STATE STREET CORP
Form 10-Q
May 08, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
Form 10-Q

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

For the quarterly period ended March 31, 2015

OR

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

For the transition period from to

Commission File No. 001-07511

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

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

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

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

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

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

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

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

The number of shares of the registrant's common stock outstanding as of April 30, 2015 was 411,679,538.

STATE STREET CORPORATION
QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTERLY PERIOD ENDED
MARCH 31, 2015

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

GENERAL

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

As of March 31, 2015, we had consolidated total assets of $279.48 billion, consolidated total deposits of $211.35 billion, consolidated total shareholders' equity of $20.82 billion and 30,495 employees. We operate in more than 100 geographic markets worldwide, including in the U.S., Canada, Europe, the Middle East and Asia. We are a leader in providing financial services and products to meet the needs of institutional investors worldwide, with $28.49 trillion of assets under custody and administration and $2.44 trillion of assets under management as of March 31, 2015.

We have two lines of business:

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

Investment Management, through State Street Global Advisors, or SSGA, provides a broad array of investment management, investment research and investment advisory services to corporations, public funds and other sophisticated investors. SSGA offers active and passive asset management strategies across equity, fixed-income and cash asset classes. Products are distributed directly and through intermediaries using a variety of investment vehicles, including exchange-traded funds, or ETFs, such as the SPDR® ETF brand.

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

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

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

The significant accounting policies that require us to make judgments, estimates and assumptions that are difficult, subjective or complex about matters that are uncertain and may change in subsequent periods include accounting for fair value measurements; other-than-temporary impairment of investment securities; impairment of goodwill and other intangible assets; and contingencies. These significant accounting policies require the most subjective or complex judgments, and underlying estimates and assumptions could be subject to revision as new information becomes available. Additional information about these significant accounting policies is included under “Significant Accounting Estimates” in Management's Discussion and Analysis in our 2014 Form 10-K. We did not change these significant accounting policies in the first quarter of 2015.

Certain financial information provided in this Form 10-Q, including this Management's Discussion and Analysis, is prepared on both a GAAP, or

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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 Form 10-Q, including this Management's Discussion and Analysis, is reconciled to its most directly comparable GAAP-basis measure.

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

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

Forward-Looking Statements

This Form 10-Q, as well as other reports submitted by us under the Securities Exchange Act of 1934, registration statements filed by us under the Securities Act of 1933, our annual report to shareholders and other public statements we may make, contain statements (including statements in the Management's Discussion and Analysis) that are considered "forward-looking statements" within the meaning of U.S. securities laws, including statements about our goals and expectations regarding our business, financial and capital condition, results of operations, strategies, financial portfolio performance, dividend and stock purchase programs, expected outcomes of legal proceedings, market growth, acquisitions, joint ventures and divestitures and new technologies, services and opportunities, as well as regarding industry, regulatory, economic and market trends, initiatives and developments, the business environment and other matters.

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

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

- the financial strength and continuing viability of the counterparties with which we or our clients do business and to which we have investment, credit or financial exposure, including, for example, the direct and indirect effects on counterparties of the sovereign-debt risks in the U.S., Europe and other regions;
- increases in the volatility of, or declines in the level of, our net interest revenue, changes in the composition or valuation of the assets recorded in our consolidated statement of condition (and our ability to measure the fair value of

investment securities) and the possibility that we may change the manner in which we fund those assets;

- the liquidity of the U.S. and international securities markets, particularly the markets for fixed-income securities and inter-bank credits, and the liquidity requirements of our clients;
- the level and volatility of interest rates, the valuation of the U.S. dollar relative to other currencies in which we record revenue or

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accrue expenses and the performance and volatility of securities, credit, currency and other markets in the U.S. and internationally;

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

calculation of our capital ratios that cause changes in those ratios as they are measured from period to period;

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

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our ability to protect our intellectual property rights, the possibility of errors in the quantitative models we use to manage our business and the possibility that our controls will prove insufficient, fail or be circumvented;

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

impose additional costs on us and expose us to increased operational risk;

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

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

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

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

TABLE 1: OVERVIEW OF FINANCIAL RESULTS

	Quarters Ended March 31,		
	2015	2014	% Change
(Dollars in millions, except per share amounts)			
Total fee revenue	$2,060	$1,924	7 %
Net interest revenue	546	555	(2)
Gains (losses) related to investment securities, net	(1)	6	(117)
Total revenue	2,605	2,485	5
Provision for loan losses	4	2	
Total expenses	2,097	2,028	3
Income before income tax expense	504	455	11
Income tax expense	95	92	
Net income	$409	$363	13
Adjustments to net income:			
Dividends on preferred stock[(1)]	(31)	(6)	417
Earnings allocated to participating securities[(2)]	(1)	(1)	—
Net income available to common shareholders	$377	$356	6
Earnings per common share:			
Basic	$.91	$.83	10
Diluted	.90	.81	11
Average common shares outstanding (in thousands):			
Basic	412,225	430,621	
Diluted	418,750	438,815	
Cash dividends declared per common share	$.30	$.26	
Return on average common equity	7.9 %	7.2 %	

(1) March 31, 2015 included $14 million, $11 million and $6 million related to Series E, Series D and Series C preferred stock, respectively. Refer to note 10 to the consolidated financial statements included in this Form 10-Q for additional information regarding our preferred stock dividends.

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

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

Highlights

- Both asset servicing and asset management fees increased 3% in the first quarter of 2015 compared to the first quarter of 2014, mainly the result of net new business installed and stronger U.S. equity markets, partially offset by the impact of the stronger U.S. dollar.
- In the first quarter of 2015, we recorded a charge of $150 million to increase our legal accrual associated with indirect foreign exchange client activities. This accrual reflects continued negotiations in connection with our intention to seek to resolve the outstanding claims asserted in the United States by federal governmental entities and civil litigants with regard to our indirect foreign exchange client activities. The total legal accrual associated with these matters as of the time of filing this Form 10-Q is $335 million.
- In the first quarter of 2015, we completed the $1.7 billion common stock purchase program authorized by the Board of Directors in March 2014 with the purchase of approximately 6.3 million shares of our common stock at an average

per-share cost of $74.88 and an aggregate cost of approximately $470 million.

