, 5,000 shares issued and outstanding	490	489
Common stock, \$1 par, 750,000,000 shares authorized:		
503,885,462 and 503,900,268 shares issued	504	504
Surplus	9,753	9,667
Retained earnings	12,963	11,751
Accumulated other comprehensive income (loss)	(114)	) 360
Treasury stock, at cost (62,587,206 and 45,238,208 shares)	(3,166)	) (1,902)
Total shareholders' equity	20,430	20,869
Total liabilities and shareholders' equity	\$ 217,180	\$ 222,582

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



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

(Dollars in millions, except per share amounts, shares in thousands)	PREFERRED STOCK	COMMON STOCK		Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	TREASURY STOCK		Total
		Shares	Amount				Shares	Amount	
Balance as of December 31, 2011	\$ 500	503,966	\$504	\$9,557	\$10,176	\$ (659 )	16,542	\$(680 )	\$19,398
Net income					1,591				1,591
Other comprehensive income						845			845
Commitment to redeem preferred stock	(500 )								(500 )
Preferred stock issued	488								488
Cash dividends declared:									
Common stock—\$.72 per share					(346 )				(346 )
Preferred stock					(29 )				(29 )
Common stock acquired							22,496	(960 )	(960 )
Common stock awards and options exercised, including related taxes of \$(8)		(48 )		75			(3,938 )	185	260
Other				2			(9 )		2
Balance at September 30, 2012	\$ 488	503,918	\$504	\$9,634	\$11,392	\$ 186	35,091	\$(1,455)	\$20,749
Balance as of December 31, 2012	\$ 489	503,900	\$504	\$9,667	\$11,751	\$ 360	45,238	\$(1,902)	\$20,869
Net income					1,583				1,583
Other comprehensive loss						(474 )			(474 )
Accretion of issuance costs	1				(1 )				—
Cash dividends declared:									
Common stock—\$.78 per share					(350 )				(350 )
Preferred stock					(20 )				(20 )
Common stock acquired							23,235	(1,480 )	(1,480 )
Common stock awards and options exercised, including related taxes of \$42		(15 )		86			(5,874 )	216	302
Other							(12 )		

Balance as of September 30, 2013	\$ 490	503,885	\$504	\$9,753	\$12,963	\$ (114	)	62,587	\$(3,166)	\$20,430
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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,	
(In millions)	2013	2012
<b>Operating Activities:</b>		
Net income	\$1,583	\$1,591
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Deferred income tax expense (benefit)	77	(44 )
Amortization of other intangible assets	160	145
Other non-cash adjustments for depreciation, amortization and accretion	324	172
(Gains) losses related to investment securities, net	9	(2 )
Change in trading account assets, net	(279 )	96 )
Change in accrued income receivable, net	(124 )	(111 )
Change in collateral deposits, net	(2,765 )	(1,219 )
Change in unrealized losses on foreign exchange derivatives, net	1,304	483
Change in other assets, net	(888 )	343 )
Change in accrued expenses and other liabilities, net	(442 )	341 )
Claims resolution	—	(362 )
Other, net	(9 )	(33 )
Net cash (used in) provided by operating activities	(1,050 )	1,400 )
<b>Investing Activities:</b>		
Net decrease in interest-bearing deposits with banks	12,127	27,303
Net increase in securities purchased under resale agreements	(811 )	(1,219 )
Proceeds from sales of available-for-sale securities	8,090	4,209
Proceeds from maturities of available-for-sale securities	29,540	33,047
Purchases of available-for-sale securities	(29,005 )	(44,355 )
Proceeds from maturities of held-to-maturity securities	1,474	2,561
Purchases of held-to-maturity securities	(6,424 )	(7 )
Net increase in loans	(3,304 )	(4,042 )
Purchases of equity investments and other long-term assets	(100 )	(69 )
Divestitures	18	—
Purchases of premises and equipment	(259 )	(254 )
Other, net	84	105
Net cash provided by investing activities	11,430	17,279
<b>Financing Activities:</b>		
Net increase (decrease) in time deposits	(14,750 )	2,143 )
Net increase (decrease) in all other deposits	4,768	(13,141 )
Net increase (decrease) in short-term borrowings	967	(1,211 )
Proceeds from issuance of long-term debt, net of issuance costs	1,492	—
Payments for long-term debt and obligations under capital leases	(127 )	(1,768 )
Proceeds from issuance of preferred stock	—	488
Proceeds related to common stock awards and option exercises	584	438
Purchases of common stock	(1,480 )	(960 )



