STATE STREET CORP
Form 10-Q
August 07, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

Form 10-Q

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

For the quarterly period ended June 30, 2015

OR

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

For the transition period from to

Commission File No. 001-07511

STATE STREET CORPORATION
(Exact name of registrant as specified in its charter)

Massachusetts	04-2456637
(State or other jurisdiction of incorporation)	(I.R.S. Employer Identification No.)
One Lincoln Street Boston, Massachusetts	02111
(Address of principal executive office)	(Zip Code)

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

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

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

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

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

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

GENERAL

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

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

We have two lines of business:

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

Investment Management, through State Street Global Advisors, or SSGA, provides a broad array of investment management, investment research and investment advisory services to corporations, public funds and other sophisticated investors. SSGA offers active and passive asset management strategies across equity, fixed-income and cash asset classes. Products are distributed directly and through

intermediaries using a variety of investment vehicles, including exchange-traded funds, or ETFs, such as the SPDR® ETF brand.

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

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

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

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

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

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

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calculation of identified regulatory capital ratios. We measure and compare certain financial information on an operating basis, as we believe that this presentation supports meaningful comparisons from period to period and the analysis of comparable financial trends with respect to State Street's normal ongoing business operations. We believe that operating-basis financial information, which reports non-taxable revenue, such as interest revenue associated with tax-exempt investment securities, on a fully taxable-equivalent basis, facilitates an investor's understanding and analysis of State Street's und

love those erlying financial performance and trends in addition to financial information prepared and reported in conformity with GAAP. We also believe that the use of certain non-GAAP measures in the calculation of identified regulatory capital ratios is useful in understanding State Street's capital position and is of interest to investors. Operating-basis financial information should be considered in addition to, not as a substitute for or superior to, financial information prepared in conformity with GAAP. Any non-GAAP, or operating-basis, financial information presented in this Form 10-Q, including this Management’s Discussion and Analysis, is reconciled to its most directly comparable GAAP-basis measure.

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

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

Forward-Looking Statements

This Form 10-Q, as well as other reports submitted by us under the Securities Exchange Act of 1934, registration statements filed by us under the Securities Act of 1933, our annual report to shareholders and other public statements we may make, contain statements (including statements in the Management's Discussion and Analysis) that are considered “forward-looking statements” within the

meaning of U.S. securities laws, including statements about our goals and expectations regarding our business, financial and capital condition, results of operations, strategies, financial portfolio performance, dividend and stock purchase programs, expected outcomes of legal proceedings, market growth, acquisitions, joint ventures and divestitures and new technologies, services and opportunities, as well as regarding industry, regulatory, economic and market trends, initiatives and developments, the business environment and other matters.

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

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

- The financial strength and continuing viability of the counterparties with which we or our clients do business and to which we have investment, credit or financial exposure, including, for example, the direct and indirect effects on counterparties of the sovereign-debt risks in the U.S., Europe and other regions;
-

increases in the volatility of, or declines in the level of, our net interest revenue, changes in the composition or valuation of the assets recorded in our consolidated statement of condition (and our ability to measure the fair value of investment securities) and the possibility that we may change the manner in which we fund those assets;

- the liquidity of the U.S. and international securities markets, particularly the markets for fixed-income securities and inter-bank credits, and the liquidity requirements of our clients;

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- the level and volatility of interest rates, the valuation of the U.S. dollar relative to other currencies in which we record revenue or accrue expenses and the performance and volatility of securities, credit, currency and other markets in the U.S. and internationally;
- the credit quality, credit-agency ratings and fair values of the securities in our investment securities portfolio, a deterioration or downgrade of which could lead to other-than-temporary impairment of the respective securities and the recognition of an impairment loss in our consolidated statement of income;
- our ability to attract deposits and other low-cost, short-term funding, our ability to manage levels of such deposits and the relative portion of our deposits that are determined to be operational under regulatory guidelines and our ability to deploy deposits in a profitable manner consistent with our liquidity requirements and risk profile;
- the manner and timing with which the Federal Reserve and other U.S. and foreign regulators implement changes to the regulatory framework applicable to our operations, including implementation of the Dodd-Frank Act, the Basel III final rule and European legislation (such as the Alternative Investment Fund Managers Directive, Undertakings for Collective Investment in Transferable Securities Directives and Markets in Financial Instruments Directive II); among other consequences, these regulatory changes impact the levels of regulatory capital we must maintain, acceptable levels of credit exposure to third parties, margin requirements applicable to derivatives, and restrictions on banking and financial activities. In addition, our regulatory posture and related expenses have been and will continue to be affected by changes in regulatory expectations for global systemically important financial institutions applicable to, among other things, risk management, liquidity and capital planning and compliance programs, and changes in governmental enforcement approaches to perceived failures to comply with regulatory or legal obligations;
- adverse changes in the regulatory ratios that we are required or will be required to meet, whether arising under the Dodd-Frank Act or the Basel III final rule, or due to changes in regulatory positions, practices or regulations

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

- increasing requirements to obtain the prior approval of the Federal Reserve or our other U.S. and non-U.S. regulators for the use, allocation or distribution of our capital or other specific capital actions or programs, including acquisitions, dividends and stock purchases, without which our growth plans, distributions to shareholders, share repurchase programs or other capital initiatives may be restricted;
- changes in law or regulation, or the enforcement of law or regulation, that may adversely affect our business activities or those of our clients or our counterparties, and the products or services that we sell, including additional or increased taxes or assessments thereon, capital adequacy requirements, margin requirements and changes that expose us to risks related to the adequacy of our controls or compliance programs;
- financial market disruptions or economic recession, whether in the U.S., Europe, Asia or other regions;
- our ability to promote a strong culture of risk management, operating controls, compliance oversight and governance that meet our expectations and those of our clients and our regulators;
- the results of, and costs associated with, governmental or regulatory inquiries and investigations, litigation and similar claims, disputes, or proceedings;
- the potential for losses arising from our investments in sponsored investment funds;
- the possibility that our clients will incur substantial losses in investment pools for which we act as agent, and the possibility of significant reductions in the liquidity or valuation of assets underlying those pools;
- our ability to anticipate and manage the level and timing of redemptions and withdrawals from our collateral pools and other collective investment products;
- the credit agency ratings of our debt and depository obligations and investor and client perceptions of our financial strength;
- adverse publicity, whether specific to State Street or regarding other industry participants

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or industry-wide factors, or other reputational harm;

- our ability to control operational risks, data security breach risks and outsourcing risks, our ability to protect our intellectual property rights, the possibility of errors in the quantitative models we use to manage our business and the possibility that our controls will prove insufficient, fail or be circumvented;
- our ability to expand our use of technology to enhance the efficiency, accuracy and reliability of our operations and our dependencies on information technology and our ability to control related risks, including cyber-crime and other threats to our information technology infrastructure and systems and their effective operation both independently and with external systems, and complexities and costs of protecting the security of our systems and data;
- our ability to grow revenue, manage expenses, attract and retain highly skilled people and raise the capital necessary to achieve our business goals and comply with regulatory requirements and expectations;
- changes or potential changes to the competitive environment, including changes due to regulatory and technological changes, the effects of industry consolidation and perceptions of State Street as a suitable service provider or counterparty;
- changes or potential changes in the amount of compensation we receive from clients for our services, and the mix of services provided by us that clients choose;
- our ability to complete acquisitions, joint ventures and divestitures, including the ability to obtain regulatory approvals, the ability to arrange financing as required and the ability to satisfy closing conditions;
- the risks that our acquired businesses and joint ventures will not achieve their anticipated financial and operational benefits or will not be integrated successfully, or that the integration will take longer than anticipated, that expected synergies will not be achieved or unexpected negative synergies or liabilities will be experienced, that client and deposit retention goals will not be met, that other regulatory or operational challenges will be experienced, and that disruptions from the transaction will harm our relationships with our clients, our employees or regulators;
- our ability to recognize emerging needs of our clients and to develop products that are responsive to such trends and profitable to us, the performance of and demand for the products and services we offer, and the potential for new products and services to impose additional costs on us and expose us to increased operational risk;
- changes in accounting standards and practices; and
- changes in tax legislation and in the interpretation of existing tax laws by U.S. and non-U.S. tax authorities that affect the amount of taxes due.