- In March 2015, our Board approved a new common stock purchase program authorizing the purchase of up to $1.8 billion of our common stock through June 30, 2016, following the Federal Reserve's Comprehensive Capital Analysis and Review, or CCAR, 2015 process. Our 2015 capital plan includes a proposed increase in our second-quarter 2015 common stock dividend to $0.34 per share.

Stock purchases may be made using various types of mechanisms, including open market purchases or transactions off market, and may be made under Rule 10b5-1 trading programs. The timing of stock purchases, types of transactions and number of shares purchased will depend on several factors, including, market conditions and State Street’s capital positions, its financial performance and investment opportunities. The common stock purchase program does not have specific price targets and may be suspended at any time. State Street’s second-quarter 2015 common stock and other stock dividends, including the declaration, timing and amount thereof, remain subject to consideration and approval by its Board of Directors at the relevant times.

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

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

Financial Results

- Total revenue in the first quarter of 2015 increased 5% compared to the first quarter of 2014, primarily due to a 7% increase in total fee revenue, partially offset by a decline in net interest revenue. Total revenue in the first quarter of 2015 was negatively impacted by the stronger U.S. dollar by approximately $97 million when compared to the first quarter of 2014.
- Total expenses in the first quarter of 2015 increased 3% compared to the first quarter of 2014, primarily driven by the increased legal accrual associated with indirect foreign exchange client activities, partially offset by a decrease in compensation and employee benefit expenses.
- Total expenses in the first quarter of 2015 benefited from the stronger U.S. dollar by approximately $77 million compared to the first quarter of 2014.
- Return on average common shareholders' equity in the first quarter of 2015 increased to 7.9% from 7.2% in the first quarter of 2014. The increase was primarily driven by an increase in net income, partially offset by an increase in our legal accrual associated with indirect foreign exchange activities and preferred stock dividends for the same periods.
- In the first quarter of 2015, we secured new business of an estimated $214 billion in assets to be serviced; of that total, approximately $99 billion was installed prior to March 31, 2015, with the remaining balance expected to be installed in the remainder of 2015 or later.
- Net new assets to be managed decreased approximately $38 billion in the first quarter of 2015 primarily due to seasonal outflows from SPY, our Standard & Poor's, or S&P, 500 ETF. Approximately $4 billion of new asset management business that was awarded to SSGA during the quarter was not installed as of March 31, 2015.

CONSOLIDATED RESULTS OF OPERATIONS

This section discusses our consolidated results of operations for the first quarter of 2015 compared to the first quarter of 2014, and should be read in conjunction with the consolidated financial statements

and accompanying condensed notes to the consolidated financial statements included in this Form 10-Q.

Total Revenue

TABLE 2: TOTAL REVENUE

	Quarters Ended March 31,			
(Dollars in millions)	2015	2014	% Change	
Fee revenue:				
Servicing fees	$1,273	$1,238	3	%
Management fees	301	292	3	
Trading services:				
Foreign exchange trading	203	134	51	
Brokerage and other trading services	121	119	2	
Total trading services	324	253	28	
Securities finance	101	85	19	
Processing fees and other	61	56	9	
Total fee revenue	2,060	1,924	7	
Net interest revenue:				
Interest revenue	642	655	(2	)
Interest expense	96	100	(4	)
Net interest revenue	546	555	(2	)
Gains (losses) related to investment securities, net	(1)	6	(117	)
Total revenue	$2,605	$2,485	5	

Fee Revenue

Servicing and management fees collectively comprised approximately 76% of our total fee revenue in the first quarter of 2015, compared to approximately 80% in the first quarter of 2014. The level of these fees is influenced by several factors, including the mix and volume of our assets under custody and administration and our assets under management, the value and type of securities positions held (with respect to assets under custody) and the volume of portfolio transactions, and the types of products and services used by our clients, and is generally affected by changes in worldwide equity and fixed-income security valuations and trends in market asset class preferences.

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

Generally, management fees are affected by changes in month-end valuations of assets under management. Management fees for certain components of managed assets, such as ETFs, are

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

Asset-based management fees for actively-managed products are generally charged at a higher percentage of assets under management than for passive products. Actively-managed products may also include performance fee arrangements which are recorded when the performance period is complete. Performance fees are generated when the performance of certain managed portfolios exceeds benchmarks specified in the management agreements. Generally, we experience more volatility with performance fees than with more traditional management fees.

In light of the above, we estimate, using relevant information as of March 31, 2015 and assuming that all other factors remain constant, that: (1) a 10% increase or decrease in worldwide equity valuations, over the relevant periods on which our servicing and management fees are calculated, would result in a corresponding change in our total revenue of approximately 2%; and (2) a 10% increase or decrease in worldwide fixed income security valuations, over the relevant periods for or on which our servicing and management fees are calculated, would result in a corresponding change in our total revenue of approximately 1%.

See Table 3: Daily, Month-end and Year-end Indices for selected equity market indices. While the specific indices presented are indicative of general market trends, the asset types and classes relevant to individual client portfolios can and do differ, and the performance of associated relevant indices can therefore differ from the performance of the indices presented.

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

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

	Daily Averages of Indices Quarters Ended March 31,			Averages of Month-End Indices Quarters Ended March 31,			Quarter-End Indices As of March 31,		
	2015	2014	% Change	2015	2014	% Change	2015	2014	% Change
S&P 500®	2,064	1,835	12 %	2,056	1,838	12 %	2,068	1,872	10 %
NASDAQ®	4,825	4,210	15	4,833	4,204	15	4,901	4,199	17
MSCI EAFE®	1,817	1,894	(4)	1,839	1,896	(3)	1,849	1,916	(3)

FEE REVENUE

Table 2: Total Revenue provides the breakout of fee revenue for the quarters ended March 31, 2015 and 2014.

