STATE STREET CORP
Form 10-Q
May 09, 2014
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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 March 31, 2014

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, 2014 was 430,421,570.

STATE STREET CORPORATION
QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTERLY PERIOD ENDED
MARCH 31, 2014

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
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GENERAL

State Street Corporation, or the parent company, is a financial holding company headquartered in Boston, Massachusetts. Unless otherwise indicated or unless the context requires otherwise, all references in this Management's Discussion and Analysis to “State Street,” “we,” “us,” “our” or similar terms mean State Street Corporation and its subsidiaries on a consolidated basis. Our principal banking subsidiary is State Street Bank and Trust Company, or State Street Bank. As of March 31, 2014, we had consolidated total assets of $256.66 billion, consolidated total deposits of $194.65 billion, consolidated total shareholders' equity of $21.27 billion and 29,530 employees. With $27.48 trillion of assets under custody and administration and $2.38 trillion of assets under management as of March 31, 2014, 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; 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 16 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, 2014, and updates the Management's Discussion and Analysis in our Annual Report on Form 10-K for the year ended December 31, 2013, referred to as our 2013 Form 10-K, 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 our 2013 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 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 2013 Form 10-K. We did not change these significant accounting policies in the first quarter of 2014.
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

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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.

We provide additional disclosures required by applicable bank regulatory standards, including supplemental qualitative and quantitative information with respect to 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, on the "Investor Relations" section of our website at www.statestreet.com.

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 this 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, 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 that do not relate strictly to historical facts.

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, 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 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;

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- the manner and timing with which the Federal Reserve and other U.S. and foreign regulators implement the Dodd-Frank Act, changes to the Basel III capital framework and European legislation, such as the Alternative Investment Fund Managers Directive and Undertakings for Collective Investment in Transferable Securities Directives, 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 or will be required to meet, whether arising under the Dodd-Frank Act or the 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 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 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, 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;
- 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 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, 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;
- 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, control expenses, attract and retain highly skilled people and raise the capital necessary to achieve our business goals and comply with regulatory requirements;

- 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;

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

- changes or 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;
- 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 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 2013 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 or financial condition.

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 website at www.statestreet.com.

OVERVIEW OF FINANCIAL RESULTS

The following table presents our financial results for the quarters ended March 31, 2014 and 2013:

	Quarters Ended March 31,		
(Dollars in millions, except per share amounts)	2014	2013	% Change
Total fee revenue	$1,924	$1,857	4 %
Net interest revenue	555	576	(4)
Gains (losses) related to investment securities, net	6	2	
Total revenue	2,485	2,435	2
Provision for loan losses	2	—	
Total expenses	2,028	1,826	11
Income before income tax expense	455	609	(25)
Income tax expense	92	145	
Net income	$363	$464	(22)
Adjustments to net income:			
Dividends on preferred stock	(6)	(7)	
Earnings allocated to participating securities	(1)	(2)	
Net income available to common shareholders	$356	$455	

Earnings per common share:				
Basic	$.83		$1.00	
Diluted	.81		.98	(17)
Average common shares outstanding (in thousands):				
Basic	430,621		454,315	
Diluted	438,815		462,751	
Cash dividends declared per common share	$.26		$.26	
Return on average common equity	7.2	%	9.1	%

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 2014 presented in the preceding table. More detailed information about our consolidated financial results, including comparisons of our results for the first quarter of 2014 to those for the first quarter of 2013,

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is provided under "Consolidated Results of Operations," which follows these sections.

Highlights

- In March 2014, we received the results of the Federal Reserve's review of our 2014 capital plan in connection with its annual Comprehensive Capital Analysis and Review, or CCAR, process. The Federal Reserve did not object to the capital actions we proposed, and, in March 2014, our Board of Directors approved a new common stock purchase program authorizing the purchase of up to $1.70 billion of our common stock through March 31, 2015. We did not purchase any of our common stock under this new program in the first quarter of 2014.
- In the first quarter of 2014, we completed the $2.10 billion common stock purchase program authorized by the Board in March 2013 by purchasing approximately 6.1 million shares of our common stock, at an average price of $69.14 per share and an aggregate cost of approximately $420 million.
- In the first quarter of 2014, we declared a quarterly common stock dividend of $0.26 per share, totaling approximately $112 million, which was paid in April 2014.
- Our 2014 capital plan includes a proposed increase in our second-quarter 2014 common stock dividend to $0.30 per share, subject to consideration and approval by the Board at its scheduled meeting in May.

Additional information about our common stock purchase program and our common stock dividends is provided under "Financial Condition – Capital" in this Management's Discussion and Analysis. Information about our common stock purchase program is also provided in Part II Item 2, "Unregistered Sales of Equity Securities and Use of Proceeds," included in this Form 10-Q.

- In February 2014, we issued 30 million depositary shares, each representing a 1/4,000th ownership interest in a share of State Street's fixed-to-floating-rate non-cumulative perpetual preferred stock, Series D, without par value, with a liquidation preference of $100,000 per share (equivalent to $25 per depositary share), in a public offering. The aggregate proceeds from the offering, net of underwriting discounts, commissions and other issuance costs, were approximately $742 million.

- In the first quarter of 2014, in connection with the realignment of our cost base, we recorded $72 million of severance costs associated with staff reductions. Additional information about these costs is provided under "Consolidated Results of Operations - Expenses" in this Management's Discussion and Analysis, and in note 14 to the consolidated financial statements, included in this Form 10-Q.
- In January 2014, we entered into a settlement agreement with the U.K. Financial Conduct Authority as a result of our having charged six clients of our U.K. transition management business amounts in excess of the underlying contractual terms in 2010 and 2011. We agreed to and paid a fine of approximately $38 million in January 2014, which we accrued as of December 31, 2013.

In the first quarter of 2014, we recorded additional pre-tax costs in connection with our transition management business of approximately $13 million, mainly composed of securities processing costs net of accrual adjustments. Additional information about transition management is provided under "Legal and Regulatory Matters" in note 8 to the consolidated financial statements included in this Form 10-Q.

Financial Results

- Total revenue in the first quarter of 2014 increased 2% compared to the first quarter of 2013, as a 6% increase in aggregate servicing fee and management fee revenue and a 9% increase in securities finance revenue were partly offset by declines in trading services revenue and net interest revenue of 15% and 4%, respectively.
  - Servicing fee revenue in the first quarter of 2014 increased 5% compared to the first quarter of 2013, mainly the result of stronger global equity markets and the revenue impact of net new business installed. Servicing fees generated outside the U.S. in the first quarter of 2014 and the first quarter of 2013 were approximately 42% and 41%, respectively, of total servicing fees for those periods.
  - Management fee revenue increased 11% in the first quarter of 2014 compared to the first quarter of 2013, primarily the result of stronger global equity markets. Management fees generated outside the U.S. in the first quarter of 2014 and the first quarter of 2013 were approximately 36% and 37%,

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respectively, of total management fees for those periods.

- In the first quarter of 2014, trading services revenue, composed of revenue generated by foreign exchange trading and revenue from brokerage and other trading services, declined 15% compared to the first quarter of 2013. Revenue from foreign exchange trading declined 8%, with estimated indirect foreign exchange revenue down 3% and direct sales and trading foreign exchange revenue down 12%, from the first quarter of 2013. Both declines were mainly the result of lower volatility, partly offset by higher client volumes. Brokerage and other trading services revenue in the first quarter of 2014 declined 22% compared to the first quarter of 2013, primarily reflective of lower client volumes in electronic trading and the impact of lower distribution fees associated with the SPDR® Gold ETF, which resulted from lower average gold prices and net outflows from the SPDR® Gold ETF.
- Securities finance revenue increased 9% in the first quarter of 2014 compared to the first quarter of 2013, reflective of growth in revenue earned in connection with principal securities finance transactions, which we refer to as our enhanced custody business.
- Net interest revenue in the first quarter of 2014 declined 4% compared to the first quarter of 2013, generally the result of lower yields on interest-earning assets, as lower global interest rates affected revenue from floating-rate assets, net of the benefit of those rates on interest expense.