Actual outcomes and results may differ materially from what is expressed in our forward-looking statements and from our historical financial results due to the factors discussed in this section and elsewhere in this Form 10-Q or disclosed in our other SEC filings, including the risk factors discussed in our 2014 Form 10-K. Forward-looking statements in this Form 10-Q should not be relied on as representing our expectations or beliefs as of any date subsequent to the time this Form 10-Q is filed with the SEC. We undertake no obligation to revise our forward-looking statements after the time they are made. The factors discussed above are not intended to be a complete statement of all risks and uncertainties that may affect our businesses. We cannot anticipate all developments that may adversely affect our business or operations or our consolidated results of operations, financial condition or cash flows.

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

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

TABLE 1: OVERVIEW OF FINANCIAL RESULTS

	Quarters Ended June 30,		
(Dollars in millions, except per share amounts)	2015	2014	% Change
Total fee revenue	$2,082	$2,039	2 %
Net interest revenue	535	561	(5)
Gains (losses) related to investment securities, net	(3)	(2)	50
Total revenue	2,614	2,598	1
Provision for loan losses	2	2	
Total expenses	2,134	1,850	15
Income before income tax expense	478	746	(36)
Income tax expense	56	124	(55)
Net income	$422	$622	(32)
Adjustments to net income:			
Dividends on preferred stock[(1)]	(29)	(19)	53
Earnings allocated to participating securities[(2)]	—	(1)	
Net income available to common shareholders	$393	$602	(35)
Earnings per common share:			
Basic	$.96	$1.41	(32)
Diluted	.94	1.38	(32)
Average common shares outstanding (in thousands):			
Basic	410,674	427,824	
Diluted	416,712	435,320	
Cash dividends declared per common share	$.34	$.30	
Return on average common equity	8.3 %	11.9 %	

	Six Months Ended June 30,		
(Dollars in millions, except per share amounts)	2015	2014	% Change
Total fee revenue	$4,142	$3,963	5 %
Net interest revenue	1,081	1,116	(3)
Gains (losses) related to investment securities, net	(4)	4	(200)
Total revenue	5,219	5,083	3
Provision for loan losses	6	4	50
Total expenses	4,231	3,878	9
Income before income tax expense	982	1,201	(18)
Income tax expense	151	216	(30)
Net income	$831	$985	(16)
Adjustments to net income:			
Dividends on preferred stock[(1)]	(60)	(25)	140
Earnings allocated to participating securities[(2)]	(1)	(2)	(50)
Net income available to common shareholders	$770	$958	(20)
Earnings per common share:			
Basic	$1.87	$2.23	(16)
Diluted	1.84	2.19	(16)
Average common shares outstanding (in thousands):			
Basic	411,445	429,215	
Diluted	417,643	436,958	
Cash dividends declared per common share	$.64	$.56	

Return on average common equity	8.1	%	9.6	%

(1) Refer to note 10 to the consolidated financial statements included in this Form 10-Q for additional information regarding our preferred stock dividends.
(2) Refer to note 16 to the consolidated financial statements included in this Form 10-Q.

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

Highlights

- Asset servicing and asset management fees increased 3% and 1%, respectively, in the second quarter of 2015 compared to the second quarter of 2014, both the result of net new business installed and stronger U.S. equity markets, partially offset by the impact of the stronger U.S. dollar.
- In the second quarter of 2015, we secured new business of an estimated $143 billion in assets to be serviced; of that total, approximately $112 billion was installed prior to June 30, 2015, with the remaining balance expected to be installed in the remainder of 2015 or later.
- Net new assets to be managed decreased approximately $65 billion in the second quarter of 2015 primarily due to seasonal outflows from SPY, our Standard & Poor's, or S&P, 500 ETF. Approximately $32 billion of new asset management business that was awarded to SSGA during the quarter was not installed as of June 30, 2015.
- In the second quarter of 2015, we recorded a charge of $250 million, or $0.37 per share, to increase our legal accrual associated with our indirect foreign exchange business prior to 2010. This accrual reflects continued negotiations in connection with our intention to seek to resolve the outstanding claims asserted in the United States against us by governmental entities and civil litigants with regard to our indirect foreign exchange business. The total legal accrual associated with these matters as of the time of filing this Form 10-Q is $585 million. The legal accrual is further discussed under "Legal and Regulatory Matters" in note 8 to the consolidated financial statements included in this Form 10-Q.

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- In the second quarter of 2015, we declared quarterly common stock dividends of $0.34 per share, totaling approximately $139 million which were paid in July 2015.
- In the second quarter of 2015, under a purchase program approved by our Board of Directors in March 2015 which authorizes us to purchase up to $1.8 billion of our common stock through June 30, 2016, we purchased approximately 4.4 million shares of our common stock at an average per-share cost of $78.79 and an aggregate cost of approximately $350 million.

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

Additional information with respect to our common stock purchase program and stock dividends is provided under "Financial Condition - Capital" in this Management's Discussion and Analysis.

Financial Results

- Total revenue in the second quarter of 2015 increased 1% compared to the second quarter of 2014, primarily due to a 2% increase in total fee revenue, partially offset by a decline in net interest revenue. Total revenue in the second quarter of 2015 was negatively impacted by the stronger U.S. dollar by approximately $88 million when compared to the second quarter of 2014.
- Total expenses in the second quarter of 2015 increased 15% compared to the second quarter of 2014, primarily driven by the increased legal accrual associated with indirect foreign exchange business, partially offset by a decrease in occupancy expenses.
- Total expenses in the second quarter of 2015 benefited from the stronger U.S. dollar by approximately $71 million compared to the second quarter of 2014.
- Return on average common shareholders' equity in the second quarter of 2015 decreased to 8.3% from 11.9% in the second

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

CONSOLIDATED RESULTS OF OPERATIONS

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

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

Total Revenue
TABLE 2: TOTAL REVENUE

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

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

Fee Revenue
Servicing and management fees collectively comprised approximately 78% and 77%, of our total fee revenue in the second quarter and first six months of 2015, respectively, compared to approximately 78% and 79%, in the second quarter and first six months of 2014, respectively. The level of these fees is influenced by several factors, including the mix and volume of our assets under custody and administration and our assets under management, the value and type of securities positions held (with respect to assets under custody) and the volume of portfolio transactions, and

the types of products and services used by our clients, and is generally affected by changes in worldwide equity and fixed-income security valuations and trends in market asset class preferences.

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

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

Asset-based management fees for actively managed products are generally charged at a higher percentage of assets under management than for passive products. Actively managed products may also include performance fee arrangements which are recorded when the performance period is complete. Performance fees are generated when the performance of certain managed portfolios exceeds

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

See Table 3: Daily, Month-end and Year-end Indices for selected equity market indices. While the specific indices presented are indicative of general market trends, the asset types and classes relevant to individual client portfolios can and do differ, and the performance of associated relevant indices can therefore differ from the performance of the indices presented.
Daily averages and the averages of month-end indices demonstrate worldwide changes in equity markets that affect our servicing and management fee revenue. Quarter-end indices affect the values of assets under custody and administration and assets under management as of those dates. The index names listed in the table are service marks of their respective owners.