Servicing Fees

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

The increase in total assets under custody and administration as of March 31, 2015 compared to December 31, 2014 primarily resulted from new business in assets to be serviced and stronger global equity markets. The increase in total assets under custody and administration as of March 31, 2015 compared to March 31, 2014 primarily resulted from stronger global equity markets, net shareholder subscriptions experienced by our custody clients and new business partially offset by losses of assets serviced. Asset levels as of March 31, 2015 did not reflect the estimated $336 billion of new business in assets to be serviced awarded to us in the first quarter of 2015 and prior periods but not installed prior to March 31, 2015. This new business will be reflected in assets under custody and administration

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in future periods after installation and will generate servicing fee revenue in subsequent periods.
With respect to these new assets, we will provide various services, including accounting, bank loan servicing, compliance reporting and monitoring, custody, depository banking services, foreign exchange, fund administration, hedge fund servicing, middle-office outsourcing, performance and analytics, private equity administration, real estate administration, securities finance, transfer agency, and wealth management services.
The value of assets under custody and administration is a broad measure of the relative size of various markets served. Changes in the values of assets under custody and administration from period to period do not necessarily result in proportional changes in our servicing fee revenue.

TABLE 4: COMPONENTS OF ASSETS UNDER CUSTODY AND ADMINISTRATION

(Dollars in billions)	March 31, 2015	December 31, 2014	March 31, 2014
Mutual funds	$7,073	$6,992	$6,908
Collective funds	7,113	6,949	6,637
Pension products	5,745	5,746	5,472
Insurance and other products	8,560	8,501	8,460
Total	$28,491	$28,188	$27,477

TABLE 5: COMPOSITION OF ASSETS UNDER CUSTODY AND ADMINISTRATION

(Dollars in billions)	March 31, 2015	December 31, 2014	March 31, 2014
Equities	$15,660	$15,876	$15,040
Fixed-income	9,157	8,739	9,053
Short-term and other investments	3,674	3,573	3,384
Total	$28,491	$28,188	$27,477

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

(In billions)	March 31, 2015	December 31, 2014	March 31, 2014
North America	$21,554	$21,217	$20,540
Europe/Middle East/Africa	5,590	5,633	5,704
Asia/Pacific	1,347	1,338	1,233
Total	$28,491	$28,188	$27,477

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

Management Fees

Management fees in the first quarter of 2015 increased 3% compared to the first quarter of 2014 primarily due to net new business and stronger U.S. equity markets, partially offset by the impact of the stronger U.S. dollar. Management fees generated outside the U.S. were approximately 34% of total management fees for the first quarter of 2015, compared to 36% for the first quarter of 2014.

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

(Dollars in billions)	March 31, 2015	December 31, 2014	March 31, 2014
Equity:			
Active	$38	$39	$42
Passive	1,434	1,436	1,323
Total Equity	1,472	1,475	1,365
Fixed-Income:			

Active	17	17	16
Passive	306	302	320
Total Fixed-Income	323	319	336
Cash[1]	393	399	419
Multi-Asset-Class Solutions:			
Active	31	30	25
Passive	84	97	108
Total Multi-Asset-Class Solutions	115	127	133
Alternative Investments[2]:			
Active	17	17	16
Passive	123	111	112
Total Alternative Investments	140	128	128
Total	$2,443	$2,448	$2,381

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

TABLE 8: EXCHANGE-TRADED FUNDS BY ASSET CLASS[1]

(Dollars in billions)	March 31, 2015	December 31, 2014	March 31, 2014
Alternative Investments[2]	$40	$38	$42
Cash	1	1	1
Equity	356	388	308
Fixed-income	43	39	36
Total Exchange-Traded Funds	$440	$466	$387

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

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TABLE 9: GEOGRAPHIC MIX OF ASSETS UNDER MANAGEMENT[1]

(Dollars in billions)	March 31, 2015	December 31, 2014	March 31, 2014
North America	$1,549	$1,568	$1,480
Europe/Middle East/Africa	566	559	562
Asia/Pacific	328	321	339
Total	$2,443	$2,448	$2,381

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

In asset management, we experienced net outflows of approximately $38 billion as of March 31, 2015 since December 31, 2014, primarily composed of approximately $27 billion of net outflows from ETFs, approximately $8 billion of net outflows from long-term institutional portfolios and approximately $3 billion of outflows from money market funds. This decrease in total assets under management resulted primarily from seasonal outflows from SPY, our S&P 500 ETF and the strengthening U.S. dollar, partially offset by the stronger U.S. equity markets. The increase in total assets under management as of March 31, 2015 compared to March 31, 2014 resulted primarily from stronger U.S. equity markets and new business, partially offset by net business lost and the strengthening U.S. dollar.

TABLE 10: ACTIVITY IN ASSETS UNDER MANAGEMENT BY PRODUCT CATEGORY

(In billions)	Equity	Fixed-Income	Cash	Multi-Asset-Class Solutions	Alternative Investments	Total
Balance as of March 31, 2014	$1,365	$ 336	$419	$ 133	$128	$2,381
Long-term institutional inflows[1]	197	62	—	34	11	304
Long-term institutional outflows[1]	(200)	(86)	—	(23)	(8)	(317)
Long-term institutional flows, net	(3)	(24)	—	11	3	(13)
ETF flows, net	53	3	—	—	(3)	53
Cash fund flows, net	—	—	(12)	—	—	(12)
Total flows, net	50	(21)	(12)	11	—	28
Market appreciation[2]	96	23	(2)	(12)	8	113
Foreign exchange impact[2]	(36)	(19)	(6)	(5)	(8)	(74)
Total market/foreign exchange impact	60	4	(8)	(17)	—	39
Balance as of December 31, 2014	1,475	319	399	127	128	2,448
Long-term institutional inflows[1]	67	19	—	10	9	105
Long-term institutional outflows[1]	(66)	(17)	—	(25)	(5)	(113)
Long-term institutional flows, net	1	2	—	(15)	4	(8)
ETF flows, net	(33)	4	—	—	2	(27)
Cash fund flows, net	—	—	(3)	—	—	(3)
Total flows, net	(32)	6	(3)	(15)	6	(38)
Market appreciation[2]	47	5	1	7	11	71
Foreign exchange impact[2]	(18)	(7)	(4)	(4)	(5)	(38)
Total market/foreign exchange impact	29	(2)	(3)	3	6	33
Balance as of March 31, 2015	$1,472	$ 323	$393	$ 115	$140	$2,443

