STATE STREET CORP
Form 10-Q
November 06, 2013
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
Form 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2013

OR

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

For the transition period from to

Commission File No. 001-07511

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

Massachusetts	04-2456637
(State or other jurisdiction of incorporation)	(I.R.S. Employer Identification No.)
One Lincoln Street 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 October 31, 2013 was 439,001,221.

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

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION	
Table of Contents for Management's Discussion and Analysis of Financial Condition and Results of Operations	3
Management's Discussion and Analysis of Financial Condition and Results of Operations	4
Quantitative and Qualitative Disclosures About Market Risk	56
Controls and Procedures	56
Consolidated Statement of Income (Unaudited) for the three and nine months ended September 30, 2013 and 2012	57
Consolidated Statement of Comprehensive Income (Unaudited) for the three and nine months ended September 30, 2013 and 2012	58
Consolidated Statement of Condition as of September 30, 2013 (Unaudited) and December 31, 2012	59
Consolidated Statement of Changes in Shareholders' Equity (Unaudited) for the nine months ended September 30, 2013 and 2012	60
Consolidated Statement of Cash Flows (Unaudited) for the nine months ended September 30, 2013 and 2012	61
Table of Contents for Condensed Notes to Consolidated Financial Statements (Unaudited)	62
Condensed Notes to Consolidated Financial Statements (Unaudited)	63
Review Report of Independent Registered Public Accounting Firm	114
FORM 10-Q PART I CROSS-REFERENCE INDEX	115
PART II. OTHER INFORMATION	
Unregistered Sales of Equity Securities and Use of Proceeds	116
Exhibits	116
SIGNATURES	117
EXHIBIT INDEX	118

Table of Contents

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

TABLE OF CONTENTS

General	4
Forward-Looking Statements	5
Overview of Financial Results	7
Consolidated Results of Operations	9
Total Revenue	10
Fee Revenue	10
Net Interest Revenue	15
Gains (Losses) Related to Investment Securities, Net	19
Expenses	20
Income Tax Expense	23
Line of Business Information	23
Financial Condition	26
Investment Securities	28
Loans and Leases	34
Cross-Border Outstandings	35
Capital	36
Liquidity	43
Risk Management	45
Market Risk	46
Trading Activities	46
Asset-and-Liability Management Activities	52
Credit and Counterparty Risk	54
Off-Balance Sheet Arrangements	55
Recent Accounting Developments	55

Table of Contents

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

GENERAL

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

We have two lines of business:

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

Investment Management, through State Street Global Advisors, or SSgA, provides a broad range of investment management strategies, specialized investment management advisory services and other financial services, such as securities finance, for corporations, public funds, and other sophisticated investors. Management strategies offered by SSgA include passive and active, such as enhanced indexing, using quantitative and fundamental methods for both U.S. and non-U.S. equity and fixed-income securities. SSgA also offers exchange-traded funds, or ETFs.

For financial and other information about our lines of business, refer to “Line of Business Information” included in this Management's Discussion and Analysis and in note 16 to the consolidated financial statements included in this Form 10-Q.

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

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

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

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

intangible assets. These significant accounting policies require the most subjective or complex judgments, and underlying estimates and assumptions could be subject to revision as new information becomes available. An understanding of the judgments, estimates and assumptions underlying these significant accounting policies is essential in order to understand our reported consolidated results of operations and financial condition.
Additional information about these significant accounting policies is included under “Significant Accounting Estimates” in Management’s Discussion and Analysis in our 2012 Form 10-K. We did not change these significant accounting policies during the first nine months of 2013.