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Repurchases of common stock for employee tax withholding	(163	) (88	)
Payments for cash dividends	(365	) (341	)
Net cash used in financing activities	(9,074	) (14,440	)
Net increase	1,306	4,239	
Cash and due from banks at beginning of period	2,590	2,193	
Cash and due from banks at end of period	\$3,896	\$6,432	

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

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

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

Note 1. Basis of Presentation

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

We have two lines of business:

Investment Servicing provides services for mutual funds, collective investment funds and other investment pools, corporate and public retirement plans, insurance companies, foundations and endowments worldwide. Products include custody, product- and participant-level accounting, daily pricing and administration; master trust and master custody; record-keeping; 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 range of investment management strategies, specialized investment management advisory services and other financial services, such as securities finance, for corporations, public funds, and other sophisticated investors. Management strategies offered by SSgA include passive and active, such as enhanced indexing, using quantitative and fundamental methods for both U.S. and non-U.S. equity and fixed-income securities. SSgA also offers exchange-traded funds.

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

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions in the application of certain of our significant accounting policies that may materially affect the reported amounts of assets, liabilities, equity, revenue and expenses. As a result of unanticipated events or circumstances, actual results could differ from those estimates. Amounts dependent on subjective or complex judgments in the application of accounting policies considered by management to be relatively more significant in this regard are those associated with our accounting for fair-value measurements; other-than-temporary impairment of investment securities; and impairment of goodwill and other intangible assets. Among other effects, unanticipated events or circumstances could result in future impairment of investment securities, goodwill or other intangible assets. Our consolidated statement of condition at December 31, 2012 included in the accompanying consolidated financial statements was derived from the audited financial statements at that date, but does not include all notes required by GAAP for a complete set of financial statements. The accompanying consolidated financial statements and these condensed notes should be read in conjunction with the financial and risk factors information included in our 2012 Form 10-K, which we previously filed with the SEC.

Recent Accounting Developments:

In June 2013, the FASB issued an amendment to GAAP that prescribes certain criteria for an entity to qualify as an investment company. The amendment is not expected to significantly change which entities qualify to use specialized accounting for investment companies, but introduces new disclosure requirements that apply to all investment companies, and revises the criteria used to measure certain interests in investment companies. We are not an investment company, but we are affiliated with investment companies in our role as an asset manager, and we provide

accounting and reporting services to investment companies in our role as an asset servicer. The amendment is effective, for State Street, for interim and annual periods beginning on January 1, 2014. While the amendment could affect how we measure our interests in investment companies, our adoption of the amendment is not expected to have a material effect on our consolidated financial statements.

In July 2013, the FASB issued an amendment to GAAP that requires a liability associated with an unrecognized tax benefit, or a portion of that unrecognized tax benefit, to be presented in the financial statements as a reduction of a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. The amendment is effective, for

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STATE STREET CORPORATION

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

State Street, for interim and annual periods beginning on January 1, 2014, and is required to be applied on a prospective basis. Our adoption of the 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 within shareholders' equity in our consolidated statement of condition.

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

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

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

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in non-active markets;
- Pricing models whose inputs are observable for substantially the full term of the asset or liability; and
- Pricing models whose inputs are derived principally from, or corroborated by, observable market information through correlation or other means for substantially the full term of the asset or liability.

Our level-2 financial assets and liabilities primarily include trading account assets and fixed-income investment securities available for sale, as well as various types of foreign exchange and interest-rate derivative instruments. Fair value for our investment securities available for sale categorized in level 2 is measured primarily using information obtained from independent third parties. This third-party information is subject to review by management as part of a validation process, which includes obtaining an understanding of the underlying assumptions and the level of market participant information used to support those assumptions. In addition, management compares significant assumptions used by third parties to available market information. Such information may include known trades or, to the extent that trading activity is limited, comparisons to market research information pertaining to credit expectations, execution prices and the timing of cash flows, and where information is available, back-testing.