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

	Daily Averages of Indices Quarters Ended June 30,			Averages of Month-End Indices Quarters Ended June 30,			Quarter-End Indices As of June 30,		
	2015	2014	% Change	2015	2014	% Change	2015	2014	% Change
S&P 500®	2,102	1,900	11 %	2,085	1,923	8 %	2,063	1,960	5 %
NASDAQ®	5,030	4,196	20	4,999	4,255	17	4,987	4,408	13
MSCI EAFE®	1,905	1,942	(2)	1,887	1,955	(3)	1,842	1,972	(7)

	Daily Averages of Indices Six Months Ended June 30,			Averages of Month-End Indices Six Months Ended June 30,		
	2015	2014	% Change	2015	2014	% Change
S&P 500®	2,083	1,868	12 %	2,071	1,880	10 %
NASDAQ®	4,929	4,203	17	4,916	4,229	16
MSCI EAFE®	1,861	1,918	(3)	1,863	1,926	(3)

FEE REVENUE

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

Servicing Fees

Servicing fees in both the second quarter and first six months of 2015 increased 3% compared to the same periods in 2014, primarily as a result of the positive revenue impact of net new business (revenue added from new servicing business installed less revenue lost from the removal of assets serviced) and stronger U.S. equity markets, partially offset by the impact of the stronger U.S. dollar. In both the second quarter and first six months of 2015, servicing fees generated outside the U.S. were approximately 41% of total servicing fees compared to 42% for both the second quarter and first six months of 2014.
The increase in total assets under custody and administration as of June 30, 2015 compared to December 31, 2014 primarily resulted from new business in assets to be serviced and stronger global equity markets. The increase in total assets under custody and administration as of June 30, 2015

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

June 30, 2015 did not reflect the estimated $143 billion of new business in assets to be serviced awarded to us in the second quarter of 2015 and prior periods but not installed prior to June 30, 2015. This new business will be reflected in assets under custody and administration in future periods after installation and will generate servicing fee revenue in subsequent periods.

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

The value of assets under custody and administration is a broad measure of the relative size of various markets served. Changes in the values of

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

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

TABLE 4: COMPONENTS OF ASSETS UNDER CUSTODY AND ADMINISTRATION

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

TABLE 5: COMPOSITION OF ASSETS UNDER CUSTODY AND ADMINISTRATION

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

TABLE 6: GEORGRAPHIC MIX OF ASSETS UNDER CUSTODY AND ADMINISTRATION[1]

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

[1] Geographic mix is based on the location at which the assets are serviced.

Management Fees

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

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

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

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

(1) Includes both floating- and constant-net-asset-value portfolios held in commingled structures or separate accounts.
(2) Includes real estate investment trusts, currency and commodities, including SPDR® Gold Fund, for which State Street is not the investment manager, but acts as distribution agent.

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

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

(1) ETFs are a component of assets under management presented in the preceding table.
(2) Includes SPDR® Gold Fund, for which State Street is not the investment manager, but acts as distribution agent.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
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TABLE 9: GEOGRAPHIC MIX OF ASSETS UNDER MANAGEMENT[1]

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

[1] Geographic mix is based on client location or fund management location.
In asset management, we experienced net outflows of approximately $104 billion between

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

TABLE 10: ACTIVITY IN ASSETS UNDER MANAGEMENT BY PRODUCT CATEGORY

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

[1] Amounts represent long-term portfolios, excluding ETFs.

[2] Includes both floating- and constant-net-asset-value portfolios held in commingled structures or separate accounts.
[3] Includes real estate investment trusts, currency and commodities, including SPDR® Gold Fund, for which State Street is not the investment manager, but acts as distribution agent.

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

will generate management fee revenue in subsequent periods.

Total assets under management as of June 30, 2015 included managed assets lost but not yet liquidated. Lost business occurs from time to time and it is difficult to predict the timing of client behavior in transitioning these assets. This timing can vary significantly.

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Trading Services

TABLE 11: TRADING SERVICES REVENUE

	Quarters Ended June 30,		
(Dollars in millions)	2015	2014	% Change
Foreign exchange trading:			
Direct sales and trading	$88	$79	11 %
Indirect foreign exchange trading	79	65	22
Total foreign exchange trading	167	144	16
Brokerage and other trading services:			
Electronic foreign exchange services	44	43	2
Other trading, transition management and brokerage	70	73	(4)
Total brokerage and other trading services	114	116	(2)
Total trading services revenue	$281	$260	8

	Six Months Ended June 30,		
(Dollars in millions)	2015	2014	% Change
Foreign exchange trading:			
Direct sales and trading	$223	$150	49 %
Indirect foreign exchange trading	147	128	15
Total foreign exchange trading	370	278	33
Brokerage and other trading services:			
Electronic foreign exchange services	92	91	1
Other trading, transition management and brokerage	143	144	(1)
Total brokerage and other trading services	235	235	—
Total trading services revenue	$605	$513	18

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

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

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

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

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

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

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

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

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

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

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

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

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

Securities Finance

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

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

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

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

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

Securities finance revenue increased 5% and 10%, in the second quarter and first six months of 2015, respectively, compared to the same periods of 2014. The increase was mainly the result of new business from enhanced custody and the impact of higher lending volumes associated with our agency lending program.

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

Processing Fees and Other

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

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

NET INTEREST REVENUE

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

Net interest revenue is defined as interest revenue earned on interest-earning assets less interest expense incurred on interest-bearing liabilities. Interest-earning assets, which principally consist of investment securities, interest-bearing

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

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

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

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

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

Net interest revenue decreased 4% and 3%, on a fully taxable-equivalent basis in the second quarter and first six months of 2015 respectively, compared to the same periods of 2014. The decrease was

generally the result of lower yields on interest-earning assets, as lower global interest rates affected our revenue from floating-rate assets, partially offset by the benefit of higher levels of interest-earning assets and lower rates on interest paid.

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

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

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

During the past year, our clients have continued to place elevated levels of deposits with us, as central bank actions have resulted in high levels of liquidity and low global interest rates. We evaluate deposits as either inherent in our relationship with our custodial clients, which we generally invest in our investment portfolio, or transient, or excess, deposits, which we generally deposit with central banks. Deposits with central banks generate low returns. Consequently, the elevated levels of these transient deposits have contributed to a reduction of our net interest margin relative to historical levels.

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

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

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

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

We recorded aggregate discount accretion in interest revenue of $48 million in the first six months of 2015 related to the assets we consolidated onto our balance sheet in 2009 from our asset-backed commercial paper conduits. Subsequent to the commercial paper conduit consolidation in 2009, we have recorded total discount accretion in interest revenue of $2.07 billion (including $48 million in the first six months of 2015, $119 million for the twelve months ended December 31, 2014, $137 million for the twelve months ended December 31, 2013, $215 million for the twelve months ended December 31, 2012, $220 million for the twelve months ended December 31, 2011, $712 million for the twelve months ended December 31, 2010 and $621 million for the twelve months ended December 31, 2009). The timing and ultimate recognition of any applicable discount accretion depends, in part, on factors that are outside of our control, including anticipated prepayment speeds and credit quality. The impact of these factors is uncertain and can be significantly influenced by general economic and financial market conditions. The timing and recognition of any applicable discount accretion can also be influenced by our ongoing management of the risks and other characteristics associated with our investment securities portfolio, including sales of securities which would otherwise generate interest revenue through accretion.

Depending on the factors discussed above, among others, we anticipate that until the former conduit securities remaining in our investment portfolio mature or are sold, discount accretion will continue to contribute to our net interest revenue, though generally in declining amounts. Assuming that we hold the remaining former conduit securities to maturity, all else being equal, we expect the remaining former conduit securities carried in our investment

portfolio as of June 30, 2015 to generate discount accretion in future periods of approximately $276 million over their remaining terms, with approximately half of this discount accretion to be recorded over the next four years.
Interest-bearing deposits with banks averaged $79.44 billion and $75.52 billion, for the second quarter and first six months of 2015, respectively, compared to $53.56 billion and $43.54 billion, respectively, for the same periods of 2014. These deposits reflected our maintenance of cash balances at the Federal Reserve, the ECB and other non-U.S. central banks both to satisfy regulatory reserve requirements, and due to the continued elevated levels of client deposits and our investment of the excess deposits with central banks.

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If client deposits remain at or close to current elevated levels, we expect to continue to invest them in either money market assets, including central bank deposits, or in investment securities, depending on our assessment of the underlying characteristics of the deposits.

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

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

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

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

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

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

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

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

Average other interest-earning assets increased to $23.61 billion and $22.09 billion, for the second quarter and first six months of 2015, respectively, from $14.85 billion and $14.19 billion, for the second quarter and first six months of 2014, respectively. Our average other interest-earning assets, largely associated with our enhanced custody business, comprised approximately 10% of our average total interest-earning assets for both the second quarter and first six months of 2015, compared to approximately 7% of our average total interest-earning assets for both the second quarter and first six months of 2014, as this business continued to grow. While the enhanced custody business supports our overall profitability by generating securities finance revenue, it puts downward pressure on our net interest margin, as interest income on the receivable associated with the cash collateral we provide is earned at a lower rate compared to our investment securities portfolio.