Table of Contents

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

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

FORWARD-LOOKING STATEMENTS

This Form 10-Q (including statements in this Management's Discussion and Analysis), as well as other reports submitted by us under the Securities Exchange Act of 1934, registration statements filed by us under the Securities Act of 1933, our annual report to shareholders and other public statements we may make, contain statements that are considered “forward-looking statements” within the meaning of U.S. securities laws, including statements about industry, regulatory, economic and market trends, management's expectations about our financial performance, capital, market growth, acquisitions, joint ventures and divestitures, new technologies, services and opportunities and earnings, management's confidence in our strategies and other matters that do not relate strictly to historical facts. Terminology such as “plan,” “expect,” “intend,” “forecast,” “outlook,” “believe,” “anticipate,” “estimate,” “seek,” “may,” “wil “strategy” and “goal,” or similar statements or variations of such terms, are intended to identify forward-looking statements, although not all forward-looking statements contain such terms.

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

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

- our ability to attract deposits and other low-cost, short-term funding, and our ability to deploy deposits in a profitable manner consistent with our liquidity requirements and risk profile;
- the manner and timing with which the Federal Reserve and other U.S. and foreign regulators implement the Dodd-Frank Act, the Basel II and Basel III capital and liquidity standards, and European legislation with respect to the levels of regulatory capital we must maintain, our credit exposure to third parties, margin requirements applicable to derivatives, banking and financial activities and other regulatory initiatives in the U.S. and internationally, including regulatory developments that result in changes to our structure or operating model, increased costs or other changes to how we provide services;
- adverse changes in the regulatory capital ratios that we are required to meet, whether arising under the Dodd-Frank Act,

the Basel II or Basel III capital and liquidity standards or due to changes in regulatory positions, practices or regulations in jurisdictions in which we engage in banking activities, including changes in internal or external data, formulae, models, assumptions or other advanced systems used in calculating our capital ratios that cause changes in those ratios as they are measured from period to period;

- increasing requirements to obtain the prior approval of the Federal Reserve or our other regulators for the use, allocation or distribution of our capital or other specific capital actions or programs, including acquisitions, dividends and equity purchases, without which our growth plans, distributions to shareholders, equity purchase programs or other capital initiatives may be restricted;
- changes in law or regulation that may adversely affect our business activities or those of our clients or our counterparties, and the products or services that we sell, including additional or increased taxes or assessments thereon, capital adequacy requirements, margin requirements and changes that expose us to risks related to the adequacy of our controls or compliance programs;
- our ability to promote a strong culture of risk management, operating controls, compliance oversight and governance that meet our expectations or those of our clients and our regulators;
- the credit agency ratings of our debt and depository obligations and investor and client perceptions of our financial strength;
- delays or difficulties in the execution of our previously announced Business Operations and Information Technology Transformation program, which could lead to changes in our estimates of the charges, expenses or savings associated with the planned program and may cause volatility of our earnings;
- the results of, and costs associated with, government investigations, litigation, and similar claims, disputes, or proceedings;
- the possibility that our clients will incur substantial losses in investment pools for which we act as agent, and the possibility of significant reductions in the liquidity or valuation of assets underlying those pools;
- adverse publicity or other reputational harm;
- dependencies on information technology, complexities and costs of protecting the security of our systems and difficulties with protecting our intellectual property rights;
- our ability to grow revenue, control expenses, attract and retain highly skilled people and raise the capital necessary to achieve our business goals and comply with regulatory requirements;
- potential changes to the competitive environment, including changes due to regulatory and technological changes, the effects of industry consolidation, and perceptions of State Street as a suitable service provider or counterparty;
- potential changes in how and in what amounts clients compensate us for our services, and the mix of services provided by us that clients choose;
- the ability to complete acquisitions, joint ventures and divestitures, including the ability to obtain regulatory approvals, the ability to arrange financing as required and the ability to satisfy closing conditions;
- the risks that acquired businesses and joint ventures will not achieve their anticipated financial and operational benefits or will not be integrated successfully, or that the integration will take longer than anticipated, that expected synergies will not be achieved or unexpected negative synergies will be experienced, that client and deposit retention goals will not be met, that other regulatory or operational challenges will be experienced and that disruptions from the transaction will harm our relationships with our clients, our employees or regulators;
- our ability to recognize emerging needs of our clients and to develop products that are responsive to such trends and profitable to us, the performance of and demand for the products and services we offer, and the potential for new products and services to impose additional costs on us and expose us to increased operational risk;
- our ability to anticipate and manage the level and timing of redemptions and withdrawals from our collateral pools and other collective investment products;
- our ability to control operational risks, data security breach risks, information technology systems risks and outsourcing risks, and our ability to protect our intellectual property rights, the possibility of errors in the quantitative models we use to manage our business and the possibility that our controls will prove insufficient, fail or be