Derivative instruments categorized in level 2 predominantly represent foreign exchange contracts used in our trading activities, for which fair value is measured using discounted cash-flow techniques, with inputs consisting of

observable spot and forward points, as well as observable interest-rate curves. With respect to derivative instruments, we evaluate the impact on valuation of the credit risk of our counterparties and our own credit risk. We consider factors such as the likelihood of default by us and our counterparties, our current and potential future net exposures and remaining maturities in determining the fair value. Valuation adjustments associated with derivative instruments were not material to those instruments in the three and nine months ended September 30, 2013 or 2012.

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STATE STREET CORPORATION

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

Level 3. Financial assets and liabilities with values based on prices or valuation techniques that require inputs that are both unobservable in the market and significant to the overall measurement of fair value. These inputs reflect management's judgment about the assumptions that a market participant would use in pricing the financial asset or liability, and are based on the best available information, some of which is internally developed. The following provides a more detailed discussion of our financial assets and liabilities that we may categorize in level 3 and the related valuation methodology.

The fair value of our investment securities categorized in level 3 is measured using information obtained from third-party sources, typically non-binding broker or dealer quotes, or through the use of internally-developed pricing models. Management has evaluated its methodologies used to measure fair value, but has considered the level of observable market information to be insufficient to categorize the securities in level 2.

The fair value of foreign exchange contracts, primarily options, is measured using an option-pricing model. Because of a limited number of observable transactions, certain model inputs are not observable, such as implied volatility surface, but are derived from observable market information.

The fair value of certain interest-rate caps with long-dated maturities, is measured using a matrix-pricing approach. Observable market prices are not available for these derivatives, so extrapolation is necessary to value these instruments, since they have a strike and/or maturity outside of the matrix.

Our level-3 financial assets and liabilities are similar in structure and profile to our level-1 and level-2 financial instruments, but they trade in less-liquid markets, and the measurement of their fair value is inherently more difficult. As of September 30, 2013, on a gross basis, we categorized in level 3 approximately 7% and 1% of our financial assets and liabilities, respectively, carried at fair value on a recurring basis. We generally determine the fair value of our level-3 financial assets and liabilities using pricing information obtained from third-party sources, typically non-binding broker and dealer quotes, and, to a lesser extent, using internally-developed pricing models. The fair value of investment securities categorized in level 3 that was measured using non-binding quotes and internally-developed pricing-model inputs composed approximately 98% and 2%, respectively, of the total fair value of the investment securities categorized in level 3 as of September 30, 2013.

The process used to measure the fair value of our level-3 financial assets and liabilities is overseen by a valuation group within Corporate Finance, independent of the business units that carry the assets and liabilities. This function, which develops and manages the valuation process, reports to State Street's Valuation Committee. The Valuation Committee, composed of senior management from independent business units, Enterprise Risk Management and Corporate Finance, oversees adherence to State Street's valuation policies.

The valuation group performs independent validation of the pricing information obtained from third-party sources in order to evaluate reasonableness and consistency with market experience in similar asset classes. Monthly analyses include a review of price changes relative to overall trends, credit analysis and other relevant procedures (discussed below). In addition, prices for level-3 securities carried in our investment portfolio are tested on a sample basis based on unexpected pricing movements. These sample prices are then corroborated through price recalculations, when applicable, using available market information, which is obtained independent of the third-party pricing source. The recalculated prices are compared to market-research information pertaining to credit expectations, execution prices and the timing of cash flows, and where information is available, back-testing. If a difference is identified and it is determined that there is a significant impact requiring an adjustment, the adjustment is presented to the Valuation Committee for review and consideration.

Independent validation is also performed on fair-value measurements determined using internally-developed pricing models. The pricing models are subject to independent validation through our Model Assessment Committee, a corporate risk oversight committee that provides technical support and input to the Valuation Committee. This validation process incorporates a review of a diverse set of model and trade parameters across a broad range of values in order to evaluate the model's suitability for valuation of a particular financial instrument type, as well as the model's accuracy in reflecting the characteristics of the related financial asset or liability and its significant risks. Inputs and

assumptions, including any price-valuation adjustments, are developed by the business units and independently reviewed by the valuation group. Model valuations are compared to available market information including appropriate proxy instruments and other benchmarks to highlight abnormalities for further investigation. Measuring fair value requires the exercise of management judgment. The level of subjectivity and the degree of management judgment required is more significant for financial instruments whose fair value is measured using inputs that are not observable. The areas requiring significant judgment are identified, documented and reported to the Valuation Committee as part of the valuation control framework. We believe that our valuation methods are appropriate; however, the use of different methodologies or assumptions, particularly as they apply to level-3 financial assets and liabilities, could materially affect fair-value measurements as of the reporting date.