Net interest margin, calculated on fully taxable-equivalent net interest revenue, declined 8 basis points to 1.30% in the first quarter of 2014 from 1.38% in the first quarter of 2013. Continued elevated levels of client deposits increased our average interest-earning assets, but negatively affected our net interest margin, as we placed a portion of these deposits with U.S. and non-U.S. central banks and earned the relatively low interest rates paid by the central banks on these balances.

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 in the first quarter of 2014 increased 11% compared to the first quarter

of 2013. Compensation and employee benefits expenses increased 12%, primarily due to the above-described severance costs of $72 million, higher incentive compensation, and costs for additional staffing related to the installation of new business and added regulatory and compliance requirements. Compensation and employee benefits expenses in the first quarter of 2014 and the first quarter of 2013 included approximately $146 million and $118 million, respectively, associated with seasonal deferred incentive compensation expense for retirement-eligible employees and payroll taxes.

These aggregate increases were partly offset by savings generated from the implementation of our Business Operations and Information Technology Transformation program.

- Information systems and communications expenses increased 3% compared to the first quarter of 2013, primarily in connection with the planned transition of certain functions to third-party service providers in connection with the implementation of our Business Operations and Information Technology Transformation program, and costs to support new business. Transaction processing services expenses were higher by 6%, primarily the result of higher equity market values and higher transaction volumes in the investment servicing business.
- Other expenses increased 18% in the first quarter of 2014 compared to the first quarter of 2013, primarily the result of a higher level of professional services associated with regulatory compliance, as well as securities processing costs associated with our transition management business.
- We expect continued evolving and increasing regulatory and compliance requirements to influence our expenses by, for example, increasing our employee compensation and benefits, information systems and other expenses, as we further adjust our operations and systems in response to new or proposed requirements.
- With respect to our Business Operations and Information Technology Transformation program, we expect to achieve additional pre-tax expense savings for full-year 2014 of approximately $130 million. 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

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expenses from operations, all else being equal. Our actual total expenses have increased since 2010, and may in the future increase or decrease, due to other factors.

Additional information with respect to our expenses, including our Business Operations and Information Technology Transformation program, is provided under "Consolidated Results of Operations - Expenses" in this Management's Discussion and Analysis.

- In the first quarter of 2014, we secured an estimated $189 billion of new business in assets to be serviced; of the total, $125 billion was installed prior to March 31, 2014, with the remaining $64 billion expected to be installed in the remainder of 2014. We also installed approximately $77 billion of new asset servicing business in the first quarter of 2014 that we were awarded in prior periods. As of March 31, 2014, we had an estimated $136 billion of new business in assets to be serviced, including the $64 billion referenced above, that remained to be installed in future periods. New business in assets to be serviced includes assets for which we have been instructed by existing clients to provide additional services, as well as assets from new clients.

The new business not installed by March 31, 2014 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 first quarter of 2014, 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.

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.

- In the first quarter of 2014, SSgA had approximately $4 billion of net new business in assets to be managed, composed primarily of $35 billion of net inflows, substantially into managed cash, partly offset by net outflows of $31 billion from ETF and institutional

products. Outflows were primarily from passive equity funds.

An additional $21 billion of new business awarded to SSgA but not installed by March 31, 2014 was not included in our assets under management as of that date, and had no impact on our management fee revenue for the first quarter of 2014, 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 first quarter of 2014 compared to the first quarter of 2013 in more detail, and should be read in conjunction with the consolidated financial statements and accompanying condensed notes included in this Form 10-Q.

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 2013 Form 10-K.

The following table presents the components of total revenue for the periods indicated:

	Quarters Ended March 31,			
(Dollars in millions)	2014	2013	% Change	
Fee revenue:				
Servicing fees	$1,238	$1,175	5	%
Management fees	292	263	11	
Trading services:				
Foreign exchange trading	134	146	(8	)
Brokerage and other trading services	105	135	(22	)
Total trading services	239	281	(15	)

Securities finance	85	78	9
Processing fees and other	70	60	17
Total fee revenue	1,924	1,857	4
Net interest revenue:			
Interest revenue	655	687	(5)
Interest expense	100	111	(10)
Net interest revenue	555	576	(4)
Gains (losses) related to investment securities, net	6	2	
Total revenue	$2,485	$2,435	2

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Fee Revenue

Servicing and management fees collectively composed approximately 80% of our total fee revenue in the first quarter of 2014, compared to 77% in the first quarter of 2013. 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 and other factors, may have a significant effect on our servicing fee revenue.

Generally, management fees are affected by changes in month-end valuations of assets under management. Management fees for certain components of managed assets, such as ETFs, are affected by daily average valuations of assets under management. Management fee revenue is more sensitive to market valuations than servicing fee revenue, since 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, 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 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 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, using relevant information as of March 31, 2014 and assuming that all other factors remain constant, that: (1) a 10% increase or decrease, over the relevant periods for or on which our servicing and management fees are calculated, in worldwide equity valuations would result in a corresponding change in our total revenue of approximately 2%; and (2) a 10% increase or decrease, over the relevant periods for or on which our servicing and management fees are calculated, in worldwide fixed-income security valuations would result in a corresponding change in our total revenue of approximately 1%.

The following table presents 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.

INDEX	Daily Averages of Indices			Averages of Month-End Indices			Quarter-End Indices		
	Quarters Ended March 31,			Quarters Ended March 31,			As of March 31,		
	2014	2013	% Change	2014	2013	% Change	2014	2013	% Change
S&P 500®	1,835	1,514	21 %	1,838	1,527	20 %	1,872	1,569	19 %

NASDAQ®	4,210	3,176	33	4,204	3,190	32	4,199	3,268	28
MSCI EAFE®	1,894	1,668	14	1,896	1,676	13	1,916	1,674	14

The following table presents the components of fee revenue for the periods indicated:

FEE REVENUE

	Quarters Ended March 31,			
(Dollars in millions)	2014	2013	% Change	
Servicing fees	$1,238	$1,175	5	%
Management fees	292	263	11	
Trading services:				
Foreign exchange trading	134	146	(8	)
Brokerage and other trading services	105	135	(22	)
Total trading services	239	281	(15	)
Securities finance	85	78	9	
Processing fees and other	70	60	17	
Total fee revenue	$1,924	$1,857	4	

Servicing Fees

Servicing fees in the first quarter of 2014 increased 5% compared to the first quarter of 2013, primarily as a result of stronger global equity markets and the revenue impact of net new business installed. In the first quarter of 2014 and the first quarter of 2013, servicing fees generated outside the U.S. were approximately 42% and 41%, respectively, of total servicing fees.

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

COMPONENTS OF ASSETS UNDER CUSTODY AND ADMINISTRATION

(In billions)	March 31, 2014	December 31, 2013	March 31, 2013
Mutual funds	$6,908	$6,811	$6,275
Collective funds	6,637	6,428	5,753
Pension products[(1)]	5,472	5,851	5,331
Insurance and other products	8,460	8,337	8,063
Total	$27,477	$27,427	$25,422

[(1)] Decline as of March 31, 2014 compared to December 31, 2013 resulted primarily from the loss of assets serviced referenced later in this "Servicing Fees" section.