(1) Amounts represent long-term portfolios, excluding ETFs.
(2) Amounts represent aggregate impact on each product category for the period.
The net outflows of approximately $38 billion in assets under management as of March 31, 2015 since December 31, 2014 presented in the preceding table did not include approximately $4 billion of new asset management business, which was awarded to SSGA, but not installed as of March 31, 2015. This new business will be reflected in assets under management in future periods after installation, and will generate management fee revenue in subsequent periods.

Total assets under management as of March 31, 2015 included managed assets lost but not yet liquidated. Lost business occurs from time to time and it is difficult to predict the timing of client behavior in transitioning these assets. This timing can vary significantly.

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

Trading Services
TABLE 11: TRADING SERVICES REVENUE

	Quarters Ended March 31,			
(Dollars in millions)	2015	2014	% Change	
Foreign exchange trading:				
Direct sales and trading	$135	$71	90	%
Indirect foreign exchange trading	68	63	8	
Total foreign exchange trading	203	134	51	
Brokerage and other trading services:				
Electronic foreign exchange services	48	48	—	
Other trading, transition management and brokerage	73	71	3	
Total brokerage and other trading services	121	119	2	
Total trading services revenue	$324	$253	28	

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

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

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

Total FX trading revenue increased 51% compared to the first quarter of 2014, primarily the result of higher volatility and client volumes.

We enter into FX transactions with clients and investment managers that contact our trading desk directly. These trades are all executed at negotiated rates. We refer to this activity, and our principal market-making activities, as “direct sales and trading”

and it includes many transactions for funds serviced by third party custodians or prime brokers, as well as those funds under custody at State Street.

Alternatively, clients or their investment managers may elect to route FX transactions to our FX desk through our asset-servicing operation; we refer to this activity as “indirect FX trading,” and, in all cases, we are the funds' custodian. We execute indirect FX trades as a principal at rates disclosed to our clients. We calculate revenue for indirect FX trading using an attribution methodology. This methodology takes into consideration estimated mark-ups/downs and observed client volumes. Direct sales and trading revenue is all other FX trading revenue other than the revenue attributed to indirect FX trading.

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

Our direct sales and trading revenue increased 90% in the first quarter of 2015 compared to the first quarter of 2014. The increase primarily resulted from higher currency volatility, market making activities and client volumes. Our estimated indirect FX trading revenue increased 8% in the first quarter of 2015, compared to the first quarter of 2014. The increase mainly resulted from higher currency volatility and client volumes and spreads.

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

Total brokerage and other trading services revenue increased 2% in the first quarter of 2015 compared to the first quarter of 2014. Our clients may choose to execute FX transactions through one of our electronic trading platforms. These transactions generate revenue through a “click” fee. Revenue from such electronic FX services in the first quarter of 2015 was flat compared to the first quarter of 2014.

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The 3% increase in other trading, transition management and brokerage revenue for the first quarter of 2015 compared to the first quarter of 2014 was primarily due to an increase in other trading revenue, partially offset by lower transition management revenue. In recent years, our transition management revenue was adversely affected by compliance issues in our U.K. business. While the decrease in revenue in the first quarter of 2015, relative to the first quarter of 2014, may not have been attributable to a continuation of those effects, the reputational and regulatory impact of those compliance issues may adversely affect our transition management revenue in future periods.

Securities Finance

Our securities finance business consists of three components: (1) an agency lending program for SSGA-managed investment funds with a broad range of investment objectives, which we refer to as the SSGA lending funds, (2) an agency lending program for third-party investment managers and asset owners, which we refer to as the agency lending funds and (3) security lending transactions which we enter into as principal, which we refer to as our enhanced custody business.

See Table 2: Total Revenue for the comparison of securities finance revenue for the quarters ended March 31, 2015 and 2014.

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

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

Securities finance revenue increased 19% in the first quarter of 2015 compared to the first quarter of 2014. The increase was mainly the result of new business from enhanced custody and the impact of higher lending volumes associated with our agency lending program.

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

Processing Fees and Other

Processing fees and other revenue includes diverse types of fees and revenue, including fees from our structured products business, fees from software licensing and maintenance, equity income from our joint venture investments, gains and losses on sales of leased equipment and other assets, and amortization of our tax-advantaged investments.

Processing fees and other revenue increased 9% in the first quarter of 2015 compared to the first quarter of 2014, as shown in Table 2: Total Revenue. The increase was mainly due to lower amortization of tax-advantaged investments.

NET INTEREST REVENUE

See Table 2: Total Revenue for the breakout of interest revenue and interest expense for the quarters ended March 31, 2015 and 2014.