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## STATE STREET CORPORATION

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## (UNAUDITED)

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 during the nine months ended September 30, 2013 or the year ended December 31, 2012.

(In millions)	Fair-Value Measurements on a Recurring Basis as of September 30, 2013				Total Net Carrying Value in Consolidated Statement of Condition
	Quoted Market Prices in Active Markets (Level 1)	Pricing Methods with Significant Observable Market Inputs (Level 2)	Pricing Methods with Significant Unobservable Market Inputs (Level 3)	Impact of Netting <sup>(1)</sup>	
Assets:					
Trading account assets:					
U.S. government securities	\$20				\$20
Non-U.S. government securities	392				392
Other	66	\$ 438			504
Total trading account assets	478	438			916
Investment securities available for sale:					
U.S. Treasury and federal agencies:					
Direct obligations	—	738			738
Mortgage-backed securities	—	23,834	\$ 741		24,575
Asset-backed securities:					
Student loans	—	14,503	368		14,871
Credit cards	—	8,602	24		8,626
Sub-prime	—	1,266	—		1,266
Other	—	551	4,350		4,901
Total asset-backed securities	—	24,922	4,742		29,664
Non-U.S. debt securities:					
Mortgage-backed securities	—	10,661	340		11,001
Asset-backed securities	—	4,668	799		5,467
Government securities	—	3,541	—		3,541
Other	—	4,159	441		4,600
Total non-U.S. debt securities	—	23,029	1,580		24,609
State and political subdivisions	—	9,254	44		9,298
Collateralized mortgage obligations	—	4,971	187		5,158
Other U.S. debt securities	—	5,036	9		5,045
U.S. equity securities	—	39	—		39
Non-U.S. equity securities	—	2	—		2
U.S. money-market mutual funds	—	680	—		680
Non-U.S. money-market mutual funds	—	174	—		174
Total investment securities available for sale	—	92,679	7,303		99,982
Other assets:					
Derivative instruments:					
Foreign exchange contracts	—	10,289	77	\$ (6,060 )	4,306
Interest-rate contracts	—	58	—	(45 )	13

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Other	—	1	—	—	1
Total derivative instruments	—	10,348	77	(6,105 )	4,320
Other	101	—	—	—	101
Total assets carried at fair value	\$579	\$ 103,465	\$ 7,380	\$ (6,105 )	\$ 105,319
Liabilities:					
Accrued expenses and other liabilities:					
Derivative instruments:					
Foreign exchange contracts		\$ 10,206	\$ 55	\$ (4,211 )	\$ 6,050
Interest-rate contracts		307	—	(59 )	248
Other		—	9	—	9
Total derivative instruments		10,513	64	(4,270 )	6,307
Other	\$ 101	—	—	—	101
Total liabilities carried at fair value	\$ 101	\$ 10,513	\$ 64	\$ (4,270 )	\$ 6,408

<sup>(1)</sup> Represents counterparty netting against level-2 financial assets and liabilities, where a legally enforceable master netting agreement exists between State Street and the counterparty. Netting also reflects asset and liability reductions of \$2.30 billion and \$468 million, respectively, for cash collateral received from and provided to derivative counterparties.

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## STATE STREET CORPORATION

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## (UNAUDITED)