circumvented;

- changes in accounting standards and practices; and
- changes in tax legislation and in the interpretation of existing tax laws by U.S. and non-U.S. tax authorities that affect the amount of taxes due.

Actual outcomes and results may differ materially from what is expressed in our forward-looking statements and from our historical financial results due to the factors discussed in this section and elsewhere in this Form 10-Q or disclosed in our other SEC filings, including the risk factors discussed in our 2012 Form 10-K. Forward-looking statements should not be relied on as representing our expectations or beliefs as of any date subsequent to the time this Form 10-Q is filed with the SEC. We undertake no obligation to revise our forward-looking statements after the time they are made. The factors discussed above are not intended to be a complete statement of all risks and uncertainties that may affect our businesses. We cannot anticipate all developments that may adversely affect our consolidated results of operations and financial condition.

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

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

OVERVIEW OF FINANCIAL RESULTS

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

Table of Contents

The following “Highlights” and “Financial Results” sections provide information related to significant events, as well as highlights of our consolidated financial results for the third quarter of 2013 presented in the preceding table. More detailed information about our consolidated financial results, including comparisons of our results for the third quarter of 2013 to those for the third quarter of 2012 and for the nine months ended September 30, 2013 to those for the nine months ended September 30, 2012, is provided under “Consolidated Results of Operations,” which follows these sections.

Highlights

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

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

Financial Results

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

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

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

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

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

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

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

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

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

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

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

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

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

CONSOLIDATED RESULTS OF OPERATIONS

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

Table of Contents

TOTAL REVENUE

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

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

Fee Revenue

Servicing and management fees collectively composed approximately 79% and 77% of our total fee revenue for the third quarter and first nine months of 2013, respectively, compared to 79% and 76%, respectively, for the corresponding periods in 2012. The level of these fees is influenced by several factors, including the mix and volume of our assets under custody and administration and our assets under management, the value and type of securities positions held (with respect to assets under custody) and the volume of portfolio transactions, and the types of products and services used by our clients, and is generally affected by changes in worldwide equity and fixed-income security valuations.

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

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

Management fees for actively managed products are generally earned at higher rates than those for passive products. Actively managed products may also involve performance fee arrangements. Performance fees are generated when the performance of certain managed funds exceeds benchmarks specified in the management agreements. Generally, we experience more volatility with performance fees than with more traditional management fees.

In light of the above, we estimate, assuming all other factors remain constant, that a 10% increase or decrease in worldwide equity valuations would result in a corresponding change in our total revenue of approximately 2%. If fixed-income security valuations were to increase or decrease by 10%, we would anticipate, assuming all other factors remain constant, a corresponding change of approximately 1% in our total revenue.

Table of Contents

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

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

INDEX

	Daily Averages of Indices Quarters Ended September 30,			Averages of Month-End Indices Quarters Ended September 30,			Quarter-End Indices As of September 30,		
	2013	2012	% Change	2013	2012	% Change	2013	2012	% Change
S&P 500®	1,675	1,401	20 %	1,667	1,409	18 %	1,682	1,441	17 %
NASDAQ®	3,641	3,027	20	3,663	3,041	20	3,771	3,116	21
MSCI EAFE®	1,748	1,468	19	1,747	1,474	19	1,818	1,511	20