FINANCIAL INSTRUMENT MIX OF ASSETS UNDER CUSTODY AND ADMINISTRATION

(In billions)	March 31, 2014	December 31, 2013	March 31, 2013
Equities	$15,040	$15,050	$13,095
Fixed-income	9,053	9,072	9,069
Short-term and other investments	3,384	3,305	3,258
Total	$27,477	$27,427	$25,422

GEOGRAPHIC MIX OF ASSETS UNDER CUSTODY AND ADMINISTRATION[(1)]

(In billions)	March 31, 2014	December 31, 2013	March 31, 2013
North America	$20,540	$20,764	$19,234
Europe/Middle East/Africa	5,704	5,511	5,060
Asia/Pacific	1,233	1,152	1,128
Total	$27,477	$27,427	$25,422

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

The increase in total assets under custody and administration as of March 31, 2014 compared to December 31, 2013 and compared to March 31, 2013 primarily resulted from stronger global equity markets and net shareholder subscriptions, partly offset by net losses of assets serviced. Asset levels as of March 31, 2014 did not reflect $136 billion of new business in assets to be serviced awarded to us in the first quarter of 2014 and prior periods but not installed prior to March 31, 2014. This new business will be reflected in assets under custody and administration in future periods after installation, and will generate servicing fee revenue in subsequent periods.

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 in the first quarter of 2014 increased 11% compared to the first quarter of 2013 primarily the result of stronger global equity markets. Management fees generated outside the U.S. were approximately 36% of total management fees for the first quarter of 2014 compared to 37% for the first quarter of 2013.

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

The following tables present assets under management by asset class and investment approach, ETFs by asset class, and the geographic mix of assets under management, as of the dates indicated:

ASSETS UNDER MANAGEMENT BY ASSET CLASS AND INVESTMENT APPROACH[(1)]

(In billions)	March 31, 2014	December 31, 2013	March 31, 2013
Equity:			
Active	$42	$42	$45
Passive	1,323	1,334	1,134
Total Equity	1,365	1,376	1,179
Fixed-Income:			
Active	16	16	16
Passive	320	311	325
Total Fixed-Income	336	327	341
Cash[(2)]	419	385	383
Multi-Asset-Class Solutions:			
Active	25	23	23
Passive	108	110	99
Total Multi-Asset-Class Solutions	133	133	122
Alternative Investments[(3)]:			
Active	16	14	12
Passive	112	110	139
Total Alternative Investments	128	124	151
Total	$2,381	$2,345	$2,176

(1) As of December 31, 2013, the presentation was changed to align with the reporting of core businesses. Amounts reported as of March 31, 2013 have been adjusted for comparative purposes.
(2) Includes both floating- and constant-net-asset-value portfolios held in commingled structures or separate accounts.
(3) Includes real estate investment trusts, currency and commodities, including SPDR® Gold Fund, for which State Street is not the investment manager, but acts as distribution agent.

EXCHANGE-TRADED FUNDS BY ASSET CLASS[(1)(2)]

(In billions)	March 31, 2014	December 31, 2013	March 31, 2013
Alternative Investments	$42	$39	$70
Cash	1	1	1
Equity	308	325	251
Fixed-income	36	34	32
Total Exchange-Traded Funds	$387	$399	$354

(1) Exchange-traded funds 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.

GEOGRAPHIC MIX OF ASSETS UNDER MANAGEMENT[(1)]

(In billions)	March 31, 2014	December 31, 2013	March 31, 2013
North America	$1,480	$1,456	$1,362
Europe/Middle East/Africa	562	560	499
Asia/Pacific	339	329	315
Total	$2,381	$2,345	$2,176

[1] Geographic mix is based on client location or fund management location. Amounts reported as of March 31, 2013 were adjusted for comparative purposes to reflect realignment of reporting.

The increase in total assets under management as of March 31, 2014 compared to December 31, 2013 resulted from stronger global equity markets and net new business installed, as presented in the following table. The net new business of approximately $4 billion was primarily composed of $35 billion of net inflows, substantially into managed cash, partly offset by net outflows of $31 billion from ETF and institutional products. Outflows were primarily from passive equity funds.

The following table presents activity in assets under management for the twelve months ended March 31, 2014:

ASSETS UNDER MANAGEMENT

(In billions)	
March 31, 2013	$2,176
Net lost business	(10)
Market appreciation	179
December 31, 2013	2,345
Net new business	4
Market appreciation	32
March 31, 2014	$2,381

The net new business of $4 billion for 2014 presented in the preceding table did not include $21 billion of new asset management business, substantially all of which was awarded to SSgA in the first quarter of 2014 but not installed prior to March 31, 2014. 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, 2014 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
The following table summarizes the components of trading services revenue for the periods indicated:

	Quarters Ended March 31,		
(Dollars in millions)	2014	2013	% Change
Foreign exchange trading:			
Direct sales and trading	$71	$81	(12)%
Indirect foreign exchange trading	63	65	(3)
Total foreign exchange trading	134	146	(8)
Brokerage and other trading services:			
Electronic foreign exchange trading	53	64	(17)
Other trading, transition management and brokerage	52	71	(27)
Total brokerage and other trading services	105	135	(22)
Total trading services revenue	$239	$281	(15)

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. 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 brokerage and other trading products and 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 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 15% decrease in total trading services revenue for the first quarter of 2014 compared to the first quarter of 2013, composed of separate changes related to FX trading and brokerage and other trading services, is explained below.

Total FX trading revenue declined 8% in the first quarter of 2014 compared to the first quarter of 2013, primarily the result of lower currency volatility and spreads, partly offset by higher 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 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 that utilize indirect FX can, in addition to executing their FX transactions through dealers not affiliated with us, transition from indirect FX 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.

In the first quarter of 2014, our estimated indirect FX revenue declined 3% compared to the first quarter of 2013, and our direct sales and trading FX revenue declined 12%. The decline in estimated indirect FX revenue mainly resulted from lower client volumes and currency volatility. The decline in direct FX revenue mainly resulted from lower currency volatility, partly offset by higher client volumes.

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.

Total brokerage and other trading services revenue declined 22% in the first quarter of 2014 compared to the first quarter of 2013. 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 declined 17% compared to the first quarter of 2013, mainly due to declines in client volumes.

Other trading, transition management and brokerage revenue declined 27% in the first quarter of 2014 compared to the first quarter of 2013. The decrease mainly resulted from a decline in distribution fees associated with the SPDR® Gold ETF, which resulted from lower average gold prices and net outflows from the SPDR® Gold ETF, partially offset by a slight increase in transition management revenue. 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.

Our revenue from transition management and related expenses in the first quarter of 2014, as well as in full-years 2013, 2012 and 2011, were adversely affected by compliance issues in our U.K. business, the reputational and regulatory impact of which may continue to adversely affect our transition management revenue in future periods.

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.

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.

We also participate in securities lending transactions as a principal in our enhanced custody business. 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. While a significant proportion of the securities furnished by us in our role as principal is sourced from third parties, we have the ability to source securities through our assets under custody and administration.

Securities finance revenue in the first quarter of 2014 increased 9% compared to the first quarter of 2013, reflective of growth in revenue earned in connection with our enhanced custody business.

Market influences may continue to affect client demand for securities finance, and as a result our revenue from, and the profitability of, our securities lending activities in future periods. In addition, 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 in the first quarter of 2014 increased 17% compared to the first quarter of 2013. The increase was primarily the result of higher revenue associated with our investment in bank-owned life insurance.

Net Interest Revenue

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.

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.