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

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

	Quarters Ended March 31,							
	2015				2014			
(Dollars in millions; fully taxable-equivalent basis)	Average Balance	Interest Revenue/ Expense	Rate		Average Balance	Interest Revenue/ Expense	Rate	
Interest-bearing deposits with banks	$71,568	$54	.30	%	$33,410	$34	.42	%
Securities purchased under resale agreements	2,449	11	1.88		6,631	9	.53	
Trading account assets	1,117	—	—		901	—	—	
Investment securities	112,656	544	1.93		117,835	597	2.02	
Loans and leases	18,025	74	1.65		14,602	58	1.61	
Other interest-earning assets	20,544	3	.06		13,527	1	.02	
Average total interest-earning assets	$226,359	$686	1.23		$186,906	$699	1.52	
Interest-bearing deposits:								
U.S.	$30,174	$10	.13	%	$12,072	$1	.03	%
Non-U.S.	103,831	16	.06		101,282	14	.06	
Securities sold under repurchase agreements	9,354	—	—		8,424	—	—	
Federal funds purchased	24	—	—		20	—	—	
Other short-term borrowings	4,448	1	.13		3,909	15	1.57	
Long-term debt	9,736	62	2.54		9,668	63	2.60	
Other interest-bearing liabilities	7,465	7	.41		6,758	7	.43	
Average total interest-bearing liabilities	$165,032	$96	.24		$142,133	$100	.29	
Interest-rate spread			.99	%			1.23	%
Net interest revenue—fully taxable-equivalent basis		$590				$599		
Net interest margin—fully taxable-equivalent basis			1.06	%			1.30	%
Tax-equivalent adjustment		(44	)			(44	)	
Net interest revenue—GAAP basis		$546				$555		

Net interest revenue decreased 2% on a fully taxable-equivalent basis in the first quarter of 2015 compared to the first quarter of 2014. The decrease was generally the result of lower yields on interest-earning assets, as lower global interest rates affected our revenue from floating-rate assets, partially offset by the benefit of higher levels of interest-earning assets and lower rates on interest paid.

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

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

The higher level of investment in interest-bearing deposits with banks resulted from continued higher levels of client deposits, discussed further

below, while the increase in average loans and leases resulted from growth in mutual fund lending and our continued investment in senior secured bank loans.

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

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

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

The effects of the recent stronger U.S. dollar relative to other currencies, particularly the Euro, has exacerbated the negative effect on our net interest revenue. If European Central Bank, or ECB,

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monetary policy continues to pressure European interest rates downward and the U.S. dollar remains strong or strengthens, the negative effects on our net interest revenue likely will continue or worsen.

Negative interest income is included in interest expense and negative interest expense is included within interest income.

We recorded aggregate discount accretion in interest revenue of $25 million in the first quarter of 2015 related to the assets we consolidated onto our balance sheet in 2009 from our asset-backed commercial paper conduits. Subsequent to the commercial paper conduit consolidation in 2009, we also recorded total discount accretion in interest revenue of $2.05 billion (including $119 million for the twelve months ended December 31, 2014, $137 million for the twelve months ended December 31, 2013, $215 million for the twelve months ended December 31, 2012, $220 million for the twelve months ended December 31, 2011, $712 million for the twelve months ended December 31, 2010 and $621 million for the twelve months ended December 31, 2009). The timing and ultimate recognition of any applicable discount accretion depends, in part, on factors that are outside of our control, including anticipated prepayment speeds and credit quality. The impact of these factors is uncertain and can be significantly influenced by general economic and financial market conditions. The timing and recognition of any applicable discount accretion can also be influenced by our ongoing management of the risks and other characteristics associated with our investment securities portfolio, including sales of securities which would otherwise generate interest revenue through accretion.

Depending on the factors discussed above, among others, we anticipate that until the former conduit securities remaining in our investment portfolio mature or are sold, discount accretion will continue to contribute to our net interest revenue, though generally in declining amounts. Assuming that we hold the remaining former conduit securities to maturity, all else being equal, we expect the remaining former conduit securities carried in our investment portfolio as of March 31, 2015 to generate discount accretion in future periods of approximately $343 million over their remaining terms, with approximately half of this discount accretion to be recorded over the next four years.

Interest-bearing deposits with banks averaged $71.57 billion for the quarter ended March 31, 2015, compared to $33.41 billion for the quarter ended March 31, 2014. These deposits reflected our maintenance of cash balances at the Federal Reserve, the ECB and other non-U.S. central banks both to satisfy regulatory reserve requirements, and

due to the continued elevated levels of client deposits and our investment of the excess deposits with central banks.

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

Average investment securities decreased to $112.66 billion for the quarter ended March 31, 2015 compared to $117.84 billion for the quarter ended March 31, 2014 as we continue to reposition our investment portfolio in light of the requirements of the liquidity coverage ratio. Detail with respect to our investment securities portfolio as of March 31, 2015 and December 31, 2014 is provided in note 3 to the consolidated financial statements included in this Form 10-Q.

Loans and leases averaged $18.03 billion for the quarter ended March 31, 2015, up from $14.60 billion for the quarter ended March 31, 2014. The increase was mainly related to mutual fund lending and our continued investment in senior secured bank loans. Mutual fund lending and senior secured bank loans averaged approximately $10.61 billion and $2.34 billion, respectively, for the quarter ended March 31, 2015 compared to $8.60 billion and $963 million for the quarter ended March 31, 2014, respectively.

Average loans and leases also include short-duration advances.

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

	Quarters Ended March 31,	
(In millions)	2015	2014
Average U.S. short-duration advances	$2,364	$2,079
Average non-U.S. short-duration advances	1,520	1,411
Average total short-duration advances	$3,884	$3,490

Average short-duration advances to average loans and leases	22 %	24 %

The decline in the proportion of the average daily short-duration advances to average loans and leases is primarily due to growth in the other segments of the loan and lease portfolio. Short-duration advances provide liquidity to clients in support of their investment activities.

Although average short-duration advances for the quarter ended March 31, 2015 increased compared to the quarter ended March 31, 2014, such average short-duration advances provided by us remained low relative to historical levels, primarily the result of higher levels of liquidity held by our clients.

Average other interest-earning assets increased to $20.54 billion for the quarter ended March 31, 2015 from $13.53 billion for the quarter ended March 31, 2014. Our average other interest-earning assets, largely associated with our enhanced custody business, comprised approximately 9% of our average total interest-earning assets for the first quarter of 2015, compared to approximately 7% of our average total interest-earning assets for the first quarter of 2014, as this business continued to grow. While the enhanced custody business supports our overall profitability by generating securities finance revenue, it puts downward pressure on our net interest margin, as interest income on the receivable associated with the cash collateral we provide is earned at a lower rate compared to our investment securities portfolio.