	Daily Averages of Indices Nine Months Ended September 30,			Averages of Month-End Indices Nine Months Ended September 30,		
	2013	2012	% Change	2013	2012	% Change
S&P 500®	1,601	1,367	17 %	1,602	1,376	16 %
NASDAQ®	3,400	2,954	15	3,416	2,978	15
MSCI EAFE®	1,708	1,470	16	1,707	1,478	15

Servicing Fees

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

ASSETS UNDER CUSTODY AND ADMINISTRATION

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

FINANCIAL INSTRUMENT MIX OF ASSETS UNDER CUSTODY AND ADMINISTRATION

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

Total	$26,033	$24,371	$23,441

11

Table of Contents

GEOGRAPHIC MIX OF ASSETS UNDER CUSTODY AND ADMINISTRATION[1]

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

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

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

Management Fees

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

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

ASSETS UNDER MANAGEMENT

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

[1] Includes SPDR® Gold Fund, for which State Street is not the investment manager, but acts as distribution agent.

(2) Includes currency, alternatives, assets passed to sub-advisors and multi-asset class solutions.
(3) Decline as of September 30, 2013 compared to December 31, 2012 mainly resulted from net outflows, partly offset by market appreciation and impact of foreign currency translation.

Table of Contents

GEOGRAPHIC MIX OF ASSETS UNDER MANAGEMENT[1]

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

[1] Geographic mix is based on the location at which the assets are managed.
[2] As of September 30, 2013, substantially all of the assets were managed in the U.S.

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

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

ASSETS UNDER MANAGEMENT

(In billions)	
September 30, 2012	$2,065
Net lost business	(1)
Market appreciation[1]	22
December 31, 2012	2,086
Net lost business	(11)
Market appreciation[1]	166
September 30, 2013	$2,241

[1] Amounts include the impact of foreign currency translation.

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

Trading Services

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

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

Total trading services revenue	$256	$232	10	$833	$767	9

Table of Contents

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

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

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

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

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

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

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

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

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

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

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

Securities Finance

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

Table of Contents

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

Securities finance revenue earned from our agency lending activities, which is composed of our split of both the spreads related to cash collateral and the fees related to non-cash collateral, is principally a function of the volume of securities on loan, the interest-rate spreads and fees earned on the underlying collateral, and our share of the fee split. In the third quarter and first nine months of 2013, securities finance revenue declined 19% and 15%, respectively, compared to the same periods in 2012, mainly due to lower spreads and slightly lower lending volumes. Average spreads declined 27% and 17% in the third quarter and first nine months of 2013, respectively, compared to the same periods in 2012. Securities on loan averaged approximately $316 billion and $320 billion for the third quarter and first nine months of 2013, respectively, compared to approximately $321 billion and $330 billion, respectively, for the same periods in 2012, a 2% and 3% decline, respectively.

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

Processing Fees and Other

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

NET INTEREST REVENUE

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

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

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

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

Table of Contents

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

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

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

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

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

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

discount accretion depends, in part, on factors that are outside of our control, including anticipated prepayment speeds and credit quality. The impact of these factors is uncertain and can be significantly influenced by general economic and financial market conditions. The timing and recognition of any applicable discount accretion can also be influenced by our ongoing management of the risks and other characteristics associated with our investment securities portfolio, including sales of securities which would otherwise generate accretion.