Aggregate average interest-bearing deposits increased to $139.11 billion and $136.57 billion, for the second quarter and first six months of 2015, respectively, from $129.99 billion and $121.72 billion, respectively, for the same periods of 2014. The higher levels were primarily the result of increases in both U.S. and non-U.S. transaction accounts and time deposits. Future transaction account levels will be influenced by the underlying asset servicing business, as well as market conditions, including the general levels of U.S. and non-U.S. interest rates.

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

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

Average long-term debt decreased to $9.15 billion and $9.44 billion, for the second quarter and first six months of 2015, respectively, from $9.34 billion and $9.50 billion, respectively, for the same periods of 2014. The decrease primarily reflected the issuance of $1.0 billion of senior debt issued in December 2014 which was offset by a $900 million extendible note called at the end of February 2015, the maturities of $500 million of senior debt in May 2014 and $250 million of senior debt in March 2014.

Average other interest-bearing liabilities increased to $8.61 billion and $8.04 billion, for the second quarter and first six months of 2015, respectively, from $7.56 billion and $7.16 billion, respectively, for the same periods of 2014, primarily the result of higher levels of cash collateral received from clients in connection with our enhanced custody business.

Several factors could affect future levels of our net interest revenue and margin, including the mix of client liabilities; actions of various central banks; changes in U.S. and non-U.S. interest rates; changes in the various yield curves around the world; the effectiveness of our efforts to reduce excess client deposits; revised or proposed regulatory capital or liquidity standards, or interpretations of those

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

Based on market conditions and other factors, we continue to reinvest the majority of the proceeds from pay-downs and maturities of investment securities in highly-rated securities, such as U.S. Treasury and agency securities, municipal securities, federal agency mortgage-backed securities and U.S. and non-U.S. mortgage- and asset-backed securities. The pace at which we continue to reinvest and the types of investment securities purchased will depend on the impact of market conditions and other factors over time. We expect these factors and the levels of global interest rates to influence what effect our reinvestment program will have on future levels of our net interest revenue and net interest margin.

Gains (Losses) Related to Investment Securities, Net

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

TABLE 14: INVESTMENT SECURITIES GAINS (LOSSES), NET

	Quarters Ended June 30,		Six Months Ended June 30,	
(In millions)	2015	2014	2015	2014
Net realized gains (losses) from sales of available-for-sale securities	$(3)	$—	$(3)	$15
Net impairment losses:				
Gross losses from other-than-temporary impairment	—	—	(1)	(1)
Losses reclassified (from) to other comprehensive income	—	(2)	—	(10)
Net impairment losses[(1)]	—	(2)	(1)	(11)
Gains (losses) related to investment securities, net	$(3)	$(2)	$(4)	$4
[(1)] Net impairment losses, recognized in our consolidated statement of income, were composed of the following:				
Impairment associated with expected credit losses	$—	$(1)	$—	$(10)
	—	—	—	—

Impairment associated with management’s intent to sell impaired securities prior to recovery in value				
Impairment associated with adverse changes in timing of expected future cash flows	—	(1)	(1)	(1)
Net impairment losses	$—	$(2)	$(1)	$(11)

From time to time, in connection with our ongoing management of our investment securities portfolio, we sell available-for-sale securities to manage risk, to take advantage of favorable market conditions, to optimize our balance sheet for regulatory changes, or for other reasons. In the first six months of 2015, we sold approximately $9.63 billion of such investment securities, compared to

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

PROVISION FOR LOAN LOSSES

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

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

EXPENSES

TABLE 15: EXPENSES

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

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

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

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

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

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

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

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Our compliance obligations have increased significantly due to new regulations in the U.S. and internationally that have been adopted or proposed in response to the financial crisis. As a systemically important financial institution, we are subject to enhanced supervision and prudential standards. Our status as a global systemically important bank, or G-SIB, has also resulted in heightened prudential and conduct expectations of our U.S. and international regulators with respect to our capital and liquidity management and our compliance and risk oversight programs. These heightened expectations have increased our regulatory compliance costs, including personnel and systems, as well as significant additional implementation and related costs to enhance our regulatory compliance programs. We anticipate that these evolving and increasing regulatory compliance requirements and expectations will continue to affect our expenses. Our employee compensation and benefits, information systems and other expenses could increase, as we further adjust our operations in response to new or proposed requirements and heightened expectations.

Acquisition Costs

In the second quarter and first six months of 2015, we recorded acquisition costs of $3 million and $8 million, respectively, compared to $15 million and$36 million, respectively, in the same periods in 2014. These amounts related to previously disclosed acquisitions.

Restructuring Charges

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

Income Tax Expense

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

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

LINE OF BUSINESS INFORMATION

We have two lines of business: Investment Servicing and Investment Management. The results of operations for these lines of business are not necessarily comparable with those of other companies, including companies in the financial services industry. Information about our two lines of business, as well as the revenues, expenses and capital allocation methodologies associated with them, is provided in note 24 to the consolidated financial statements included in our 2014 Form 10-K.

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

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

- Net acquisition and restructuring costs of $3 million and $9 million, respectively; and
- Net severance cost credit adjustment of $1 million in the first six months of 2015.

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

- Net severance costs associated with staff reductions of $4 million and $76 million, respectively;
- Net acquisition and restructuring costs of $28 million and $61 million, respectively; and
- Provisions for legal contingencies of $6 million in the first six months of 2014.

Prior reported results reflect reclassifications, for comparative purposes, related to management changes in methodologies associated with allocations of revenue and expenses reflected in line-of-business results for 2015.

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Investment Servicing
TABLE 16: INVESTMENT SERVICING LINE OF BUSINESS RESULTS

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

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

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

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

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

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

higher loan service fees due to higher average loan volumes.

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

Net interest revenue decreased 4% and 3%, respectively, in the second quarter and first six months of 2015, compared to the same periods in 2014, primarily the result of lower yields on interest earning assets, as lower global interest

rates affected our revenue from floating-rate assets, as well as the impact of the stronger U.S. dollar. The decreases were partially offset by the benefit of higher levels of interest-earning assets and lower rates on interest paid. A discussion of net interest revenue is provided under “Net Interest Revenue” in “Total Revenue.”

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

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

Investment Management
TABLE 17: INVESTMENT MANAGEMENT LINE OF BUSINESS RESULTS

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

nm - not meaningful

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

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

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

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

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

FINANCIAL CONDITION

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

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

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

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

TABLE 18: AVERAGE STATEMENT OF CONDITION[1]

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

[1] Additional information about our average statement of condition, primarily our interest-earning assets and interest-bearing liabilities, is included under "Consolidated Results of Operations - Total Revenue - Net Interest Revenue" in this Management's Discussion and Analysis.