Aggregate average interest-bearing deposits increased to $134.01 billion for the quarter ended March 31, 2015 from $113.35 billion for the quarter ended March 31, 2014. The higher levels were primarily the result of increases in both U.S. and non-U.S. transaction accounts and time deposits. Future transaction account levels will be influenced by the underlying asset servicing business, as well as market conditions, including the general levels of U.S. and non-U.S. interest rates.

Average other short-term borrowings increased to $4.45 billion for the quarter ended March 31, 2015 from $3.91 billion for the quarter ended March 31, 2014. The increase was the result of a higher level of client demand for our commercial paper. The decline in interest rates paid from 1.6% in the first quarter of 2014 to 0.1% in the first quarter of 2015 resulted from a reclassification of certain derivative contracts that hedge our interest-rate risk on certain assets and liabilities, which reduced interest revenue and interest expense.

Average long-term debt increased to $9.74 billion for the quarter ended March 31, 2015 from $9.67 billion for the quarter ended March 31, 2014. The increase primarily reflected the issuance of $1.0 billion of senior debt issued in December 2014. This was partially offset by a $900 million extendible note called at the end of February 2015, the maturities of $500 million of senior debt in May 2014 and $250 million of senior debt in March 2014.

Average other interest-bearing liabilities increased to $7.47 billion for the quarter ended March 31, 2015 from $6.76 billion for the quarter ended March 31, 2014, primarily the result of higher levels of cash collateral received from clients in connection with our enhanced custody business.

Several factors could affect future levels of our net interest revenue and margin, including the mix of client liabilities; actions of various central banks;

changes in U.S. and non-U.S. interest rates; changes in the various yield curves around the world; revised or proposed regulatory capital or liquidity standards, or interpretations of those standards; the amount of discount accretion generated by the former conduit securities that remain in our investment securities portfolio; and the yields earned on securities purchased compared to the yields earned on securities sold or matured.

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

Gains (Losses) Related to Investment Securities, Net

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

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

TABLE 14: INVESTMENT SECURITIES GAINS (LOSSES), NET

	Quarters Ended March 31,	
(In millions)	2015	2014
Net realized gains from sales of available-for-sale securities	$—	$15
Net impairment losses:		
Gross losses from other-than-temporary impairment	(1)	(1)
Losses reclassified (from) to other comprehensive income	—	(8)
Net impairment losses[1]	(1)	(9)
Gains (losses) related to investment securities, net	$(1)	$6
[1] Net impairment losses, recognized in our consolidated statement of income, were composed of the following:		
Impairment associated with expected credit losses	$—	$(9)
Impairment associated with management's intent to sell impaired securities prior to recovery in value	—	—
Impairment associated with adverse changes in timing of expected future cash flows	(1)	—
Net impairment losses	$(1)	$(9)

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 quarter of 2015, we sold approximately $1.66 billion of such investment securities, compared to approximately $1.82 billion in the first quarter of 2014. We did not record any net realized gains in the first quarter of 2015. We recorded $15 million of net realized gains in the first quarter of 2014, as presented in the preceding table.

PROVISION FOR LOAN LOSSES

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

EXPENSES

TABLE 15: EXPENSES

	Quarters Ended March 31,		
(Dollars in millions)	2015	2014	% Change
Compensation and employee benefits	$1,087	$1,157	(6)%
Information systems and communications	247	244	1
Transaction processing services	197	191	3
Occupancy	113	114	(1)
Acquisition costs	5	21	(76)
Restructuring charges, net	1	12	(92)
Other:			
Professional services	96	105	(9)
Amortization of other intangible assets	50	54	(7)
Securities processing costs	20	23	(13)
Regulatory fees and assessments	34	19	79

Other	247	88	181
Total other	447	289	55
Total expenses	$2,097	$2,028	3
Number of employees at quarter-end	30,495	29,530	

Compensation and employee benefits expenses decreased 6% in the first quarter of 2015 compared to the first quarter of 2014. The decrease was primarily the result of severance costs of $72 million recorded in the first quarter of 2014 associated with staffing reductions.

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

Expenses for transaction processing services increased 3% in the first quarter of 2015 compared to the first quarter of 2014. The increase primarily relates to higher transaction volumes in the investment servicing business.

Other expenses increased 55% in the first quarter of 2015 compared to the first quarter of 2014, primarily due to a legal accrual of $150 million in connection with our indirect foreign exchange client activities, higher levels of regulatory fees and assessments, partially offset by lower professional services costs. The legal accrual is further discussed under "Legal and Regulatory Matters" in note 8 to the consolidated financial statements included in this Form 10-Q.

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

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

Acquisition Costs

In the first quarter of 2015, we recorded acquisition costs of $5 million, compared to $21 million in the first quarter of 2014. These amounts related to previously disclosed acquisitions.

Restructuring Charges

In the first quarter of 2015, we recorded net restructuring charges of $1 million compared to $12 million in the first quarter of 2014. The amounts recorded in the first quarter of 2014 mainly related to our recently completed Business Operations and Information Technology Transformation program.

Income Tax Expense

Income tax expense was $95 million in the first quarter of 2015 compared to $92 million in the first quarter of 2014. Our effective tax rate in the first quarter of 2015 was 18.9% and included effects of the legal accrual of $150 million relating to our indirect foreign exchange client activities, compared to 20.3% in the first quarter of 2014, which included the impact of a one-time Italian tax on banks and insurance companies.

LINE OF BUSINESS INFORMATION

We have two lines of business: Investment Servicing and Investment Management. The results of operations for these lines of business are not necessarily comparable with those of other companies, including companies in the financial services industry. Information about our two lines of business, as well as the revenues, expenses and capital allocation methodologies associated with

them, is provided in note 24 to the consolidated financial statements included in our 2014 Form 10-K.