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

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

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

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

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

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

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

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

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

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

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

interest rates worldwide made deposits attractive to our clients relative to other investment options. In addition, non-U.S. transaction accounts associated with new and existing business in assets under custody and administration continued to grow, although there has been a modest decline in non-interest bearing deposits following the expiration of the FDIC's Transaction Account Guarantee, or TAG, program effective December 31, 2012. Future deposit levels will be influenced by the underlying asset servicing business, as well as market conditions, including the general levels of U.S. and non-U.S. interest rates.
Average long-term debt increased to $8.82 billion for the third quarter of 2013 from $6.41 billion for the third quarter of 2012, and to $8.15 billion from $7.16 billion in the year-to-date comparison. The increases primarily reflected the issuance of

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

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

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

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

Gains (Losses) Related to Investment Securities, Net

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

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

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

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

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

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

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

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

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

Expenses
Total expenses for the third quarter and first nine months of 2013 increased 22% and 6%, respectively, compared to the third quarter and first nine months of 2012.
Total expenses for the third quarter of 2013 reflected aggregate credits of $30 million in other expenses, presented in "other" in the table above, related to gains and recoveries associated with Lehman Brothers-related assets. Total expenses for the first nine months of 2013 reflected aggregate credits of $57 million (the $30 million described above plus an additional $27 million recorded in the second quarter of 2013) in other expenses, presented in "other" in the nine-month table above, related to recoveries associated with Lehman Brothers-related assets.
Total expenses for the third quarter of 2012 reflected a net credit of $277 million, composed of recoveries of $362 million associated with the 2008 Lehman Brothers bankruptcy, presented separately in the table above, partly offset by provisions for litigation exposure and other costs of $85 million, the latter presented in "other" in the table above.
Excluding the credits of $30 million and $277 million recorded in the third quarters of 2013 and 2012, respectively, as well as the aggregate credits of $57 million recorded in the first nine months of 2013, total expenses in the quarterly and nine-month comparisons increased 4% and 2%, respectively.
The declines in compensation and employee benefits expenses in both comparisons primarily resulted from lower staffing levels and associated savings related to the execution of our Business Operations and Information Technology Transformation program and lower benefit costs, partly offset by expenses to support new business and higher incentive compensation. Compensation and employee benefits expenses in the third quarter and first nine months of 2013 included approximately $22 million and $64 million, respectively, of costs related to our continuing execution of the Business Operations and Information Technology Transformation program, compared to approximately $22 million and $62 million, respectively, for the same periods in 2012. These costs are not expected to recur subsequent to full execution of the program.
The increases in information systems and communications expenses in the third quarter and first nine months of 2013 compared to the same periods in 2012 were primarily the result of the planned transition of certain functions to third-party service providers associated with components of our technology infrastructure and application maintenance and support, as part of the Business Operations and Information Technology Transformation program, as

well as costs to support new business.

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

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

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

Acquisition Costs

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

Restructuring Charges

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

Business Operations and Information Technology Transformation Program

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

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

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

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

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

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

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

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

Table of Contents

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

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

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

2011 Expense Control Measures

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

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

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

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

2012 Expense Control Measures

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

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

[1] Total charges included $1 million in the third quarter of 2013.

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

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

Aggregate Restructuring-Related Accrual Activity

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

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

INCOME TAX EXPENSE

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

LINE OF BUSINESS INFORMATION

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

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

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

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

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

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

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

Investment Servicing

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

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

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

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

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

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

Table of Contents

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

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

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

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

Investment Management

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

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

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

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

FINANCIAL CONDITION

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

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

deposits and securities purchased under resale agreements. The actual mix of assets is determined by the characteristics of the client liabilities and our desire to maintain a well-diversified portfolio of high-quality assets. The following table presents the components of our average total interest-earning and noninterest-earning assets, average total interest-bearing and noninterest-bearing liabilities, and average preferred and common shareholders' equity for the nine months ended September 30, 2013 and 2012. Additional information about our average statement of condition, primarily our

Table of Contents

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

interest-earning assets and interest-bearing liabilities, is included under "Consolidated Results of Operations - Total Revenue - Net Interest Revenue" in this Management's Discussion and Analysis.

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

Table of Contents

Investment Securities

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

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

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

Table of Contents

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

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

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

	September 30, 2013		December 31, 2012	
AAA[(1)]	69	%	69	%
AA	19		19	
A	7		7	
BBB	3		3	
Below BBB	2		2	
	100	%	100	%

[(1)] Includes U.S. Treasury securities that are split-rated, “AAA” by Moody’s Investors Service and “AA+” by Standard & Poor’s.