Investment Securities

TABLE 19: CARRYING VALUES OF INVESTMENT SECURITIES

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

Total asset-backed securities	14,204	20,609
Non-U.S. debt securities:		
Mortgage-backed securities	8,329	9,606
Asset-backed securities	2,933	3,226
Government securities	4,003	3,909
Other	5,118	5,428
Total non-U.S. debt securities	20,383	22,169
State and political subdivisions	10,449	10,820
Collateralized mortgage obligations	3,984	5,339
Other U.S. debt securities	3,336	4,109
U.S. equity securities	39	39
Non-U.S. equity securities	3	2
U.S. money-market mutual funds	282	449
Non-U.S. money-market mutual funds	8	8
Total	$85,308	$94,913
Held to Maturity:		
U.S. Treasury and federal agencies:		
Direct obligations	$5,707	$5,114
Mortgage-backed securities	52	62
Asset-backed securities:		
Student loans[1]	1,695	1,814
Credit cards	897	897
Other	500	577
Total asset-backed securities	3,092	3,288
Non-U.S. debt securities:		
Mortgage-backed securities	3,121	3,787
Asset-backed securities	2,061	2,868
Government securities	153	154
Other	68	72
Total non-U.S. debt securities	5,403	6,881
State and political subdivisions	3	9
Collateralized mortgage obligations	1,898	2,369
Total	$16,155	$17,723

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

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

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consolidated financial statements included in this Form 10-Q.
We manage our investment securities portfolio to align with the interest-rate and duration characteristics of our client liabilities that we consider to be core deposits and in the context of the overall structure of our consolidated statement of condition, in consideration of the global interest-rate environment. We consider a well-diversified, high-credit quality investment securities portfolio to be an important element in the management of our consolidated statement of condition.
Approximately 91% of the carrying value of the portfolio rated “AAA” or “AA” as of June 30, 2015 and 90% as of December 31, 2014.
TABLE 20: INVESTMENT PORTFOLIO BY EXTERNAL CREDIT RATING

	June 30, 2015		December 31, 2014	
AAA[(1)]	77	%	73	%
AA	14		17	
A	6		6	
BBB	2		2	
Below BBB	1		2	
	100	%	100	%

(1) Includes U.S. Treasury and federal agency securities that are split-rated, “AAA” by Moody’s Investors Service and “AA+” by Standard & Poor’s.
As of June 30, 2015, the investment portfolio of 14,275 securities was diversified with respect to asset class. Approximately 59% of the aggregate carrying value of the portfolio as of that date was composed of mortgage-backed and asset-backed securities, compared to 64% as of December 31, 2014. The asset-backed securities portfolio, of which approximately 93% and 96% of the carrying value as of June 30, 2015 and December 31, 2014, respectively, was floating-rate, consisted primarily of student loan-backed and credit card-backed securities. Mortgage-backed securities were composed of securities issued by the Federal National Mortgage Association and Federal Home Loan Mortgage Corporation, as well as U.S. and non-U.S. large-issuer collateralized mortgage obligations.
In December 2013, U.S. regulators issued final regulations to implement the Volcker rule. The Volcker rule will, over time, prohibit banking entities, including us and our affiliates, from engaging in certain prohibited proprietary trading activities, as defined in the final Volcker rule regulations, subject to exemptions for market making-related activities, risk-mitigating hedging, underwriting and certain other activities. The Volcker rule will also require banking entities to either restructure or divest certain

ownership interests in, and relationships with, covered funds (as such terms are defined in the final Volcker rule regulations).
In the absence of an applicable extension of the Volcker rule’s general conformance period, we were required to bring our activities and investments into conformance with the Volcker rule and its final Volcker rule regulations on July 21, 2015. In December 2014, the Federal Reserve issued an order, the 2016 conformance period extension, extending the Volcker rule’s general conformance period until July 21, 2016 for investments in and relationships with covered funds and certain foreign funds that were in place on or prior to December 31, 2013, referred to as legacy covered funds. Under the 2016 conformance period extension, all investments in and relationships related to investments in a covered fund made or entered into after that date by a banking entity and its affiliates, and all proprietary trading activities of those entities, were required to be in conformance with the Volcker rule and its final implementing regulations by July 21, 2015. The Federal Reserve stated in the 2016 conformance period extension that it intends to grant a final one-year extension of the general conformance period, to July 21, 2017, for banking entities to conform ownership interests in and relationships with legacy covered funds.
Whether certain types of investment securities or structures, such as collateralized loan obligations, or CLOs, constitute covered funds, as defined in the final Volcker rule regulations, and do not benefit from the exemptions

provided in the Volcker rule, and whether a banking organization's investments therein constitute ownership interests remain subject to (1) market, and ultimately regulatory, interpretation, and (2) the specific terms and other characteristics relevant to such investment securities and structures.

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

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and we may be required to divest of such investments at a significant discount compared to the investments' book value. This could result in a material adverse effect on our consolidated results of operations in the period in which such a divestiture occurs or on our consolidated financial condition.

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

Non-U.S. Debt Securities

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

TABLE 21: NON-U.S. DEBT SECURITIES

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

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

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

Approximately 90% and 88% of the aggregate carrying value of these non-U.S. debt securities was rated “AAA” or “AA” as of June 30, 2015 and December 31, 2014, respectively. The majority of these securities comprise senior positions within the security structures; these positions have a level of protection provided through subordination and other forms of credit protection. As of June 30, 2015 and December 31, 2014, approximately 72% and 74%, respectively, of the aggregate carrying value of these non-U.S. debt securities was floating-rate, and accordingly, we consider these securities to have minimal interest-rate risk.

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

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

As of June 30, 2015, the underlying collateral for non-U.S. mortgage- and asset-backed securities primarily included U.K. prime mortgages, Australian and Dutch mortgages and German automobile loans. The securities listed under "Canada" were composed of Canadian government securities and corporate debt and covered bonds. The securities listed under "France" were composed of automobile loans, prime mortgages, and corporate debt and covered bonds. The securities listed under "Japan" were substantially composed of Japanese government securities. The securities listed under "South Korea" were composed of South Korean government securities.

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

Municipal Obligations

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

TABLE 22: STATE AND MUNICIPAL OBLIGORS[1]

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

[1] Represented 5% or more of our aggregate municipal credit exposure of approximately $18.67 billion and $18.44 billion across our businesses as of June 30, 2015 and December 31, 2014, respectively.
[2] Includes municipal loans which are also presented within table 24.

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

Additional information with respect to our assessment of other-than-temporary impairment of our municipal securities is provided in note 3 to the consolidated financial statements included in this Form 10-Q.

Impairment

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

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The decrease in the net unrealized gain position as of June 30, 2015 from December 31, 2014, presented in Table 23: Amortized Cost, Fair Value and Net Unrealized Gains (Losses) of Investment Securities, was primarily attributable to both declining interest rates and narrowing spreads.
TABLE 23: AMORTIZED COST, FAIR VALUE AND NET UNREALIZED GAINS (LOSSES) OF INVESTMENT SECURITIES

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

[1] Securities available for sale are carried at fair value, with after-tax net unrealized gains and losses recorded in accumulated other comprehensive income, or AOCI. Securities held to maturity are carried at cost, and unrealized gains and losses are not recorded in our consolidated financial statements.
We conduct periodic reviews of individual securities to assess whether other-than-temporary impairment exists. Our assessment of other-than-temporary impairment involves an evaluation of economic and security-specific factors. Such factors are based on estimates, derived by management, which contemplate current market conditions and security-specific performance. To the extent that market conditions are worse than management's expectations, other-than-temporary impairment could increase, in particular the credit-related component that would be recorded in our consolidated statement of income.
In the aggregate, we recorded net losses from other-than-temporary impairment of $1 million in the first six months of 2015 compared to losses of $11 million in the first six months of 2014. Management considers the aggregate decline in fair value of the remaining investment securities and the resulting gross unrealized losses of $600 million as of June 30, 2015 to be temporary and not the result of any material changes in the credit characteristics of the securities. Additional information with respect to other-than-temporary impairments, net impairment losses and gross unrealized losses is provided in note 3 to the consolidated financial statements included in this Form 10-Q.
Given our U.S. mortgage-backed securities exposure, our assessment of other-than-temporary impairment relies, in part, on our estimates of trends in the U.S. housing market in addition to trends in unemployment rates, interest rates and the timing of defaults. Overall, our evaluation of other-than-temporary impairment as of June 30, 2015 continued to include an expectation of a U.S. housing recovery characterized by relatively modest growth in national housing prices over the next few years. The other-than-temporary impairment of our investment

securities portfolio continues to be sensitive to our estimates of future cumulative losses. However, given our positive outlook for U.S. national housing prices, our sensitivity analysis indicated, as of June 30, 2015, that our investment securities portfolio was less exposed to the U.S. housing market outlook relative to other factors, including unemployment rates, interest rates and timing of default. The timeline to liquidate distressed loans continues to extend, but to a lesser degree as a result of strengthening in the national housing market. The timing of default may affect, among other things, the timing of cash flows or the credit quality associated with the mortgages collateralizing certain of our residential mortgage-backed securities which, accordingly, could result in the recognition of additional other-than-temporary impairment in future periods.
Our evaluation of potential other-than-temporary impairment of mortgage-backed securities with collateral in Spain, Italy, Ireland, and Portugal takes into account slow economic growth, austerity measures, and government intervention in the corresponding mortgage markets and assumes a conservative baseline macroeconomic environment. Our baseline view assumes a recessionary period characterized by high unemployment and by additional

declines in housing prices between 10% and 15%. Our evaluation of other-than-temporary impairment in our base case does not assume a disorderly sovereign debt restructuring or a break-up of the Eurozone.
In addition, we perform stress testing and sensitivity analyses in order to assess the impact of more severe assumptions on potential other-than-temporary impairment. For example, based on our stress testing and sensitivity analyses, we estimate, using relevant information as of June 30, 2015 and