The “Other” information presented below represents costs incurred that are not allocated to our business lines, including certain severance and restructuring costs, acquisition costs and certain provisions for legal contingencies. “Other” for the first quarter of 2015 included net costs of $5 million composed of the following -

- Net acquisition and restructuring costs of $6 million; and
- Net severance cost credit adjustment of $1 million.

“Other” for the first quarter of 2014 included costs of $111 million composed of the following -

- Net severance costs associated with staffing realignment of $72 million;
- Net acquisition and restructuring costs of $33 million; and
- Provisions for legal contingencies of $6 million.

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

Investment Servicing

TABLE 16: INVESTMENT SERVICING LINE OF BUSINESS RESULTS

	Quarters Ended March 31,		
(Dollars in millions, except where otherwise noted)	2015	2014	% Change
Servicing fees	$1,273	$1,238	3%
Trading services	315	241	31
Securities finance	101	85	19

Processing fees and other	59	55	7
Total fee revenue	1,748	1,619	8
Net interest revenue	545	551	(1)
Gains (losses) related to investment securities, net	(1)	6	(117)
Total revenue	2,292	2,176	5
Provision for loan losses	4	2	100
Total expenses	1,836	1,672	10
Income before income tax expense	$452	$502	(10)
Pre-tax margin	20 %	23 %	

Total revenue and total fee revenue in the first quarter of 2015 for our Investment Servicing line of business, presented in Table 16: Investment Servicing Line of Business Results, increased 5% and 8%, respectively, compared to the first quarter of 2014.

Servicing fees increased 3% in the first quarter of 2015 compared to the first quarter of 2014,

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primarily the result of the positive revenue impact of net new business (revenue added from new servicing business installed less revenue lost from the removal of assets serviced) and stronger global equity markets, partially offset by the impact of the strong U.S. dollar.

Trading services revenue increased 31% in the first quarter of 2015 compared to the first quarter of 2014, primarily the result of higher foreign exchange volatility, market making activity and client volumes, partially offset by a decline in transition management revenue.

Securities finance revenue increased 19% in the first quarter of 2015 compared to the first quarter of 2014, mainly the result of new business from enhanced custody and higher loan volumes associated with our lending program.

Processing fees and other revenue increased 7% in the first quarter of 2015 compared to the first quarter of 2014, primarily due to higher loan service fees due to higher average loan volumes.

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

Net interest revenue decreased 1% in the first quarter of 2015 compared to the first quarter of 2014, primarily the result of lower yields on interest earning assets, as lower global interest rates affected our revenue from floating-rate assets, partially offset by the benefit of higher levels of interest-earning assets and lower rates on interest paid. A discussion of net interest revenue is provided under "Net Interest Revenue" in "Total Revenue."

Total expenses increased 10% in the first quarter of 2015 compared to the first quarter of 2014, primarily driven by increases in other expenses for a legal accrual recorded in connection with our indirect foreign exchange client activities, as well as increases in transaction processing services. The expense increase was partially offset by the impact of the strong U.S. dollar.

Investment Management

TABLE 17: INVESTMENT MANAGEMENT LINE OF BUSINESS RESULTS

	Quarters Ended March 31,		
(Dollars in millions, except where otherwise noted)	2015	2014	% Change
Management fees	$301	$292	3%
Trading services	9	12	(25)
Processing fees and other	2	1	100
Total fee revenue	312	305	2
Net interest revenue	1	4	(75)
Total revenue	313	309	1
Total expenses	256	245	4
Income before income tax expense	$57	$64	(11)
Pre-tax margin	18 %	21 %	

Total revenue and total fee revenue for our Investment Management line of business, presented in Table 17: Investment Management Line of Business Results, increased 1% and 2%, respectively, in the first quarter of 2015 compared to the first quarter of 2014. The increase in total fee revenue primarily resulted from increases in management fees, partially offset by lower trading services revenue.

Management fees increased 3% in the first quarter of 2015 compared to the first quarter of 2014, primarily due to net new business and stronger U.S. equity markets, partially offset by the impact of the strong U.S. dollar. Trading services revenue declined 25% in the first quarter of 2015 compared to the first quarter of 2014, mainly due to lower distribution fees associated with the SPDR® Gold ETF, which resulted from outflows in 2014, and a lower average gold price during the period.

Management fees for the Investment Management business line are consistent with the respective consolidated results. Refer to “Management Fees” in “Total Revenue” in this Management's Discussion and Analysis for a more in-depth discussion. A discussion of trading services revenue is provided under “Trading Services” in “Total Revenue.”
Total expenses increased 4% in the first quarter of 2015 compared to the first quarter of 2014, primarily driven by higher incentive compensation and transaction processing services, partially offset by the impact of the strong U.S. dollar.

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FINANCIAL CONDITION

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

Deposits and other liabilities resulting from client initiated transactions are invested in assets that generally match the liquidity and interest-rate characteristics of the liabilities, although the weighted-average maturities of our assets are significantly longer than the contractual maturities of our liabilities. Our assets consist primarily of securities held in our available-for-sale or held-to-maturity portfolios and short-duration financial instruments, such as interest-bearing deposits with banks and securities purchased under resale agreements. The actual mix of assets is determined by the characteristics of the client liabilities and our desire to maintain a well-diversified portfolio of high-quality assets.