The following table presents 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:

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

	Quarters Ended March 31,					
	2014			2013		
(Dollars in millions; fully taxable-equivalent basis)	Average Balance	Interest Revenue/ Expense	Rate	Average Balance	Interest Revenue/ Expense	Rate
Interest-bearing deposits with banks	$33,410	$34	.42 %	$30,586	$31	.41 %
Securities purchased under resale agreements	6,631	9	.53	5,649	13	.95
Trading account assets	901	—	—	728	—	—
Investment securities	117,835	597	2.02	119,601	618	2.07
Loans and leases	14,602	58	1.61	12,737	56	1.77
Other interest-earning assets	13,527	1	.02	9,023	1	.06
Average total interest-earning assets	$186,906	$699	1.52	$178,324	$719	1.63
Interest-bearing deposits:						
U.S.	$12,072	$1	.03 %	$13,398	$6	.19 %
Non-U.S.	101,282	14	.06	99,720	28	.11
Securities sold under repurchase agreements	8,424	—	—	7,839	—	—
Federal funds purchased	20	—	—	363	—	—
Other short-term borrowings	3,909	15	1.57	4,640	16	1.42
Long-term debt	9,668	63	2.60	7,400	56	3.03
Other interest-bearing liabilities	6,758	7	.43	6,496	5	.31
Average total interest-bearing liabilities	$142,133	$100	.29	$139,856	$111	.32
Interest-rate spread			1.23 %			1.31 %
Net interest revenue—fully taxable-equivalent basis		$599			$608	
Net interest margin—fully taxable-equivalent basis			1.30 %			1.38 %
Tax-equivalent adjustment		(44)			(32)	
Net interest revenue—GAAP basis		$555			$576	

Average total interest-earning assets for the first quarter of 2014 were higher compared to the first quarter of 2013, the result of higher levels of cash collateral (included in other interest-earning assets in the preceding table) provided in connection with our enhanced custody business, as well as increased investment in interest-bearing deposits with banks and higher average loans and leases.

Our average other interest-earning assets associated with enhanced custody composed approximately 6% of our total average interest-earning assets for the first quarter of 2014, compared to approximately 5% for the first quarter of 2013, as this business continued to grow. While these securities finance activities support our overall profitability by generating securities finance revenue, they put downward pressure on our net interest margin, as interest on the collateral provided is earned at a lower rate than on our investment securities portfolio.

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

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. The portion of these client deposits classified as transient in nature has been placed with various central banks globally, while deposits classified as more stable have been invested in our investment securities portfolio to support growth in other client-related activities.

Net interest revenue declined 4% in the first quarter of 2014, and on a fully taxable-equivalent basis declined 1%, compared to the first quarter of 2013. The decreases were generally the result of lower yields on interest-earning assets, as lower global interest rates affected revenue from floating-rate assets, net of the benefit of those rates on interest expense. The decrease also reflected the continued impact of the reinvestment of pay-downs on existing investment securities.

Subsequent to the commercial paper conduit consolidation in 2009, we have recorded aggregate discount accretion in interest revenue of $1.93 billion ($621 million in 2009, $712 million in 2010, $220 million in 2011, $215 million in 2012, $137 million in 2013 and $27 million in the first quarter of 2014). The timing and ultimate recognition of any applicable discount accretion depends, in part, on factors that

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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, though generally 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 March 31, 2014 to generate aggregate discount accretion in future periods of approximately $548 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, or ECB, and other non-U.S. central banks to satisfy reserve requirements, averaged $33.41 billion for the quarter ended March 31, 2014, compared to $30.59 billion for the quarter ended March 31, 2013, reflecting the impact of continued elevated levels of client deposits. Certain client deposits were classified as transient in nature and were placed with various central banks globally. 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.

AAverage investment securities decreased to $117.84 billion for the quarter ended March 31, 2014 from $119.60 billion for the quarter ended March 31, 2013. The decrease was generally the result of an asset allocation shift from the investment portfolio to loans and leases. Detail with respect to the investment portfolio as of March 31, 2014 and December 31, 2013 is provided in note 3 to the

consolidated financial statements included in this Form 10-Q.

Loans and leases averaged $14.60 billion for the quarter ended March 31, 2014, compared to $12.74 billion for the quarter ended March 31, 2013. The increase was mainly related to mutual fund lending and our investment in senior secured bank loans, which in the aggregate averaged $10.02 billion for the quarter ended March 31, 2014 compared to $8.11 billion, the latter of which was all mutual fund lending, for the quarter ended March 31, 2013.

Average loans and leases also include short-duration advances. The proportion of average short-duration liquidity to our average loan-and-lease portfolio declined to approximately 24% for the quarter ended March 31, 2014 from approximately 27% for the quarter ended March 31, 2013. 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 March 31,	
(In millions)	2014	2013
Average U.S. short-duration advances	$2,079	$2,089
Average non-U.S. short-duration advances	1,411	1,401
Average total short-duration advances	$3,490	$3,490

Average short-duration advances for the quarter ended March 31, 2014 were flat compared with the quarter ended March 31, 2013. Average short-duration advances remained low, mainly the result of clients continuing to hold higher levels of liquidity.

Average other interest-earning assets increased to $13.53 billion for the quarter ended March 31, 2014 from $9.02 billion for the quarter ended March 31, 2013. The increased levels were primarily the result of higher levels of cash

collateral provided in connection with our enhanced custody business.
Aggregate average interest-bearing deposits were flat at $113.35 billion for the quarter ended March 31, 2014 from $113.12 billion for the quarter ended March 31, 2013. Higher levels of non-U.S. transaction accounts were offset by a decline in U.S. certificates of deposit, the latter in connection with our liability management. 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 declined to $3.91 billion for the quarter ended March 31, 2014 from $4.64 billion for the quarter ended March 31,

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2013, as higher levels of client deposits provided additional liquidity. Average long-term debt increased to $9.67 billion for the quarter ended March 31, 2014 from $7.40 billion for the quarter ended March 31, 2013. The increase primarily reflected the issuances of $1.5 billion of senior and subordinated debt in May 2013 and the issuance of $1.0 billion of senior debt in November 2013.

Average other interest-bearing liabilities increased to $6.76 billion for the quarter ended March 31, 2014 from $6.50 billion for the quarter ended March 31, 2013, 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, 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

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 March 31,	
(In millions)	2014	2013
Net realized gains from sales of available-for-sale securities	$15	$5
Net impairment losses:		
Gross losses from other-than-temporary impairment	(1)	—
Losses reclassified (from) to other comprehensive income	(8)	(3)
Net impairment losses[1]	(9)	(3)
Gains (losses) related to investment securities, net	$6	$2

[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 adverse changes in timing of expected future cash flows	—	(3)
Net impairment losses	$(9)	$(3)

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 2014, we sold approximately $1.82 billion of such investment securities, compared to approximately $2.75 billion in the first quarter of 2013, and recorded net realized gains of $15 million and $5 million, respectively, as presented in the preceding table.

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)

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

	Quarters Ended March 31,			
(Dollars in millions)	2014	2013	% Change	
Compensation and employee benefits	$1,157	$1,035	12	%
Information systems and communications	244	237	3	
Transaction processing services	191	180	6	
Occupancy	114	116	(2	)
Acquisition costs	21	15		
Restructuring charges, net	12	(1)		
Other:				
Professional services	105	79	33	
Amortization of other intangible assets	54	53	2	
Securities processing costs	23	5		
Regulatory fees and assessments	19	15		
Other	88	92	(4	)
Total other	289	244	18	
Total expenses	$2,028	$1,826	11	
Number of employees as of quarter-end	29,530	29,500		

Expenses
Total expenses in the first quarter of 2014 increased 11% compared to the first quarter of 2013.
The 12% increase in compensation and employee benefits expenses in the first quarter of 2014 compared to the first quarter of 2013 was primarily due to the severance costs of $72 million, more fully described below, recorded in the first quarter of 2014, higher incentive compensation, and costs for additional staffing associated with the installation of new business and added regulatory and compliance requirements. Compensation and employee benefits expenses in the first quarter of 2014 and the first quarter of 2013 included approximately $146 million and $118 million, respectively, associated with seasonal deferred incentive compensation expense for retirement-eligible employees and payroll taxes.
These increases were partly offset by savings generated from the implementation of our Business Operations and Information Technology Transformation program.
In the first quarter of 2014, we recorded $72 million of severance costs associated with staff reductions. These reductions were undertaken in connection with the realignment of our cost base to support our investments in growth opportunities and meet evolving regulatory requirements.