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

Loans and Leases

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

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

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

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

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

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

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

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

The commercial real estate, or CRE, loans are composed of the loans acquired in 2008 pursuant to indemnified repurchase agreements with an affiliate of Lehman as a result of the Lehman Brothers bankruptcy. Additional information about all of our loan-and-lease segments, as well as underlying classes, is provided in note 4 to the consolidated financial statements included in this Form 10-Q.

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

TABLE 25: ALLOWANCE FOR LOAN LOSSES

Six Months Ended June 30,

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

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

As of June 30, 2015, approximately $31 million of our allowance for loan losses was related to senior secured bank loans included in the institutional segment; the remaining $12 million was related to other commercial and financial loans in the institutional segment.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
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Cross-Border Outstandings

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

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

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

TABLE 26: CROSS-BORDER OUTSTANDINGS[1]

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

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

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

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

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

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

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

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

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

Risk Management

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

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

Many of these risks, as well as certain of the factors underlying each of these risks that could affect our businesses and our consolidated financial statements, are discussed in detail under Item 1A, "Risk Factors," included in our 2014 Form 10-K.
The scope of our business requires that we balance these risks with a comprehensive and well-integrated risk management function. The identification, assessment, monitoring, mitigation and reporting of risks are essential to our financial performance and successful management of our businesses. These risks, if not effectively managed, can result in losses to State Street as well as erosion of our capital and damage to our reputation. Our

systematic approach allows for an assessment of risks within a framework for evaluating opportunities for the prudent use of capital that appropriately balances risk and return. For additional information on our risk management, including our risk appetite framework and risk governance committee structure, refer to pages 78 to 83 in the 2014 Form 10-K.

Credit Risk Management

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

Liquidity Risk Management

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

We manage our liquidity on a global, consolidated basis. We also manage liquidity on a stand-alone basis at the parent company, as well as at certain branches and subsidiaries of State Street Bank. State Street Bank generally has access to markets and funding sources limited to banks, such as the federal funds market and the Federal Reserve's discount window. Our parent company is managed to a more conservative liquidity profile, reflecting narrower market access. Our parent company typically holds enough cash, primarily in the

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form of overnight interest-bearing deposits with its banking subsidiaries, to meet its current debt maturities and cash needs, as well as those projected over the next one-year period. As of June 30, 2015, the value of parent company's net liquid assets totaled $5.94 billion, compared with $6.03 billion as of December 31, 2014. As of June 30, 2015, our parent company and State Street Bank have approximately $1 billion and $602 million, respectively, of senior and subordinated notes outstanding that will mature in the next twelve months.

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

Liquidity Coverage Ratio

On September 3, 2014, U.S. banking regulators issued a final rule to implement the Basel Committee's liquidity coverage ratio, or LCR, in the U.S. The LCR is intended to promote the short-term resilience of internationally active banking organizations, like State Street, to improve the banking industry's ability to absorb shocks arising from idiosyncratic or market stress, and improve the measurement and management of liquidity risk.

The LCR measures an institution's high-quality liquid assets, or HQLA, against its net cash outflows. The LCR is being phased in, beginning on January 1, 2015, at 80%, with full implementation beginning on January 1, 2017. Beginning in January 2015, State Street was required to report its LCR to the Federal Reserve on a daily basis. As of June 30, 2015, our LCR was in excess of 100%.

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

Net Stable Funding Ratio

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

Asset Liquidity

Central to the management of our liquidity is asset liquidity, which consists primarily of unencumbered highly liquid securities, cash and cash equivalents reported on our consolidated statement of condition. We restrict the eligibility of securities of asset liquidity to U.S. Government and federal agency securities (including mortgage-backed securities), selected non-U.S. Government and supranational securities as well as certain other high- quality securities which generally are more liquid than other types of assets even in times of stress. Our asset liquidity metric is similar to the HQLA under the U.S. LCR, and our HQLA, under the LCR final rule definition, are estimated to be $142.27 billion and $115.58 billion as of June 30, 2015 and December 31, 2014, respectively.

TABLE 28: COMPONENTS OF HQLA BY TYPE OF ASSET

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

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

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

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

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

Access to primary, intra-day and contingent liquidity provided by these utilities is an important source of contingent liquidity with utilization subject to underlying conditions. As of June 30, 2015 and December 31, 2014, we had no outstanding primary credit borrowings from the FRB discount window or any other central bank facility, and as of the same dates, no FHLB advances were outstanding.

In addition to the securities included in our asset liquidity, we have significant amounts of other unencumbered investment securities. The aggregate fair value of those securities was $44.09 billion as of June 30, 2015, compared to $60.10 billion as of December 31, 2014. These securities are available sources of liquidity, although not as rapidly deployed as those included in our asset liquidity.

Uses of Liquidity

Significant uses of our liquidity could result from the following: withdrawals of client deposits; draw-downs of unfunded commitments to extend credit or to purchase securities, generally provided through lines of credit; and short-duration advance facilities. Such circumstances would generally arise under stress conditions including deterioration in credit ratings. We had unfunded commitments to extend credit with gross contractual amounts totaling $23.32 billion and $24.43 billion as of June 30, 2015 and December 31, 2014, respectively. These amounts do not reflect the value of any collateral. As of June 30, 2015, approximately 75% of our unfunded commitments to extend credit expire within one year. Since many of our commitments are expected to expire or renew without being drawn upon, the gross contractual amounts do not necessarily represent our future cash requirements.

State Street Corporation, like other bank holding companies with total consolidated assets of $50 billion or more, periodically submits a plan for rapid and orderly resolution in the event of material financial distress or failure--commonly referred to as a resolution plan or a living will--to the Federal Reserve and the FDIC under Section 165(d) of the Dodd-Frank Act. State Street submitted its 2015 resolution plan to the Federal Reserve and the FDIC on July 1, 2015. Through resolution planning, State Street seeks, in the event of the insolvency of State Street, to maintain State Street Bank's role as a key infrastructure provider within the financial system, while minimizing risk to the financial system and maximizing value for the benefit of State Street's stakeholders. State Street has and will continue to focus management attention and resources to meet regulatory expectations with respect to resolution planning. As set out in its 2015 resolution plan, in the event of material financial distress or failure, State Street's preferred resolution strategy, referred to as the single point of entry strategy, provides for the recapitalization of State Street Bank by the parent company (for example, by forgiving inter-company indebtedness of State Street Bank owed to the parent company) prior to the parent company's entry into bankruptcy proceedings. The recapitalization is intended to enable State Street Bank and its material subsidiaries to continue operating. Under this single point of entry strategy, State Street Bank and its material entity subsidiaries would not themselves enter into resolution proceedings; they would instead be transferred to a newly organized holding company held by a reorganization trust for the benefit of the parent company's claimants. In the event that such recapitalization actions occur and were unsuccessful in stabilizing State Street Bank, the parent company's financial condition would be adversely impacted and equity and debt holders of the parent company, may, as a consequence, be in a worse position than if the recapitalization did not occur.

Funding

Deposits

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

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

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TABLE 29: CLIENT DEPOSITS

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

[1] Balance as of June 30, 2015 and June 30, 2014 excluded term wholesale certificates of deposit, or CDs, of $10.36 billion and $10.11 billion, respectively; average balances for the six months ended June 30, 2015 and June 30, 2014 excluded average CDs of $11.04 billion and $3.08 billion, respectively.