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

Mortgage-backed securities were composed of securities issued by the Federal National Mortgage Association and Federal Home Loan Mortgage Corporation, as well as U.S. and non-U.S. large-issuer collateralized mortgage obligations.

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

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

Non-U.S. Debt Securities

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

29

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

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

Approximately 88% and 87% of the aggregate carrying value of these non-U.S. debt securities was rated "AAA" or "AA" as of September 30, 2013 and December 31, 2012, respectively. The majority of these securities comprise senior positions within the security structures; these positions have a level of protection provided through subordination and other forms of credit protection. Approximately 72% of the aggregate carrying value of these non-U.S. debt securities was floating-rate, and accordingly, the securities are considered to have minimal interest-rate risk. As of September 30, 2013, these non-U.S. debt securities had an average market-to-book ratio of 101.3%, and an aggregate pre-tax net unrealized gain of approximately $378 million, composed of gross unrealized gains of $476 million and gross unrealized losses of $98 million. These unrealized amounts included a pre-tax net unrealized gain of $298 million, composed of gross unrealized gains of $328 million and gross unrealized losses of $30 million, associated with non-U.S. debt securities available for sale.

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

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

Table of Contents

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

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

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

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

Municipal Securities

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

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

31

Table of Contents

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

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

Our aggregate municipal securities exposure as of September 30, 2013 presented in the foregoing table was concentrated primarily with highly-rated counterparties, with approximately 82% of the obligors rated "AAA" or "AA" as of September 30, 2013. As of that date, approximately 65% and 33% of our aggregate exposure was associated with general obligation and revenue bonds, respectively. In addition, we had no exposures associated with healthcare, industrial development or land development bonds. The portfolios are also diversified geographically; the states that represent our largest exposure are widely dispersed across the U.S.

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

Impairment

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

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

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

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

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

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

We conduct periodic reviews of individual securities to assess whether other-than-temporary impairment exists. Our assessment of other-than-temporary impairment involves an evaluation, more fully described in note 3 to the consolidated

---

financial statements included in this Form 10-Q, of economic and security-specific factors. Such factors are based on estimates, derived by management, which contemplate current market conditions and security-specific performance. To the extent that market conditions are worse than management's expectations, other-than-temporary impairment could increase, in particular the credit-related component that would be recorded in our consolidated statement of income.

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

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

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

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

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

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

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

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

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

Loans and Leases

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

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

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

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

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

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

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

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

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

Commercial real estate	—	1
Ending balance	$22	$22

34

Table of Contents

Cross-Border Outstandings

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

Additional information with respect to the nature of our cross-border outstandings is provided under "Financial Condition - Cross-Border Outstandings" in Management's Discussion and Analysis included in our 2012 Form 10-K.

The following table presents our cross-border outstandings in countries in which we do business, and which amounted to at least 1% of our consolidated total assets as of the dates indicated. The aggregate of the total cross-border outstandings presented in the table represented approximately 18% and 22% of our consolidated total assets as of September 30, 2013 and December 31, 2012, respectively.

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

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

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

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

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

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

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

Capital

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

Regulatory Capital

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

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

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

Table of Contents

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

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

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

Common Stock

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

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

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

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

Preferred Stock

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

Basel Capital Framework

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

Basel II Framework

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

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

Basel III Framework

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

Market Risk Capital Rule

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

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

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

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

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

Basel III

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

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

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

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

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

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

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

Estimated Basel III Tier 1 Common Ratio

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

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

Table of Contents

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

September 30, 2013 (Dollars in millions)	Currently Applicable Regulatory Requirements[1]	Basel III Final Rule Standardized Approach (Estimated)[2]	Basel III Final Rule Advanced Approach (Estimated)[2]
Tier 1 capital			