Compensation and employee benefits expenses in the first quarter of 2014 included approximately $12 million of costs related to the implementation of our Business Operations and Information Technology Transformation program, compared to approximately $23 million in the first quarter of 2013. These costs are not expected to recur subsequent to full implementation of the program, planned for the end of 2014.
The 3% increase in information systems and communications expenses in the first quarter of 2014 compared to the first quarter of 2013 was primarily the result of the planned transition of certain functions to third-party service providers as part of the Business Operations and Information Technology Transformation program, and 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 6% increase in transaction processing services expenses in the first quarter of 2014 compared to the first quarter of 2013 primarily reflected higher equity market values and higher transaction volumes in the investment servicing business.

The 18% increase in other expenses in the first quarter of 2014 compared to the first quarter of 2013 was primarily the result of a higher level of professional services associated with regulatory compliance, as well as securities processing costs associated with our transition management business. Additional information about transition management is provided under “Highlights” in this Management's Discussion and Analysis and in note 8 to the consolidated financial statements included in this Form 10-Q.

We expect continued evolving and increasing regulatory and compliance requirements to influence our expenses by, for example, increasing our employee compensation and benefits, information systems and other expenses, as we further adjust our operations and systems in response to new or proposed requirements.

Acquisition Costs

In the first quarter of 2014, we recorded acquisition costs of $21 million compared to $15 million in the first quarter of 2013, with both amounts related to previously disclosed acquisitions, mainly

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our October 2012 acquisition of Goldman Sachs Administration Services.

Restructuring Charges

Information with respect to our Business Operations and Information Technology Transformation program and our 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 transferred the majority of our core software applications to a private cloud in 2013, and we expect to transfer the remaining core software applications in 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 $390 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
2013	13	13	(1)	25
First quarter of 2014	6	3	—	9
Total	$ 236	$ 94	$ 60	$ 390

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 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 implementation of the business operations transformation component of the program, we identified 1,436 additional involuntary terminations. As of March 31, 2014, we eliminated 1,375 of these positions.

In connection with the continuing implementation of the program, we achieved incremental pre-tax expense savings of approximately $220 million in 2013, $112 million in

2012 and $86 million in 2011, in each case compared to our 2010 expenses from operations, all else being equal. We expect to achieve additional pre-tax expense savings in 2014 of approximately $130 million.

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, all else being equal.

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 have affected compensation and employee benefits expenses. These savings have been modestly offset by increases in information systems and communications expenses.

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 and the information technology transformation component of the program to result in approximately $150 million of these savings.

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 $139 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
2013	(4)	7	3
First quarter of 2014	—	3	3
Total	$ 125	$14	$139

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 of 960 employees (630 positions after replacements). As of March 31, 2014, we substantially completed these reductions.

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 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	13	13	(1)	—	—	25

Technology Transformation program						
Additional accruals for 2012 expense control measures	(4)	—	—	—	7	3
Payments and adjustments	(154)	(13)	(4)	—	(13)	(184)
Balance as of December 31, 2013	50	49	—	—	7	106
Additional accruals for Business Operations and Information Technology Transformation program	6	3	—	—	—	9
Additional accruals for 2012 expense control measures	—	—	—	—	3	3
Payments and adjustments	(17)	(12)	—	—	(2)	(31)
Balance as of March 31, 2014	$39	$ 40	$—	$—	$8	$87

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Income Tax Expense
Income tax expense was $92 million in the first quarter of 2014 compared to $145 million in the first quarter of 2013. Our effective tax rate in the first quarter of 2014 was 20.3%, compared to 23.8% for the same period in 2013, with the decline primarily associated with our expansion of our tax-exempt investment securities portfolio and an increase in tax-advantaged investments, primarily renewable energy.
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 25 to the consolidated financial statements included in our 2013 Form 10-K.
The following table provides a summary of our line-of-business results for the periods indicated. The “Other” column for the first quarter of 2014 included $72 million of severance costs associated with staff reductions; $33 million of acquisition and restructuring costs; and $6 million of net provisions for litigation exposure and other costs. The “Other” column for the first quarter of 2013 included $14 million of net acquisition and restructuring costs. The amounts in the “Other” columns were not allocated to State Street's business lines. Results for 2013 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 2014.

	Quarters Ended March 31, Investment Servicing			Investment Management			Other		Total	
(Dollars in millions, except where otherwise noted)	2014	2013	% Change Q1 2014 vs. Q1 2013	2014	2013	% Change Q1 2014 vs. Q1 2013	2014	2013	2014	2013
Fee revenue:										
Servicing fees	$1,238	$1,175	5 %	$—	$—		$—	$—	$1,238	$1,175
Management fees	—	—		292	263	11 %	—	—	292	263
Trading services	227	257	(12)	12	24	(50)	—	—	239	281
Securities finance	85	78	9	—	—		—	—	85	78
Processing fees and other	69	55	25	1	5		—	—	70	60
Total fee revenue	1,619	1,565	3	305	292	4	—	—	1,924	1,857
Net interest revenue	538	557	(3)	17	19	(11)	—	—	555	576
Gains (losses) related to investment securities, net	6	2		—	—		—	—	6	2
Total revenue	2,163	2,124	2	322	311	4	—	—	2,485	2,435

Provision for loan losses	2	—		—	—		—	—	2	—
Total expenses	1,673	1,590	5	244	222	10	111	14	2,028	1,826
Income before income tax expense	$488	$534	(9)	$78	$89	(12)	$(111)	$(14)	$455	$609
Pre-tax margin	23 %	25 %		24 %	29 %				18 %	25 %
Average assets (in billions)	$212.2	$204.4		$3.4	$3.9				$215.6	$208.3

Investment Servicing

Total revenue and total fee revenue in the first quarter of 2014 for our Investment Servicing line of business, as presented in the preceding table, increased 2% and 3%, respectively, compared to the first quarter of 2013. The 3% increase in total fee revenue mainly resulted from increases in servicing fees, securities finance revenue, and processing fees and other revenue, partly offset by a decline in trading services revenue.

Servicing fees in the first quarter of 2014 increased 5% compared to the first quarter of 2013,

primarily the result of stronger global equity markets and the revenue impact of net new business installed.

Trading services revenue in the first quarter of 2014 declined 12% compared to the first quarter of 2013, mainly due to lower currency volatility and spreads, partly offset by increases in client volumes, in foreign exchange trading, and lower client volumes in electronic trading.

Securities finance revenue in the first quarter of 2014 increased 9% compared to the first quarter of 2013, primarily the result of higher revenue in our growing enhanced custody business. Processing fees and other revenue in the first quarter of 2014

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increased 25% compared to the first quarter of 2013, primarily due to higher revenue associated with our investment in bank-owned life insurance.

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

Net interest revenue in the first quarter of 2014 decreased 3% compared to the first quarter of 2013. The decrease was primarily due to the impact of lower yields on interest-earning assets, as lower global interest rates affected revenue from floating-rate assets, net of the benefit of these rates on interest expense. The decrease also reflected the continued impact of the reinvestment of pay-downs on existing investment securities. A discussion of net interest revenue is provided under “Net Interest Revenue” in “Total Revenue.”

Total expenses in the first quarter of 2014 increased 5% compared to the first quarter of 2013. Compensation and employee benefits expenses increased, primarily due to higher incentive compensation, and higher costs associated with the installation of new business and additional regulatory and compliance requirements. The increase was partly offset by savings generated from the continued implementation of our Business Operations and Information Technology Transformation program.