Short-Term Funding

Our corporate commercial paper program, under which we can issue up to $3.0 billion of commercial paper with original maturities of up to 270 days from the date of issuance, had $2.92 billion and $2.48 billion of commercial paper outstanding as of June 30, 2015 and December 31, 2014, respectively. State Street plans to phase-out its commercial paper program by July 1, 2016, consistent with the objectives of its 2015 recovery and resolution plan developed pursuant to the requirements of the Dodd-Frank Act.

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

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

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

Long-Term Funding

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

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

Agency Credit Ratings

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

enhance our liquidity by providing assurance for unsecured funding and depositors, increasing the potential market for our debt and improving our ability to offer products, serve markets, and engage in transactions in which clients value high credit ratings. A downgrade or reduction of our credit ratings could have a material adverse effect on our liquidity by restricting our ability to access the capital markets, which could increase the related cost of funds. In turn, this could cause the sudden and large-scale withdrawal of unsecured deposits by our clients, which could lead to draw-downs of unfunded commitments to extend credit or trigger requirements under securities purchase commitments; or require additional collateral or force terminations of certain trading derivative contracts.

A majority of our derivative contracts have been entered into under bilateral agreements with counterparties who may require us to post collateral or terminate the transactions based on changes in our credit ratings. We assess the impact of these

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

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

Operational Risk Management

Overview

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

Operational risk is inherent in the performance of investment servicing and investment management activities on behalf of our clients. Whether it be fiduciary risk, risk associated with execution and processing or other types of operational risk, a consistent, transparent and effective operational risk framework is key to identifying, monitoring and managing operational risk.

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

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

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

Market Risk Management

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

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

Trading Activities

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

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

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

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

Value-at-Risk, Stress Testing and Stressed VaR

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

Stress Testing and Stressed VaR

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

We calculate a stressed VaR-based measure using the same model we use to calculate VaR, but with model inputs calibrated to historical data from a range of continuous twelve-month periods that reflect significant financial stress. The stressed VaR model identifies the second-worst outcome occurring in the worst continuous one-year rolling period since July 2007. This stressed VaR meets the regulatory requirement as the rolling ten-day period with an outcome that is worse than 99% of other outcomes during that twelve-month period of financial stress. For each portfolio, the stress period is determined algorithmically by seeking the one-year time horizon that produces the largest ten-business-day VaR from within the available historical data. This historical data set includes the financial crisis of 2008, the

highly volatile period surrounding the Eurozone sovereign debt crisis and the Standard & Poor's downgrade of U.S. Treasury debt in August 2011. As the historical data set used to determine the stress period expands over time, future market stress events will be automatically incorporated.

The six month average of our stressed VaR-based measure was approximately $63 million for the period ended June 30, 2015, compared to a six month average of approximately $49 million for the period ended June 30, 2014.

The increase in the six month average of our stressed VaR-based measure for the period ended June 30, 2015, compared to the period ended June 30, 2014, was primarily the result of an extension of the tenor of FX swaps used by Global Treasury designed to improve our liquidity position. The tenor extension gives rise to additional market risk in our stressed VaR calculation.

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

Validation and Back-Testing

We perform frequent back-testing to assess the accuracy of our VaR-based model in estimating loss at the stated confidence level. This back-testing involves the comparison of estimated VaR model outputs to daily, actual Profit-and-Loss, or P&L, outcomes observed from daily market movements. We back-test our VaR model using "clean" P&L, which excludes non-trading revenue such as fees, commissions and net interest revenue, as well as estimated revenue from intra-day trading. Our VaR definition of trading losses excludes items that are not specific to the price movement of the trading assets and liabilities themselves, such as fees, commissions, changes to reserves and gains or

losses from intra-day activity.

We experienced no back-testing exceptions for the first six months of 2015 and the full-year of 2014. For additional information on our validation and back-testing, see pages 99 to 101 in the 2014 Form 10-K.

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

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activities that is free of any restrictions on its tradability, including foreign exchange or commodity positions, and excluding intangible assets, certain credit derivatives recognized as guarantees and certain equity positions not publicly traded.

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

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

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

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

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

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

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

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

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The following tables present the VaR and stressed VaR associated with our trading activities attributable to foreign exchange risk, interest rate risk and volatility risk as of June 30, 2015 and December 31, 2014. The totals of the VaR-based and stressed VaR-based measures for the three attributes for each VaR and stressed-VaR component exceeded the related total VaR and total stressed VaR presented in the foregoing tables as of each period-end, primarily due to the benefits of diversification across risk types.

TABLE 32: TEN-DAY VaR ASSOCIATED WITH TRADING ACTIVITIES BY RISK FACTOR[1]

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

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

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

[1] For purposes of risk attribution by component in both Tables 32 and 33, foreign exchange risk refers only to the risk from market movements in period-end rates. Forwards, futures, options and swaps with maturities greater than period-end have embedded interest-rate risk that is captured by the measures used for interest-rate risk. Accordingly, the interest-rate risk embedded in these foreign exchange instruments is included in the interest-rate risk component.

The decline in the total 10-day VaR based measure for the period ended June 30, 2015, as compared to the period ended December 31, 2014, is the result of a small decline in exposure that arose from the tenor extension strategy initiated by Global Treasury late last year. Total stressed VaR in the six months ended June 30, 2015, as compared to December 31, 2014, was little changed.

Asset-and-Liability Management Activities

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

internally-approved risk guidelines. For additional information on our Asset-and-Liability Management Activities, see pages 101 to 104 of the 2014 Form 10-K.

To measure, monitor, and report on our interest-rate risk position, we use NIR simulation, or NIR-at-risk, and Economic Value of Equity, or EVE, sensitivity. NIR-at-risk measures the impact on NIR over the next twelve months

to immediate, or “rate shock,” and gradual, or “rate ramp,” changes in market interest rates. EVE sensitivity is a total return view of interest-rate risk, which measures the impact on the present value of all NIR-related principal and interest cash flows of an immediate change in interest rates. Although NIR-at-risk and EVE sensitivity measure interest-rate risk over different time horizons, both utilize consistent assumptions when modeling the positions currently held by State Street; however, NIR-at-risk also incorporates future actions planned by management over the time horizons being modeled. For additional information on our NIR-at-risk and EVE, refer to pages 103 to 104 of the 2014 Form 10-K.

The following table presents the estimated exposure of our NIR for the next twelve months, calculated as of the dates indicated, due to an immediate +/-100-basis-point shift to our internal forecast of global interest rates. We manage our NIR

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sensitivity to limit declines to 15% or less from baseline NIR. Estimated exposures presented below are dependent on management's assumptions, and do not reflect any additional actions management may undertake in order to mitigate some of the adverse effects of changes in interest rates on our financial performance.

TABLE 34: NIR ESTIMATED EXPOSURE

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

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

NIR sensitivity to a downward-100-basis-point shock in global interest rates as of June 30, 2015 increased compared to such sensitivity as of December 31, 2014 on a percentage basis, due to larger deposit volumes forecasted for the twelve-month forecast as well as slower client funding repricing forecasted. Increased levels of forecast client deposits, while beneficial to baseline NIR, do not provide relief in the downward shock scenario, as the deposits have limited room to fully re-price from current levels as their pricing basis falls. A downward-100-basis-point shock in global interest rates places pressure on NIR, as deposit rates reach their implicit floors due to the exceptionally low global interest-rate environment, and provide little funding relief on the liability side, while assets re-price into the lower-rate environment. The adverse impact on projected NIR due to a downward-100-basis-point ramp is less significant than a shock since interest rates are assumed to decrease gradually, thereby reducing the level of projected spread compression experienced between assets and liabilities over a twelve-month horizon.

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

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

Economic Value of Equity

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

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

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

TABLE 35: ESTIMATED EVE EXPOSURES

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

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

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

Model Risk Management

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

Our model risk management program has three principal components:

- A model risk governance program that defines roles and responsibilities, including the authority to restrict model usage, provides policies and guidance, and evaluates the models' key assumptions, limitations and overall degree of risk;
- A model development process which focuses on sound design and computational accuracy, and includes activities designed to test for robustness, stability, and sensitivity to assumptions; and
- A separate model validation function designed to verify that models are theoretically sound, performing as expected, and are in line with their design objectives.