(In millions)	Fair-Value Measurements on a Recurring Basis as of December 31, 2012			Impact of Netting <sup>(1)</sup>	Total Net Carrying Value in Consolidated Statement of Condition
	Quoted Market Prices in Active Markets (Level 1)	Pricing Methods with Significant Observable Market Inputs (Level 2)	Pricing Methods with Significant Unobservable Market Inputs (Level 3)		
Assets:					
Trading account assets:					
U.S. government securities	\$20				\$20
Non-U.S. government securities	391				391
Other	71	\$ 155			226
Total trading account assets	482	155			637
Investment securities available for sale:					
U.S. Treasury and federal agencies:					
Direct obligations	3	838			841
Mortgage-backed securities	—	31,387	\$ 825		32,212
Asset-backed securities:					
Student loans	—	15,833	588		16,421
Credit cards	—	9,919	67		9,986
Sub-prime	—	1,399	—		1,399
Other	—	683	3,994		4,677
Total asset-backed securities	—	27,834	4,649		32,483
Non-U.S. debt securities:					
Mortgage-backed securities	—	10,850	555		11,405
Asset-backed securities	—	5,694	524		6,218
Government securities	—	3,199	—		3,199
Other	—	4,166	140		4,306
Total non-U.S. debt securities	—	23,909	1,219		25,128
State and political subdivisions	—	7,503	48		7,551
Collateralized mortgage obligations	—	4,837	117		4,954
Other U.S. debt securities	—	5,289	9		5,298
U.S. equity securities	—	31	—		31
Non-U.S. equity securities	—	1	—		1
U.S. money-market mutual funds	—	1,062	—		1,062
Non-U.S. money-market mutual funds	—	121	—		121
Total investment securities available for sale	3	102,812	6,867		109,682
Other assets:					
Derivatives instruments:					
Foreign exchange contracts	—	9,265	113	\$ (4,981 )	4,397
Interest-rate contracts	—	223	—	(64 )	159
Total derivative instruments	—	9,488	113	(5,045 )	4,556
Other	66	2	—	—	68

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Total assets carried at fair value	\$551	\$ 112,457	\$6,980	\$ (5,045 )	\$ 114,943
Liabilities:					
Accrued expenses and other liabilities:					
Derivative instruments:					
Foreign exchange contracts		\$ 8,978	\$ 106	\$ (4,052 )	\$ 5,032
Interest-rate contracts		345	—	(19 )	326
Other		—	9	—	9
Total derivative instruments		9,323	115	(4,071 )	5,367
Other	\$66	—	—	—	66
Total liabilities carried at fair value	\$66	\$ 9,323	\$ 115	\$ (4,071 )	\$ 5,433

(1) Represents counterparty netting against level-2 financial assets and liabilities, where a legally enforceable master netting agreement exists between State Street and the counterparty. Netting also reflects asset and liability reductions of \$1.45 billion and \$478 million, respectively, for cash collateral received from and provided to derivative counterparties.

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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, 2013 and 2012, respectively. Transfers into and out of level 3 are reported as of the beginning of the period. In both the three and nine months ended September 30, 2013 and 2012, transfers out of level 3 were substantially related to certain asset-backed securities and 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, 2013

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

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State and political subdivisions	45		—	—	(1	)	—		—	44	
Collateralized mortgage obligations	238	\$ 15	(100	)	—	(5	)	50	—	(11	) 187
Other U.S. debt securities	9	—	—	—	—	—	—	—	—	9	
Total investment securities available for sale	6,773	15	(297	)	14	(15	)	1,156	(24	) (319	) 7,303
Other assets:											
Derivative instruments, Foreign exchange contracts	121	—	—	(21	)	—	7	—	(30	)	77 \$(16 )
Total assets carried at fair value	\$6,894	\$ 15	\$(297	)	\$(7	)	\$(15	)	\$ 1,163	—	\$(24) \$(349 ) \$7,380 \$(16 )

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## STATE STREET CORPORATION

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## (UNAUDITED)

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

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## STATE STREET CORPORATION

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## (UNAUDITED)

Fair-Value Measurements Using Significant Unobservable Inputs												
Nine Months Ended September 30, 2013												
(In millions)	Fair Value as of December 31, 2012	Transfers into Level 3	Transfers out of Level 3	Total Realized and Unrealized Gains (Losses)		Recorded in Other Comprehensive Income	Purchases	Issuances	Sales	Settlements	Fair Value as of September 30, 2013	Change in Unrealized Gains (Losses) Related to Financial Instruments Held as of September 30, 2013
				Recorded in Revenue								
Assets:												
Investment securities available for sale:												
U.S. Treasury and federal agencies, mortgage-backed securities	\$825		\$ (92 )		\$ (1 )	\$ 92				\$ (83 )	\$ 741	
Asset-backed securities:												
Student loans	588		(175 )	\$ 1	6	—		\$ (26)	(26 )	368		
Credit cards	67		—	—	—	—		—	(43 )	24		
Other	3,994		—	40	25	1,358		(33 )	(1,034 )	4,350		
Total asset-backed securities	4,649		(175 )	41	31	1,358		(59 )	(1,103 )	4,742		
Non-U.S. debt securities:												
Mortgage-backed securities	555		(208 )	—	(1 )	—		—	(6 )	340		
Asset-backed securities	524	\$ 139	(181 )	4	2	399		—	(88 )	799		
Other	140	—	(40 )	—	—	328		—	13	441		
Total non-U.S. debt securities	1,219	139	(429 )	4	1	727		—	(81 )	1,580		
State and political subdivisions	48	—	—	—	(1 )	—		—	(3 )	44		
Collateralized mortgage obligations	117	15	(100 )	1	(5 )	190		—	(31 )	187		