TABLE 18: AVERAGE STATEMENT OF CONDITION[1]

	Quarters Ended March 31,	
	2015	2014
(In millions)	Average Balance	Average Balance
Assets:		
Interest-bearing deposits with banks	$71,568	$33,410
Securities purchased under resale agreements	2,449	6,631
Trading account assets	1,117	901
Investment securities	112,656	117,835
Loans and leases	18,025	14,602
Other interest-earning assets	20,544	13,527
Average total interest-earning assets	226,359	186,906
Cash and due from banks	2,397	4,618
Other noninterest-earning assets	30,326	24,045
Average total assets	$259,082	$215,569
Liabilities and shareholders’ equity:		
Interest-bearing deposits:		
U.S.	$30,174	$12,072
Non-U.S.	103,831	101,282
Total interest-bearing deposits	134,005	113,354
Securities sold under repurchase agreements	9,354	8,424
Federal funds purchased	24	20
Other short-term borrowings	4,448	3,909
Long-term debt	9,736	9,668
Other interest-bearing liabilities	7,465	6,758
Average total interest-bearing liabilities	165,032	142,133
Noninterest-bearing deposits	55,066	40,711
Other noninterest-bearing liabilities	17,767	12,034
Preferred shareholders’ equity	1,961	722
Common shareholders’ equity	19,256	19,969
Average total liabilities and shareholders’ equity	$259,082	$215,569

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

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

Investment Securities

TABLE 19: CARRYING VALUES OF INVESTMENT SECURITIES

(In millions)	March 31, 2015	December 31, 2014
Available for sale:		
U.S. Treasury and federal agencies:		
Direct obligations	$12,996	$10,655
Mortgage-backed securities	21,046	20,714
Asset-backed securities:		
Student loans(1)	12,064	12,460
Credit cards	2,917	3,053
Sub-prime	911	951
Other	4,028	4,145
Total asset-backed securities	19,920	20,609
Non-U.S. debt securities:		
Mortgage-backed securities	8,664	9,606
Asset-backed securities	3,361	3,226
Government securities	3,811	3,909
Other	5,231	5,428
Total non-U.S. debt securities	21,067	22,169
State and political subdivisions	11,049	10,820
Collateralized mortgage obligations	5,830	5,339
Other U.S. debt securities	4,073	4,109
U.S. equity securities	39	39
Non-U.S. equity securities	2	2
U.S. money-market mutual funds	582	449
Non-U.S. money-market mutual funds	8	8
Total	$96,612	$94,913
Held to Maturity:		
U.S. Treasury and federal agencies:		
Direct obligations	$5,112	$5,114
Mortgage-backed securities	57	62
Asset-backed securities:		
Student loans(1)	1,755	1,814
Credit cards	897	897
Other	545	577
Total asset-backed securities	3,197	3,288
Non-U.S. debt securities:		
Mortgage-backed securities	3,275	3,787
Asset-backed securities	2,298	2,868
Government securities	148	154
Other	65	72
Total non-U.S. debt securities	5,786	6,881
State and political subdivisions	3	9
Collateralized mortgage obligations	2,090	2,369
Total	$16,245	$17,723

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

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

consolidated financial statements included in this Form 10-Q.

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

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

TABLE 20: INVESTMENT PORTFOLIO BY EXTERNAL CREDIT RATING

	March 31, 2015		December 31, 2014	
AAA[1]	75	%	73	%
AA	16		17	
A	6		6	
BBB	2		2	
Below BBB	1		2	
	100	%	100	%

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

As of March 31, 2015, the investment portfolio of 16,778 securities was diversified with respect to asset class. Approximately 62% of the aggregate carrying value of the portfolio as of that date was composed of mortgage-backed and asset-backed securities, compared to 64% as of December 31, 2014. The asset-backed securities portfolio, of which approximately 96% of the carrying value as of both March 31, 2015 and December 31, 2014, respectively, was floating-rate, consisted primarily of student loan-backed and credit card-backed securities. Mortgage-backed securities were composed of securities issued by the Federal National Mortgage Association and Federal Home Loan Mortgage Corporation, as well as U.S. and non-U.S. large-issuer collateralized mortgage obligations.

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

The Volcker rule became effective on July 21, 2012, and the final implementing regulations became effective on April 1, 2014. In the absence of an applicable extension of the Volcker rule’s general conformance period, a banking entity must bring its activities and investments into conformance with the Volcker rule and its final Volcker rule regulations by July 21, 2015. In December 2014, the Federal Reserve issued an order, the 2016 conformance period extension, extending the Volcker rule’s general conformance period until July 21, 2016 for investments in and relationships with covered funds and certain foreign funds that were in place on or prior to December 31, 2013, referred to as legacy covered funds. Under the 2016 conformance period extension, all investments in and relationships related to investments in a covered fund made or entered into after that date by a banking entity and its affiliates, and all proprietary trading activities of those entities, must be in conformance with the Volcker rule and its final implementing regulations by July 21, 2015. The Federal Reserve stated in the 2016 conformance period extension that it intends to grant a final one-year extension of the general conformance period, to July 21, 2017, for banking entities to conform ownership interests in and relationships with legacy covered funds.

Whether certain types of investment securities or structures, such as collateralized loan obligations, or CLOs, constitute covered funds, as defined in the final Volcker rule regulations, and do not benefit from the exemptions provided in the Volcker rule, and whether a banking organization's investments therein constitute ownership interests remain subject to (1) market, and ultimately regulatory, interpretation, and (2) the specific terms and other characteristics relevant to such investment securities and structures.

As of March 31, 2015, we held approximately $4.30 billion of investments in CLOs. As of the same date, these investments had an aggregate pre-tax net unrealized gain of approximately $86 million, composed of gross unrealized gains of $95 million and gross unrealized losses of $9 million. Comparatively, as of December 31, 2014, we held approximately $4.54 billion of investments in CLOs which had an aggregate pre-tax net unrealized gain of approximately $97 million composed of gross unrealized gains of $105 million and gross unrealized losses of $8 million. In the event that we or our banking regulators conclude that such investments in CLOs, or other investments, are covered funds, we may be required to divest of such investments. If other banking entities reach similar conclusions with respect to similar investments held by them, the

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

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

Non-U.S. Debt Securities

Approximately 24% of the aggregate carrying value of our investment securities portfolio was composed of non-U.S. debt securities as of March 31, 2015 compared to approximately 26% as of December 31, 2014.

TABLE 21: NON-U.S. DEBT SECURITIES

(In millions)	March 31, 2015	December 31, 2014
Available for Sale:		
United Kingdom	$6,664	$6,925
Australia	3,467	3,401
Netherlands	2,761	3,219
Canada	2,734	2,711
France	1,173	1,407
South Korea	909	920
Japan	858	860
Germany	773	