Model Development and Usage

Models used in the regulatory capital calculation are developed under standards governing data sourcing, methodology selection and model integrity testing. Model development includes a clear statement of purpose to align development with intended use.

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

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

Capital

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

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

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

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

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

Regulatory Capital

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

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

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

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

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

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

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

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

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TABLE 36: BASEL III FINAL RULES TRANSITION ARRANGEMENTS AND MINIMUM RISK-BASED CAPITAL RATIOS[(1), (2)]

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

(1) As part of the draft G-SIB Surcharge final rule, the Federal Reserve published estimated G-SIB surcharges for the eight U.S. G-SIBs based on relevant data from 2012-2014 and the estimated resulting G-SIB surcharge for State Street is 1.5%. Including the 1.5% surcharge, State Street's minimum risk-based capital ratio requirements, as of January 1, 2019 would be 8.5% for common equity tier 1, 10% for tier 1 capital and 12.0% for total capital.
(2) Minimum ratios shown above do not reflect the countercyclical buffer, currently set at zero by U.S. banking regulators.
(3) Minimum Common Equity Tier 1 Capital, Minimum Tier 1 Capital and Minimum Total Capital presented include the transitional capital conservation buffer as well as the estimated transitional G-SIB buffer.

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

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

TABLE 37: REGULATORY CAPITAL STRUCTURE AND RELATED REGULATORY CAPITAL RATIOS

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

phased out of tier 1 capital										
Other adjustments			2	2	4	4	—	—	—	—
Total capital			$17,708	$17,708	$17,861	$17,861	$15,958	$15,958	$15,677	$15,677
Risk-weighted assets:										
Credit risk			$56,154	$107,003	$66,874	$87,502	$51,190	$101,955	$59,836	$84,433
Operational risk			43,885	NA	35,866	NA	43,324	NA	35,449	NA
Market risk[5]			4,494	2,785	5,087	2,910	4,503	2,785	5,048	2,909
Total risk-weighted assets			$104,533	$109,788	$107,827	$90,412	$99,017	$104,740	$100,333	$87,342
Adjusted quarterly average assets			$257,227	$257,227	$247,740	$247,740	$252,636	$252,636	$243,549	$243,549
Capital Ratios:	Minimum Requirements[6] 2015	Minimum Requirements[6] 2014								
Common equity tier 1 capital	4.5%	4.0%	12.2%	11.6%	12.5%	14.9%	14.7%	13.8%	14.0%	16.1
Tier 1 capital	6.0	5.5	14.9	14.2	14.6	17.4	14.7	13.8	14.0	16.1
Total capital	8.0	8.0	16.9	16.1	16.6	19.8	16.1	15.2	15.6	17.9
Tier 1 leverage	4.0	4.0	6.0	6.0	6.4	6.4	5.7	5.7	5.8	5.8

NA: Not applicable.

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

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

[3] Common equity tier 1 capital, tier 1 capital, total capital and tier 1 leverage ratios as of December 31, 2014 were calculated in conformity with the transitional provisions of the Basel III final rule. Specifically, these ratios reflect common equity tier 1, tier 1 and total capital (the numerator) calculated in conformity with the provisions of the Basel III final rule, and total risk-weighted assets or, with respect to the tier 1 leverage ratio, quarterly average assets (in both cases, the denominator), calculated in conformity with the provisions of Basel I.

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

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

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

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

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The regulatory capital ratios for State Street and State Street Bank as of June 30, 2015, presented in Table 37: Regulatory Capital Structure and Related Regulatory Capital Ratios, differ from such ratios as of December 31, 2014. These differences are independent of applicable changes to our capital base, our asset composition, our off-balance sheet exposures or our risk profile, and resulted from changes in the methodologies, required by applicable regulatory requirements, used to calculate capital and total risk-weighted assets. As a result, the ratios presented in the table for each period are not directly comparable. As of January 1, 2015 we used the standardized provisions of the Basel III final rule in addition to the advanced approaches provisions which were previously implemented in the second quarter of 2014, and the lower of our regulatory capital ratios calculated under the advanced approaches and those ratios calculated under the standardized approach are applied in the assessment of our capital adequacy for regulatory capital purposes. Beginning in the second quarter of 2014, until January 1, 2015, we used the advanced approaches provisions in the Basel III final rule, and transitional provisions of the Basel III final rule, and the lower of our regulatory capital ratios calculated under the advanced approaches and those ratios calculated under the transitional provisions were applied in the assessment of our capital adequacy for regulatory capital purposes. Prior to the second quarter of 2014, we used the provisions of Basel I to calculate our risk-weighted assets.
State Street's common equity tier 1 capital decreased $760 million as of June 30, 2015 compared to December 31, 2014, the result of purchases by us of our common stock of approximately $820 million, the strengthening U.S. dollar's impact on accumulated other comprehensive income, declarations of common and preferred stock dividends of $322 million and the impact of the phase-in provisions of the Basel III final rule related to other intangible assets, mostly offset by the positive effect of year-to-date net income. State Street's tier 1 and total capital decreased at a lower rate, $209 million and $153 million respectively, due to the issuance of $750 million of preferred stock in the second quarter of 2015. State Street Bank's tier 1 and total capital increased $463 million and $281 million, respectively, as of June 30, 2015 compared to December 31, 2014, the result of year-to-date net income, partly offset by the previously-described impact to accumulated other comprehensive income and phase-in provisions of the Basel III final rule related to other intangible assets.
The table below presents a roll-forward of common equity tier 1 capital, tier 1 capital and total

capital for the six months ended June 30, 2015 and for the twelve months ended December 31, 2014.
TABLE 38: CAPITAL ROLL-FORWARD

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

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

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

TABLE 39: ADVANCED APPROACHES RWA ROLL-FORWARD

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

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

As of June 30, 2015, total advanced approaches risk-weighted assets decreased $3.29 billion compared to December 31, 2014, primarily the result of a reduction in credit risk due to sales, maturities and pay-downs of the securitized investment portfolio and the subsequent reinvestment in highly qualified liquid assets, a decrease associated with the usage of the alternative modified look through approach for investments in investment funds and a decline in over the counter foreign exchange derivatives mainly due to a decrease in market values. The decreases above were partly offset by a $8.02 billion increase in operational risk which reflect adjustments to the model inputs.

As of December 31, 2014, total risk-weighted assets decreased from June 30, 2014 balances primarily due to lower credit risk-weighted assets, partially offset by an increase in market risk-equivalent risk-weighted assets. The increase in market risk-equivalent risk weighted assets resulted from the increase in the sixty-day moving average of our stressed VaR-based measure. Our stressed VaR-based measure was impacted by the extension of the tenor of FX swaps by Global Treasury designed to improve our liquidity position. The decrease in credit risk-weighted assets primarily related to sales, maturities and pay-downs of both wholesale and

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

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

TABLE 40: STANDARDIZED APPROACH RWA ROLL-FORWARD

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

Total risk-weighted assets, end of period	$109,788

(1) Standardized approach risk-weighted assets as of December 31, 2014 were calculated using State Street's estimates, based on our then current interpretation of the Basel III final rule.
(2) Includes assets not in a definable category, cleared transactions, other wholesale, cash and due from, and interest-bearing deposits with, banks, securities financing exposures, equity exposures and over-the-counter derivatives.

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

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

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

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

Estimated Basel III Fully Phased-in Capital Ratios

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

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

June 30, 2015 (Dollars in millions)	Basel III Advanced Approaches	Phase-In Provisions	Basel III Advanced Approaches Fully Phased-In Pro-Forma Estimate[1]	Basel III Standardized Approach	Phase-In Provisions	Basel III Standardized Approach Fully Phased-In Pro-Forma Estimate[1]
Total common shareholders' equity	$ 18,753	$ 44	$ 18,797	$ 18,753	$	