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Other U.S. debt securities	9	—	—	—	—	—	—	—	9	
Total investment securities available for sale	6,867	154	(796 )	46	25	2,367	(59 )	(1,301 )	7,303	
Other assets:										
Derivative instruments, Foreign exchange contracts	113	—	—	119	—	25	—	(180 )	77	\$ 29
Total assets carried at fair value	\$6,980	\$ 154	\$ (796 )	\$ 165	\$ 25	\$ 2,392	—	\$(59)	\$(1,481 )	\$7,380 \$ 29

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## STATE STREET CORPORATION

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## (UNAUDITED)

## Fair-Value Measurements Using Significant Unobservable Inputs

Nine Months Ended September 30, 2013

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

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## STATE STREET CORPORATION

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## (UNAUDITED)

Fair-Value Measurements Using Significant Unobservable Inputs										
Three Months Ended September 30, 2012										
Total Realized and Unrealized Gains (Losses)										Change in Unrealized Gains (Losses) Related to Financial Instruments Held as of September 30, 2012
(In millions)	Fair Value as of June 30, 2012	Transfers into Level 3	Transfers out of Level 3	Recorded in Revenue	Recorded in Other Comprehensive Income	Purchases	Issuances	Sales	Settlements	Fair Value as of September 30, 2012
Assets:										
Investment securities available for sale:										
U.S. Treasury and federal agencies:										
Direct obligations										
Mortgage-backed securities	\$ 933				\$ 3				\$ (30 )	\$ 906
Asset-backed securities:										
Student loans	484			\$ 1	5				(12 )	478
Credit cards	274		\$ (36 )	1	(1 )				—	238
Other	3,094	\$ 12	(11 )	10	14	\$ 608			(267 )	3,460
Total asset-backed securities	3,852	12	(47 )	12	18	608			(279 )	4,176
Non-U.S. debt securities:										
Mortgage-backed securities	273	—	(147 )	—	—	156			3	285
Asset-backed securities	1,362	—	(676 )	1	4	—			(14 )	677
Other	1	—	—	—	—	193			—	194
Total non-U.S. debt securities	1,636	—	(823 )	1	4	349			(11 )	1,156
	49	—	—	—	(1 )	—			—	48

State and political subdivisions												
Collateralized mortgage obligations	301	—	(123 )	168	1	—		\$(45)	(178 )	124		
Other U.S. debt securities	—	9	—	—	—	—		—	—	9		
Total investment securities available for sale	6,771	21	(993 )	181	25	957		(45 )	(498 )	6,419		
Other assets:												
Derivative instruments, Foreign exchange contracts	160	—	—	(69 )	—	75		—	(67 )	99	\$(47 )	
Total assets carried at fair value	\$6,931	\$ 21	\$ (993 )	\$ 112	\$ 25	\$ 1,032	—	(45 )	\$(565 )	\$6,518	\$(47 )	

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## STATE STREET CORPORATION

## CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## (UNAUDITED)

Fair-Value Measurements Using Significant Unobservable Inputs										
Three Months Ended September 30, 2012										
Total Realized and Unrealized (Gains) Losses										
Change in Unrealized (Gains) Losses Related to Financial Instruments Held as of September 30, 2012										
(In millions)	Fair Value as of June 30, 2012	Transfers into Level 3	Transfers out of Level 3	Recorded in Revenue	Recorded in Other Comprehensive Income	Purchases	Issuances	Sales	Settlements	Fair Value as of September 30, 2012
Liabilities:										
Accrued expenses and other liabilities:										
Derivative instruments:										
Foreign exchange contracts	\$ 157			\$ (58 )		\$ 76		\$ (75 )	\$ 100	\$ (43 )
Other	9			—		—		—	9	—
Total derivative instruments	166			(58 )		76		(75 )	109	(43 )
Total liabilities carried at fair value	\$ 166	—	—	\$ (58 )	—	—	\$ 76	—	\$ (75 )	\$ 109