Information systems and communications expenses increased, primarily due to the planned transition of certain functions to third-party service providers, as well as higher maintenance costs associated with the new technology implemented as part of the Business Operations and Information Technology Transformation program. Transaction processing services expenses increased in the same comparison, primarily reflective of higher equity market values and higher transaction volumes in the asset servicing business.

Other expenses increased, primarily the result of higher professional services costs associated with regulatory compliance. A more detailed discussion of expenses is provided under “Expenses” in “Consolidated Results of Operations.”

Investment Management

Total revenue and total fee revenue in the first quarter of 2014 for our Investment Management line of business, as presented in the preceding table, both increased 4% compared to the first quarter of 2013. The increase in total fee revenue was generally reflective of an increase in management fees, partly offset by a decline in trading services revenue.

Management fees in the first quarter of 2014 increased 11% compared to the first quarter of 2013, primarily due to stronger global equity markets. Trading services revenue declined 50% in the same comparison, mainly due to the impact of lower distribution fees associated with the SPDR® Gold ETF, which resulted from lower average gold prices and net outflows from the SPDR® Gold ETF.

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. A discussion of trading services revenue is provided under “Trading Services” in “Total Revenue.”

Total expenses in the first quarter of 2014 increased 10% compared to the first quarter of 2013, mainly reflective of higher incentive compensation, higher sales promotion expenses, and an increase in technology-related contractors.

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MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
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FINANCIAL CONDITION
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 quarters ended March 31, 2014 and 2013. 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.

Quarters Ended March 31,	2014	2013
(In millions)	Average Balance	Average Balance
Assets:		
Interest-bearing deposits with banks	$33,410	$30,586
Securities purchased under resale agreements	6,631	5,649
Trading account assets	901	728
Investment securities	117,835	119,601
Loans and leases	14,602	12,737
Other interest-earning assets	13,527	9,023
Average total interest-earning assets	186,906	178,324
Cash and due from banks	4,618	3,984
Other noninterest-earning assets	24,045	25,957
Average total assets	$215,569	$208,265
Liabilities and shareholders’ equity:		
Interest-bearing deposits:		
U.S.	$12,072	$13,398
Non-U.S.	101,282	99,720
Total interest-bearing deposits	113,354	113,118
Securities sold under repurchase agreements	8,424	7,839
Federal funds purchased	20	363
Other short-term borrowings	3,909	4,640
Long-term debt	9,668	7,400
Other interest-bearing liabilities	6,758	6,496
Average total interest-bearing liabilities	142,133	139,856
Noninterest-bearing deposits	40,711	34,061
Other noninterest-bearing liabilities	12,034	13,509
Preferred shareholders’ equity	722	489
Common shareholders’ equity	19,969	20,350
Average total liabilities and shareholders’ equity	$215,569	$208,265

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
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Investment Securities

The following tables present the carrying values of investment securities by type as of the dates indicated:

(In millions)	March 31, 2014	December 31, 2013
Available for sale:		
U.S. Treasury and federal agencies:		
Direct obligations	$1,963	$709
Mortgage-backed securities	23,092	23,563
Asset-backed securities:		
Student loans(1)	14,280	14,542
Credit cards	7,237	8,210
Sub-prime	1,155	1,203
Other	4,880	5,064
Total asset-backed securities	27,552	29,019
Non-U.S. debt securities:		
Mortgage-backed securities	11,196	11,029
Asset-backed securities	4,994	5,390
Government securities	3,692	3,761
Other	4,984	4,727
Total non-U.S. debt securities	24,866	24,907
State and political subdivisions	10,444	10,263
Collateralized mortgage obligations	5,262	5,269
Other U.S. debt securities	4,946	4,980
U.S. equity securities	36	34
Non-U.S. equity securities	1	1
U.S. money-market mutual funds	993	422
Non-U.S. money-market mutual funds	7	7
Total	$99,162	$99,174

(In millions)	March 31, 2014	December 31, 2013
Held to Maturity:		
U.S. Treasury and federal agencies:		
Direct obligations	$5,096	$5,041
Mortgage-backed securities	81	91
Asset-backed securities:		
Student loans(1)	1,889	1,627
Credit cards	897	762
Other	738	782
Total asset-backed securities	3,524	3,171
Non-U.S. debt securities:		
Mortgage-backed securities	4,323	4,211
Asset-backed securities	2,399	2,202
Government securities	2	2
Other	192	192
Total non-U.S. debt securities	6,916	6,607

State and political subdivisions	16	24
Collateralized mortgage obligations	2,709	2,806
Total	$18,342	$17,740

[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.

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, 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 89% of the carrying value of the portfolio rated “AAA” or “AA” as of March 31, 2014.

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The following table presents the percentages of the carrying value of the portfolio, by external credit rating, as of the dates indicated:

	March 31, 2014		December 31, 2013	
AAA[1]	70	%	70	%
AA	19		19	
A	6		6	
BBB	3		3	
Below BBB	2		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, 2014, the investment portfolio of 10,040 securities was diversified with respect to asset class. As of March 31, 2014 and December 31, 2013, approximately 72% and 74%, respectively, 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 as of both dates 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 so-called “Volcker rule,” one of many provisions of the Dodd-Frank Act. The Volcker rule will, among other things, require banking organizations covered by the rule to either restructure or divest certain investments in and relationships with “covered funds,” as defined in the final Volcker rule regulations. The classification of certain types of investment securities or structures, such as collateralized loan obligations, or CLOs, as “covered funds” remains subject to market, and ultimately regulatory, interpretation, based on the specific terms and other characteristics relevant to such investment securities and structures.

As of March 31, 2014, we held an aggregate of approximately $5.45 billion of investments in CLOs. As of the same date, these investments had an aggregate pre-tax net unrealized gain of approximately $120 million, composed of gross unrealized gains of $137 million and gross unrealized losses of $17 million. In the event that we or our banking regulators conclude that such investments in CLOs, or other investments, are “covered funds,” we will be required to divest such investments if we are

unable to “cure” those investments before the conformance period ends on July 21, 2017. 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 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 divestment occurs or on our consolidated financial condition.

Non-U.S. Debt Securities

Approximately 27% of the aggregate carrying value of our investment securities portfolio as of both March 31, 2014 and December 31, 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:

(In millions)	March 31, 2014	December 31, 2013
Available for Sale:		
United Kingdom	$9,238	$9,357
Australia	3,694	3,551

Netherlands	3,528	3,471
Canada	2,352	2,549
France	1,516	1,581
Germany	1,384	1,410
Japan	991	971
South Korea	837	744
Finland	378	397
Norway	368	369
Sweden	143	142
Italy	142	—
Austria	83	83
Other	212	282
Total	$24,866	$24,907
Held to Maturity:		
Australia	$2,295	$2,216
Germany	1,536	1,263
United Kingdom	1,414	1,474
Netherlands	970	934
Italy	266	270
Spain	204	206
Ireland	84	86
Other	147	158
Total	$6,916	$6,607

Approximately 90% and 89% of the aggregate carrying value of these non-U.S. debt securities was rated “AAA” or “AA” as of March 31, 2014 and

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December 31, 2013, respectively. The majority of these securities comprise senior positions within the security structures; these positions have a level of protection provided through subordination and other forms of credit protection. As of March 31, 2014 and December 31, 2013, approximately 74% and 72%, respectively, 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 March 31, 2014, these non-U.S. debt securities had an average market-to-book ratio of 101.4%, and an aggregate pre-tax net unrealized gain of approximately $457 million, composed of gross unrealized gains of $504 million and gross unrealized losses of $47 million. These unrealized amounts included a pre-tax net unrealized gain of $295 million, composed of gross unrealized gains of $313 million and gross unrealized losses of $18 million, associated with non-U.S. debt securities available for sale.

As of March 31, 2014, 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 composed of Canadian government securities and corporate debt. The securities listed under "France" were composed of automobile loans and corporate debt. The securities listed under "Japan" were substantially composed of Japanese government securities. The securities listed under "South Korea" were composed of South Korean government securities. The "other" category of available-for-sale securities as of March 31, 2014 included approximately $73 million related to Portugal and Ireland, and as of December 31, 2013 included approximately $133 million related to Portugal, Ireland and Spain, all of which were mortgage-backed securities. The "other" category of held-to-maturity securities as of March 31, 2014 and December 31, 2013 included approximately $43 million and $44 million, respectively, of securities related to Portugal, all of which were mortgage-backed securities.

Our aggregate exposure to Spain, Italy, Ireland and Portugal as of March 31, 2014 did not include any direct sovereign debt exposure to any of these countries. Our indirect exposure to these countries as of March 31, 2014 totaled approximately $812 million, including approximately $647 million of mortgage- and asset-backed securities, composed of $204 million in Spain, $243 million in Italy, $120 million in Ireland and $80 million in Portugal. These mortgage- and asset-backed securities had an aggregate pre-tax net unrealized gain of approximately $91 million as of March 31, 2014, composed of gross unrealized gains of $96 million and gross unrealized losses of $5 million. We

recorded no other-than-temporary impairment on these mortgage- and asset-backed securities in our consolidated statement of income in either the first quarter of 2014 or the first quarter of 2013.

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 conformity with our credit and counterparty risk policy. These limits are monitored on a daily basis by Enterprise Risk Management, or ERM, a corporate risk oversight group (refer to "Risk Management" in this Management's Discussion and Analysis for a description of ERM). These country exposures are subject to ongoing surveillance and stress test analysis, conducted by our 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 separately conducts cash-flow-based 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 the structure and 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.

Municipal Securities

We carried an aggregate of approximately $10.46 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 March 31, 2014. Substantially all of these securities were classified as available for sale, with the remainder classified as held to maturity. As of the same date, we also

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provided approximately $7.82 billion of credit and liquidity facilities to municipal issuers as a form of credit enhancement.
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 $18.28 billion as of March 31, 2014 and $18.45 billion as of December 31, 2013 across our businesses, grouped by state to display geographic dispersion:

March 31, 2014	Total Municipal Securities	Credit and Liquidity Facilities	Total	% of Total Municipal Exposure	
(Dollars in millions)					
State of Issuer:					
Texas	$ 1,251	$ 1,628	$2,879	16	%
New York	940	996	1,936	11	
California	394	1,373	1,767	10	
Massachusetts	980	756	1,736	10	
Maryland	393	626	1,019	6	
Total	$ 3,958	$ 5,379	$9,337		

December 31, 2013	Total Municipal Securities	Credit and Liquidity Facilities	Total	% of Total Municipal Exposure	
(Dollars in millions)					
State of Issuer:					
Texas	$ 1,233	$ 1,628	$2,861	16	%
New York	919	1,000	1,919	10	
Massachusetts	967	759	1,726	9	
California	373	1,266	1,639	9	
Maryland	327	643	970	5	
Total	$ 3,819	$ 5,296	$9,115		

Our aggregate municipal securities exposure presented in the foregoing table was concentrated primarily with highly-rated counterparties, with approximately 87% of the obligors rated "AAA" or "AA" as of March 31, 2014, compared to approximately 84% rated "AAA" or "AA" as of December 31, 2013. As of March 31, 2014, approximately 63% and 35% of our aggregate exposure was associated with general obligation and revenue bonds, respectively, compared to 64% and 34%, respectively, as of December 31, 2013. 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 a security is further assessed to determine whether such impairment is other-than-temporary. When the impairment is deemed to be other-than-temporary, we record the loss in our consolidated statement of income. In addition, for debt securities available for sale and held to maturity, we record impairment in our consolidated statement of income when management intends to sell (or may be required to sell) the securities before they recover in value, or when management expects the present value of cash flows expected to be collected from the securities to be less than the amortized cost of the impaired security (a credit loss).

The 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:

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(In millions)	March 31, 2014[1] Amortized Cost	Net Unrealized Gains(Losses)	Fair Value	December 31, 2013[1] Amortized Cost	Net Unrealized Gains(Losses)	Fair Value
Available for sale[2]	$98,770	$ 392	$99,162	$99,159	$ 15	$99,174
Held to maturity[2]	18,342	(16)	18,326	17,740	(180)	17,560
Total investment securities	117,112	376	117,488	116,899	(165)	116,734
Net after-tax unrealized gain (loss)		$ 226			$ (96)	

[1] Amounts 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, or AOCI, within shareholders' equity in our consolidated statement of condition. Additional information is provided in 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 AOCI. Securities held to maturity are carried at cost, and unrealized gains and losses are not recorded in our consolidated financial statements.

The aggregate improvement to a net unrealized gain as of March 31, 2014 from a net unrealized loss as of December 31, 2013 presented above was primarily attributable to narrowing spreads in the first quarter of 2014.
We conduct periodic reviews of individual securities to assess whether other-than-temporary impairment exists. Our assessment of other-than-temporary impairment involves an evaluation of economic and security-specific factors. Such factors are based on estimates, derived by management, which contemplate current market conditions and security-specific performance. To the extent that market conditions are worse than management's expectations, other-than-temporary impairment could increase, in particular the credit-related component that would be recorded in our consolidated statement of income.
In the aggregate, we recorded net losses from other-than-temporary impairment of $9 million in the first quarter of 2014, compared to $3 million in the first quarter of 2013. Additional information with respect to this other-than-temporary impairment and net impairment losses, as well as information about our assessment of 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 is 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 December 31, 2013, national housing prices, according to the Case-Shiller National Home Price Index, had declined by approximately 21% peak-to-current. Overall, our evaluation of other-than-temporary impairment as of March 31, 2014 continued to include an expectation of a U.S. housing recovery characterized by relatively modest growth in national housing prices over the next few years. 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 positive outlook for U.S. national housing prices, our sensitivity analysis indicates, as of March 31, 2014, that our investment securities portfolio remains less exposed to the overall housing price outlook relative to other factors, including unemployment rates and interest rates.

The residential mortgage servicing environment continues to be challenging. The time line to liquidate distressed loans continues to extend, but to a lesser degree as a result of strengthening in the national housing market. 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 slow 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 19% 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 March 31, 2014, other-than-temporary impairment could increase by a range of approximately $11 million to $40 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 quarter of 2014, management considers the aggregate decline in fair value of the remaining investment securities and the resulting gross unrealized losses as of March 31, 2014 to be temporary and not the result of any material changes in the credit characteristics of the securities. Additional information about these gross unrealized losses is provided in note 3 to the consolidated financial statements included in this Form 10-Q.

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)	March 31, 2014	December 31, 2013
Institutional:		
U.S.	$12,434	$10,623
Non-U.S.	3,446	2,654
Commercial real estate:		
U.S.	234	209
Total loans and leases	16,114	13,486
Allowance for loan losses	(30)	(28)
Loans and leases, net of allowance for loan losses	$16,084	$13,458

The increase in loans in the institutional segment presented in the preceding table was mainly related to an increase in mutual fund lending, higher levels of short-duration advances, and our continued investment in the non-investment-grade lending market through participations in loan syndications, specifically senior secured bank loans, that we began in 2013. Aggregate short-duration advances to our clients included in the institutional segment were $4.83 billion and $2.45 billion as of March 31, 2014 and December 31, 2013, respectively. Senior secured bank loans are more fully described below.

Additional information about all of our loan-and-lease segments, as well as underlying classes, is provided in note 4 to the consolidated financial statements included in this Form 10-Q, and in note 5 to the consolidated financial statements included in our 2013 Form 10-K.

As of March 31, 2014 and December 31, 2013, our investment in senior secured bank loans totaled approximately $1.15 billion and $724 million, respectively. In addition, we had binding unfunded commitments as of March 31, 2014 and December 31, 2013 totaling an additional $120 million and $211 million, respectively, to participate in such syndications. We expect to increase our level of participation in these loan syndications in future periods.

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 93% of the loans rated "BB" or "B" as of March 31, 2014, compared to 94% as of as of December 31, 2013. In an effort to mitigate the significant exposure to potential credit losses presented by these loans relative to higher-rated loans, we limit our investment to larger, more liquid credits underwritten by major global financial institutions, we apply our internal credit analysis process to each potential investment, and we diversify our exposure by counterparty and industry segment. As of March 31, 2014, our allowance for

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loan losses included approximately $8 million related to these commercial-and-financial loans.
As of March 31, 2014 and December 31, 2013, unearned income deducted from our investment in leveraged lease financing was $119 million and $121 million, respectively, for U.S. leases and $281 million and $298 million, respectively, for non-U.S. leases.
As of both March 31, 2014 and December 31, 2013, we held an aggregate of approximately $130 million 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 quarter of 2014 or in all of 2013.
The following table presents activity in the allowance for loan losses for the periods indicated:

	Quarters Ended March 31,	
(In millions)	2014	2013
Allowance for loan losses:		
Beginning balance	$28	$22
Provision for loan losses:		
Institutional	2	—
Ending balance	$30	$22

The provision in the first quarter of 2014 was associated with our exposure to the above-described senior secured bank loans. These loans were purchased in connection with our participation in loan syndications in the non-investment-grade lending market beginning in 2013.
Cross-Border Outstandings
Cross-border outstandings are amounts payable to us by non-U.S. counterparties which are denominated in U.S. dollars or other non-local currency, as well as non-U.S. local currency claims not funded by local currency liabilities. Our cross-border outstandings consist primarily of deposits with banks; loans and lease financing, including short-duration advances; investment securities; amounts related to foreign exchange and interest-rate contracts; and securities finance. In addition to credit risk, cross-border outstandings have the risk that, as a result of political or economic conditions in a country, borrowers may be unable to meet their contractual repayment obligations of principal and/or interest when due because of the unavailability of, or restrictions on, foreign exchange needed by borrowers to repay their obligations.
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 2013 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 19% of our consolidated total assets as of March 31, 2014 and December 31, 2013, respectively.

(In millions)	Investment Securities and Other Assets	Derivatives and Securities on Loan	Total Cross-Border Outstandings
March 31, 2014			
United Kingdom	$13,662	$1,328	$14,990
Australia	7,210	209	7,419
Japan	6,618	133	6,751
Germany	4,509	406	4,915
Netherlands	4,582	135	4,717
France	2,849	673	3,522
Canada	2,709	500	3,209

December 31, 2013			
United Kingdom	$15,422	$1,697	$17,119
Australia	7,309	672	7,981
Netherlands	4,542	277	4,819
Canada	3,675	620	4,295
Germany	4,062	147	4,209
France	2,887	735	3,622
Japan	2,445	605	3,050

There were no aggregate cross-border outstandings in countries which amounted to between 0.75% and 1% of our consolidated total assets as of March 31, 2014. As of December 31, 2013, aggregate cross-border outstandings in countries which amounted to between 0.75% and 1% of our consolidated total assets totaled approximately $1.85 billion in China.

The following table presents our cross-border outstandings in Italy, Ireland, Spain and Portugal as of the dates indicated:

(In millions)	Investment Securities and Other Assets	Derivatives and Securities on Loan	Total Cross-Border Outstandings
March 31, 2014			
Italy	$1,012	$1	$1,013
Ireland	408	240	648
Spain	204	15	219
Portugal	80	—	80
December 31, 2013			
Italy	$763	$2	$765
Ireland	369	304	673
Spain	271	11	282
Portugal	78	—	78

As of March 31, 2014, 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 provisions for loan losses with respect to any of our exposure in these countries as of March 31, 2014.

Risk Management

General

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

- credit and counterparty risk;
- liquidity risk, funding and management;
- operational risk, including execution, technology, business practice and fiduciary risks;
- market risk, including market risk associated with our trading activities and market risk associated with our non-trading, or asset-and-liability management, activities, the latter of which is primarily composed of interest-rate risk;
- model risk; and
- business risk, including reputational risk.

These material risks, as well as certain of the factors underlying each of these risks that could affect our businesses, our consolidated results of operations and our consolidated financial condition, are discussed in detail under Item 1A, "Risk Factors," included in our 2013 Form 10-K.

The scope of our business requires that we balance these risks with a comprehensive and well-integrated risk management function. The identification, assessment, monitoring, mitigation and reporting of risks are essential to our financial performance and successful management of our businesses. These risks, if not effectively managed, can result in current losses to State Street as well as erosion of our capital and damage to our reputation. Our systematic approach allows for an assessment of risks within a framework for evaluating opportunities for the prudent use of capital that appropriately balances risk and return.

Our objective is to optimize our return and to operate at a prudent level of risk. In support of this objective, we have instituted a risk appetite framework that aligns our business strategy and financial objectives with the level of risk that we are willing to incur.

Our risk management is based on the following major principles:

- A culture of risk awareness that extends across all of our business activities;

- The identification, classification and quantification of State Street's material risks;
- The establishment of our risk appetite and associated limits and policies, and our compliance with these limits;
- The establishment of a risk management structure at the “top of the house” that enables the control and coordination of risk-taking across the business lines;
- The implementation of stress testing practices and a dynamic risk-assessment capability; and
- The overall flexibility to adapt to the ever-changing business and market conditions.

Our Risk Appetite Statement outlines the quantitative limits and qualitative goals that define our risk appetite, as well as the responsibilities for measuring and monitoring risk against limits, and for reporting, escalating, approving and addressing exceptions. The Risk Appetite Statement is established by management with the guidance of Enterprise Risk Management, or ERM, a corporate risk oversight group, in conjunction with our Board of Directors. The Board formally reviews and approves our Risk Appetite Statement annually.

The Risk Appetite Statement describes the level and types of risk that we are willing to accommodate in executing our business strategy, and also serves as a guide in setting risk limits across our business units. In addition to our Risk Appetite Statement, we use stress testing as another important tool in our risk management practice. Additional information with respect to our stress-testing process and practices is

provided under "Capital" in this Management's Discussion and Analysis.
The following table provides a reference to the disclosures about our management of significant risks provided herein.

Risk Governance and Structure

We have a disciplined approach to risk management that involves all levels of management, from the Board and the Board's Risk and Capital Committee, or RCC, and its Examining & Audit, or E&A, Committee, to each business unit and each employee. We allocate responsibility for risk oversight so that risk/return decisions are made at an appropriate level, and are subject to robust and effective review and challenge. Risk management is the responsibility of each employee, and is implemented through three lines of defense: the business units, which own and manage the risks inherent in their business; ERM, which provides separate oversight, monitoring and control; and

Corporate Audit, which assesses the effectiveness of the first two lines of defense.

The responsibilities for effective review and challenge reside with senior managers, oversight committees, Corporate Audit, the Board's RCC and, ultimately, the Board. While we believe that our risk management program is effective in managing the risks in our businesses, internal and external factors may create risks that cannot always be identified or anticipated.

Corporate-level risk committees provide focused oversight, and establish corporate standards and policies for specific risks, including credit, sovereign exposure, new business products, regulatory compliance and ethics, as well as operational, market, liquidity and model risks. These committees have been delegated the responsibility to develop recommendations and remediation strategies to address issues that affect or have the potential to affect State Street.

We maintain a risk governance committee structure which serves as the formal governance mechanism through which we seek to undertake the consistent identification, discussion and management of various risks facing State Street in connection with its business activities. This governance structure is enhanced and integrated through multi-disciplinary involvement, particularly through ERM. The following chart presents this structure.

Tab