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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, 2012												
(In millions)	Fair Value as of December 31, 2011	Transfers into Level 3	Transfers out of Level 3	Total Realized and Unrealized Gains (Losses)						Fair Value as of September 30, 2012	Change in Unrealized Gains (Losses) Related to Financial Instruments Held as of September 30, 2012	
				Recorded in Revenue	Recorded in Other Comprehensive Income	Purchases	Issuances	Sales	Settlements			
Assets:												
Investment securities available for sale:												
U.S. Treasury and federal agencies:												
Mortgage-backed securities	\$1,189	\$ 50	\$(251 )		\$ 3				\$(85 )		\$906	
Asset-backed securities:												
Student loans	860	—	(341 )	\$ 2	(5 )				(38 )		478	
Credit cards	91	21	(36 )	4	(5 )	\$ 224		\$(61 )	—		238	
Other	2,798	12	(11 )	31	39	1,177		(12 )	(574 )		3,460	
Total												
asset-backed securities	3,749	33	(388 )	37	29	1,401		(73 )	(612 )		4,176	
Non-U.S. debt securities:												
Mortgage-backed securities	1,457	—	(1,642 )	—	3	463		—	4		285	
Asset-backed securities	1,768	—	(2,243 )	1	4	1,206		—	(59 )		677	
Other	71	—	(372 )	—	(3 )	500		—	(2 )		194	
Total non-U.S. debt securities	3,296	—	(4,257 )	1	4	2,169		—	(57 )		1,156	
State and political subdivisions	50	—	—	—	—	—			(2 )		48	

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Collateralized mortgage obligations	227	44	(314 )	369	1	283	(45 )	(441 )	124	
Other U.S. debt securities	2	9	—	—	—	—	—	(2 )	9	
Total investment securities available for sale	8,513	136	(5,210 )	407	37	3,853	(118 )	(1,199 )	6,419	
Other assets:										
Derivative instruments:										
Foreign exchange contracts	168	—	—	(127 )	—	162	—	(104 )	99	\$(71 )
Interest-rate contracts	10	—	—	(10 )	—	—	—	—	—	—
Total derivative instruments	178	—	—	(137 )	—	162	—	(104 )	99	(71 )
Total assets carried at fair value	\$8,691	\$ 136	\$(5,210)	\$ 270	\$ 37	\$4,015	—	\$(118)	\$(1,303 )	\$6,518 \$(71 )

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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, 2012											
Total Realized and Unrealized (Gains) Losses										Change in Unrealized (Gains) Losses Related to Financial Instruments Held as of September 30, 2012	
(In millions)	Fair Value as of December 31, 2011	Transfers into Level 3	Transfers out of Level 3	Recorded in Revenue	Recorded in Other Comprehensive Income	Purchases	Issuances	Sales	Settlements	Fair Value as of September 30, 2012	
Liabilities:											
Accrued expenses and other liabilities:											
Derivative instruments:											
Foreign exchange contracts	\$ 161			\$ (131 )		\$ 162		\$ (92 )		\$ 100	\$ (70 )
Interest-rate contracts	11			(11 )		—		—		—	—
Other	9			—		—		—		9	—
Total derivative instruments	181			(142 )		162		(92 )		109	(70 )
Other	20			—		—		(20 )		—	
Total liabilities carried at fair value	\$ 201	—	—	\$ (142 )	—	—	\$ 162	—	\$ (112 )	\$ 109	\$ (70 )

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

Three Months Ended September 30, Total Realized and Unrealized Gains (Losses) Recorded in Revenue	Change in Unrealized Gains (Losses) Related to Financial Instruments Held as of	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
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(In millions)			September 30,				September 30,	
	2013	2012	2013	2012	2013	2012	2013	2012
Fee revenue:								
Trading services	\$(4 )	\$(11 )	\$(1 )	\$(4 )	\$60	\$5	\$14	\$(1 )
Total fee revenue	(4 )	(11 )	(1 )	(4 )	60	5	14	(1 )
Net interest revenue	14	181	—	—	46	407	—	—
Total revenue	\$10	\$170	\$(1 )	(4 )	\$106	\$412	\$14	\$(1 )

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STATE STREET CORPORATION

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMEN