

STATE STREET CORP
Form 10-Q
November 03, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
^x OF 1934
For the quarterly period ended September 30, 2016

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

For the transition period from _____ to _____

Commission File No. 001-07511

STATE STREET CORPORATION

(Exact name of registrant as specified in its charter)

Massachusetts 04-2456637

(State or other jurisdiction of incorporation) (I.R.S. Employer Identification No.)

One Lincoln Street 02111

Boston, Massachusetts (Address of principal executive office) (Zip Code)

617-786-3000

(Registrant's telephone number, including area code)

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

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No
The number of shares of the registrant's common stock outstanding as of October 31, 2016 was 385,734,628.

STATE STREET CORPORATION
QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTERLY PERIOD ENDED
September 30, 2016

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ACRONYMS

2015 Form 10-K	State Street Corporation Annual Report on Form 10-K for the year ended December 31, 2015	FHLB	Federal Home Loan Bank of Boston
ABS	Asset-backed securities	FRBB	Federal Reserve Bank of Boston
AFS	Available-for-sale	FSB	Financial Stability Board
ALLL	Allowance for loan and lease losses	FX	Foreign exchange
AML	Anti-money laundering	GAAP	Generally accepted accounting principles
AOCI	Accumulated other comprehensive income (loss)	G-SIB	Global systemically important bank
ASU	Accounting Standards Update	HQLA ⁽¹⁾	High-quality liquid assets
AUCA	Assets under custody and administration	HTM	Held-to-maturity
AUM	Assets under management	LCR ⁽¹⁾	Liquidity coverage ratio
BCBS	Basel Committee on Banking Supervision	MRAC	Management Risk and Capital Committee
Board	Board of Directors	NIR	Net interest revenue
CCAR	Comprehensive Capital Analysis and Review	OCI	Other comprehensive income (loss)
CD	Certificates of deposit	OCIO	Outsourced Chief Investment Officer
CET1 ⁽¹⁾	Common equity tier 1	OFAC	Office of Foreign Assets Control
CLO	Collateralized loan obligations	OTC	Over-the-counter
CRE	Commercial real estate	OTTI	Other-than-temporary-impairment
CVA	Credit valuation adjustment	Parent Company	State Street Corporation
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act	PCA	Prompt corrective action
ECB	European Central Bank	P&L	Profit-and-loss
EPS	Earnings per share	RC	Risk Committee
ERISA	Employee Retirement Income Security Act	RWA ⁽¹⁾	Risk-weighted assets
ERM	Enterprise Risk Management	SEC	Securities and Exchange Commission
ETF	Exchange-Traded Fund	SLR ⁽¹⁾	Supplementary leverage ratio
EVE	Economic value of equity	SSGA	State Street Global Advisors
FASB	Financial Accounting Standards Board	State Street Bank	State Street Bank and Trust Company
FCA	Financial Conduct Authority	TMRC	Trading and Markets Risk Committee
FDIC	Federal Deposit Insurance Corporation	VaR	Value-at-risk
Federal Reserve	Board of Governors of the Federal Reserve System	VIE	Variable interest entity

⁽¹⁾ As defined by the applicable U.S. regulations.

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We use acronyms and other defined terms for certain business terms and abbreviations, as defined on the acronyms list following the table of contents to this Form 10-Q.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
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GENERAL

State Street Corporation, referred to as the parent company, is a financial holding company organized in 1969 under the laws of the Commonwealth of Massachusetts. Our executive offices are located at One Lincoln Street, Boston, Massachusetts 02111 (telephone (617) 786-3000). For purposes of this Form 10-Q, unless the context requires otherwise, references to "State Street," "we," "us," "our" or similar terms mean State Street Corporation and its subsidiaries on a consolidated basis. The parent company is a source of financial and managerial strength to our subsidiaries. Through our subsidiaries, including our principal banking subsidiary, State Street Bank and Trust Company, referred to as State Street Bank, we provide a broad range of financial products and services to institutional investors worldwide, with \$29.18 trillion of AUCA and \$2.45 trillion of AUM as of September 30, 2016.

As of September 30, 2016, we had consolidated total assets of \$256.14 billion, consolidated total deposits of \$198.77 billion, consolidated total shareholders' equity of \$22.15 billion and 33,332 employees. We operate in more than 100 geographic markets worldwide, including in the U.S., Canada, Europe, the Middle East and Asia.

Our operations are organized for management reporting purposes into 2 lines of business: Investment Servicing and Investment Management, which are defined based on products and services provided.

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

Investment Management, through 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, alternative, multi-asset solutions (including OCIO), and cash asset classes. Products

are distributed directly and through intermediaries using a variety of investment vehicles, including ETFs, such as the SPDR® ETF brand.

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

This Management's Discussion and Analysis is part of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2016, and updates the Management's Discussion and Analysis in our 2015 Form 10-K 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 2015 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 U.S. GAAP. The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions in its application of certain accounting policies that materially affect the reported amounts of assets, liabilities, equity, revenue and expenses.

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

available. Additional information about these significant accounting policies is included under “Significant Accounting Estimates” in Management's Discussion and Analysis in our 2015 Form 10-K. We did not change these significant accounting policies in the first nine months of 2016.

Certain financial information provided in this Form 10-Q, including this Management's Discussion and Analysis, is prepared on both a U.S. GAAP, or reported basis, and a non-GAAP basis, including certain non-GAAP measures used in the calculation of identified regulatory ratios. We measure and compare certain financial information on a non-GAAP basis, including information (such as capital ratios

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
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calculated under regulatory standards scheduled to be effective in the future) that management uses in evaluating our business and activities.

Non-GAAP financial information should be considered in addition to, not as a substitute for or superior to, financial information prepared in conformity with U.S. GAAP. Any non-GAAP financial information presented in this Form 10-Q, including this Management's Discussion and Analysis, is reconciled to its most directly comparable currently applicable regulatory ratio or U.S. GAAP-basis measure.

We further believe that our presentation of fully taxable-equivalent net interest revenue, 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 our underlying financial performance and trends.

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

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

We use acronyms and other defined terms for certain business terms and abbreviations, as defined on the acronyms list following the table of contents to this Form 10-Q.

Forward-Looking Statements

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

trends, initiatives and developments, the business environment and other matters that do not relate strictly to historical facts.

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

Forward-looking statements are subject to various risks and uncertainties, which change over time, are based on management's expectations and assumptions at the time the statements are made, and are not guarantees of future results. Management's expectations and assumptions, and the continued validity of the forward-looking statements, are subject to change due to a broad range of factors affecting the national and global economies, regulatory environment and the equity, debt, currency and other financial markets, as well as factors specific to State Street and its subsidiaries, including State Street Bank. Factors that could cause changes in the expectations or assumptions on which forward-looking statements are based cannot be foreseen with certainty and include, but are not limited to: the financial strength and continuing viability of the counterparties with which we or our clients do business and to which we have investment, credit or financial exposure, including, for example, the direct and indirect effects on counterparties of the sovereign-debt risks in the U.S., Europe and other regions; increases in the volatility of, or declines in the level of, our net interest revenue, changes in the composition or valuation of the assets recorded in our consolidated statement of condition (and our ability to measure the fair value of investment securities) and the possibility that we may change the manner in which we fund those assets;

the liquidity of the U.S. and international securities markets, particularly the markets for fixed-income securities and inter-bank credits, and the liquidity requirements of our clients;
the level and volatility of interest rates, the valuation of the U.S. dollar relative to other currencies in which we record revenue or accrue expenses and the performance and volatility of securities, credit, currency and other markets in the U.S. and internationally;
the credit quality, credit-agency ratings and fair values of the securities in our investment

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

we may not successfully implement our plans to have a credible resolution plan by July 2017, including the sufficiency of the actions taken to address the deficiencies jointly identified by the Federal Reserve and the FDIC in April 2016 with respect to our 2015 resolution plan, or those plans may not be considered to be sufficient by the Federal Reserve and the FDIC, due to a number of factors, including, but not limited to challenges we may experience in interpreting and addressing regulatory expectations, failure to implement remediation in a timely

manner, the complexities of development of a comprehensive plan to resolve a global custodial bank and related costs and dependencies. If we fail to meet regulatory expectations to the satisfaction of the Federal Reserve and the FDIC in our resolution plan submission filed on October 1, 2016 or in any future submission, we could be subject to more stringent capital, leverage or liquidity requirements, or restrictions on our growth, activities or operations;

- adverse changes in the regulatory ratios that we are required or will be required to meet, whether arising under the Dodd-Frank Act or the Basel III final rule, or due to changes in regulatory positions, practices or regulations in jurisdictions in which we engage in banking activities, including changes in internal or external data, formulae, models, assumptions or other advanced systems used in the calculation of our capital ratios that cause changes in those ratios as they are measured from period to period;

increasing requirements to obtain the prior approval of the Federal Reserve or our other U.S. and non-U.S. regulators for the use, allocation or distribution of our capital or other specific capital actions or programs, including acquisitions, dividends and stock purchases, without which our growth plans, distributions to shareholders, share repurchase programs or other capital initiatives may be restricted;

changes in law or regulation, or the enforcement of law or regulation, that may adversely affect our business activities or those of our clients or our counterparties, and the products or services that we sell, including additional or increased taxes or assessments thereon, capital adequacy requirements, margin requirements and changes that expose us to risks related to the adequacy of our controls or compliance programs;

economic or financial market disruptions in the U.S. or internationally, including that which may result from recessions or political instability, for example, the U.K.'s referendum to exit from the European Union may continue to disrupt financial markets or economic growth in Europe;

our ability to develop and execute State Street Beacon, our multi-year transformation program to digitize our business, deliver significant value and innovation for our clients and lower expenses across the organization, any failure of which, in whole or in part, may

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among other things, reduce our competitive position, diminish the cost-effectiveness of our systems and processes or provide an insufficient return on our associated investment;

our ability to promote a strong culture of risk management, operating controls, compliance oversight, ethical behavior and governance that meet our expectations and those of our clients and our regulators, and the financial, regulatory, reputation and other consequences of our failure to meet such expectations;

the results of our review of our billing practices, including additional amounts we may be required to reimburse clients, as well as potential consequences of such review, including damage to our client relationships and adverse actions by governmental authorities;

the results of, and costs associated with, governmental or regulatory inquiries and investigations, litigation and similar claims, disputes, or civil or criminal proceedings;

the potential for losses arising from our investments in sponsored investment funds;

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

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

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

our ability to expand our use of technology to enhance the efficiency, accuracy and reliability of our operations and our dependencies on information technology and our ability to control related risks, including cyber-crime and other threats to our

information technology infrastructure and systems (including those of our third-party service providers) and their effective operation both independently and with external systems, and complexities and costs of protecting the security of such systems and data;

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

changes or potential changes to the competitive environment, including changes due to regulatory and technological changes, the effects of industry consolidation and perceptions of State Street as a suitable service provider or counterparty;

changes or potential changes in the amount of compensation we receive from clients for our services, and the mix of services provided by us that clients choose;

our ability to complete acquisitions, joint ventures and divestitures, including the ability to obtain regulatory approvals, the ability to arrange financing as required and the ability to satisfy closing conditions;

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

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

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

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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 2015 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 herein are not intended to be a complete statement of all risks and uncertainties that may affect our businesses. We cannot anticipate all developments that may adversely affect our business or operations or our consolidated results of operations, financial condition or cash flows.

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

OVERVIEW OF FINANCIAL RESULTS

TABLE 1: OVERVIEW OF FINANCIAL RESULTS

(Dollars in millions, except per share amounts)	Quarters Ended		% Change
	2016	2015	
Total fee revenue	\$2,079	\$2,103	(1)%
Net interest revenue	537	513	5
Gains (losses) related to investment securities, net	4	(2)	nm
Total revenue	2,620	2,614	—
Provision for loan losses	—	5	nm
Total expenses	1,984	1,962	1
Income before income tax expense	636	647	(2)
Income tax expense	72	67	7
Net Income (loss) from non-controlling interest	(1)	1	nm
Net income	\$563	\$581	(3)
Adjustments to net income:			
Dividends on preferred stock ⁽¹⁾	(55)	(42)	31
Earnings allocated to participating securities ⁽²⁾	(1)	—	nm
Net income available to common shareholders	\$507	\$539	(6)
Earnings per common share:			
Basic	\$1.31	\$1.33	(2)
Diluted	1.29	1.31	(2)
Average common shares outstanding (in thousands):			
Basic	388,358	406,612	
Diluted	393,212	412,167	
Cash dividends declared per common share	\$.38	\$.34	
Return on average common equity	10.6 %	11.3 %	

Nine Months
Ended September

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	30,				
(Dollars in millions, except per share amounts)	2016	2015	% Change		
Total fee revenue	\$6,102	\$6,234	(2)%	
Net interest revenue	1,570	1,594	(2)	
Gains (losses) related to investment securities, net	5	(6	)	nm
Total revenue	7,677	7,822	(2)	
Provision for loan losses	8	11	(27)	
Total expenses	5,894	6,193	(5)	
Income before income tax expense	1,775	1,618	10		
Income tax expense	226	215	5		
Net income from non-controlling interest	1	1	nm		
Net income	\$1,550	\$1,404	10		
Adjustments to net income:					
Dividends on preferred stock ⁽¹⁾	(137)	(102)	34
Earnings allocated to participating securities ⁽²⁾	(2)	(1)	nm
Net income available to common shareholders	\$1,411	\$1,301	8		
Earnings per common share:					
Basic	\$3.58	\$3.18	13		
Diluted	3.54	3.13	13		
Average common shares outstanding (in thousands):					
Basic	393,959	409,816			
Diluted	398,413	415,772			
Cash dividends declared per common share	\$1.06	\$.98			
Return on average common equity	9.9	%	9.1	%	

⁽¹⁾ Refer to Note 12 of the consolidated financial statements included in this Form 10-Q for additional information regarding our preferred stock dividends.

⁽²⁾ Represents the portion of net income available to common equity allocated to participating securities, composed of fully vested deferred director stock and unvested restricted stock that contain non-forfeitable rights to dividends during the vesting period on a basis equivalent to dividends paid to common shareholders.

^{nm} Not meaningful

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

The following "Highlights" and "Financial Results" sections provide information related to significant events, as well as highlights of our consolidated financial results for the quarter ended September 30, 2016 presented in Table 1: Overview of Financial Results. More detailed information about our consolidated financial results, including comparisons of our financial results for the quarter ended September 30, 2016 to those for the quarter ended September 30, 2015 and for the nine months ended September 30, 2016 to those for the nine months ended September 30, 2015, is provided under "Consolidated Results of Operations," which follows these sections. In this Management's Discussion and Analysis, where we describe the effects of changes in foreign exchange rates, those effects are determined by applying applicable weighted average foreign exchange rates from the relevant 2015 period to the relevant 2016 results.

Highlights

We secured new asset servicing mandates of \$212 billion in the third quarter and \$1,225 billion in the first nine months of 2016, of which approximately \$95 billion and \$886 billion was installed in the third quarter and first nine months of 2016, respectively. The remaining amount is expected to be installed in the remainder of 2016 or later. On July 1, 2016, we completed our previously announced acquisition of GE Asset Management ("GEAM") from General Electric Company, with a total initial purchase price of approximately \$437 million and approximately \$46 million in potential incremental purchase price related to future opportunities with General Electric. This acquisition extends our core investment management capabilities, including in the high growth OCIO markets, and enhances our capabilities in connection with the delivery of value-added solutions to our client base. In the third quarter of 2016, we incurred acquisition and restructuring costs associated with the acquisition of approximately \$29 million and expect to incur approximately \$80 million of such costs through 2018, including the third quarter costs. Excluding AUM associated with the acquired GEAM operations of \$112 billion, net outflows of AUM totaled \$36 billion and \$58 billion in the quarter and nine months ended September 30, 2016, respectively. We declared common stock dividends of \$0.38 per share, totaling approximately \$147 million, in the third quarter of 2016.

In the third quarter of 2016, we purchased approximately 4.7 million shares of our common stock at an average per-share cost of \$69.03 and an aggregate cost of approximately \$325 million under our current common stock purchase program approved by our Board in July 2016.

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

Financial Results

Total revenue in the third quarter of 2016 increased slightly compared to the third quarter of 2015, primarily due to a 28% increase in management fee revenue, partially offset by a decrease in processing fees and other revenue.

Servicing fee revenue increased 1% in the third quarter of 2016 compared to the third quarter of 2015, due to net new business.

Management fee revenue increased 28% in the third quarter of 2016 compared to the third quarter of 2015, primarily due to the impact of the acquired GEAM business and lower money market fee waivers and higher global equity markets.

Return on average common shareholders' equity decreased to 10.6% in the third quarter of 2016 compared to 11.3% in the third quarter of 2015.

In the third quarter of 2016, we recorded restructuring charges of \$10 million related to State Street Beacon, our multi-year transformation program to digitize our business, deliver significant value and innovation for our clients and lower expenses across the organization. We are on track to generate at least \$165 million in estimated annual year-over-year pre-tax savings in 2016 related to State Street Beacon, all else equal. These savings include the effects of the targeted staff reductions announced in October 2015. The full effect of these 2016 savings will be felt in 2017. Actual expenses may increase or decrease in the future due to other factors.

In the third quarter of 2016, we recorded a pre-tax charge of approximately \$42 million to establish a legal reserve related to previously disclosed investigations by U.S. governmental agencies concerning our transition management business activities in 2010 and 2011.

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Total expenses in the third quarter of 2016 increased 1% compared to the third quarter of 2015, primarily driven by increases in acquisition costs, primarily associated with the acquired GEAM business, and information systems and communications expenses, partially offset by decreases in compensation and employee benefits and professional services expenses.

CONSOLIDATED RESULTS OF OPERATIONS

This section discusses our consolidated results of operations for the third quarter and first nine months of 2016 compared to the same periods in 2015, and should be read in conjunction with the consolidated financial statements and accompanying condensed notes to the consolidated financial statements included in this Form 10-Q.

TOTAL REVENUE

TABLE 2: TOTAL REVENUE

(In millions)	Quarters Ended		
	September 30,		
	2016	2015	% Change
Fee revenue:			
Servicing fees	\$1,303	\$1,289	1 %
Management fees	368	287	28
Trading services:			
Foreign exchange trading	159	177	(10)
Brokerage and other trading services	108	117	(8)
Total trading services	267	294	(9)
Securities finance	136	113	20
Processing fees and other	5	120	(96)
Total fee revenue	2,079	2,103	(1)
Net interest revenue:			
Interest revenue	647	614	5
Interest expense	110	101	9
Net interest revenue	537	513	5
Gains (losses) related to investment securities, net	4	(2)	nm
Total revenue	\$2,620	\$2,614	—

(In millions)	Nine Months		
	Ended		
	September 30,		
	2016	2015	% Change
Fee revenue:			
Servicing fees	\$3,784	\$3,876	(2)%
Management fees	931	892	4
Trading services:			
Foreign exchange trading	472	547	(14)
Brokerage and other trading services	334	352	(5)
Total trading services	806	899	(10)
Securities finance	426	369	15
Processing fees and other	155	198	(22)
Total fee revenue	6,102	6,234	(2)

Net interest revenue:

Interest revenue	1,896	1,885	1
Interest expense	326	291	12
Net interest revenue	1,570	1,594	(2)
Gains (losses) related to investment securities, net	5	(6)	nm
Total revenue	\$7,677	\$7,822	(2)

^{nm} Not meaningful

FEE REVENUE

Table 2: Total Revenue, provides the breakout of fee revenue for the quarters and nine months ended September 30, 2016 and 2015.

Servicing and management fees collectively made up approximately 80% and 77% of our total fee revenue in the third quarter and first nine months of 2016, respectively, compared to approximately 75% and 76% in the third quarter and first nine months of 2015, respectively. The level of these fees is influenced by several factors, including the mix and volume of our assets under custody and administration and our assets under management, the value and type of securities positions held (with respect to assets under custody), the volume of portfolio transactions, and the types of products and services used by our clients, and is generally affected by changes in worldwide equity and fixed-income security valuations and trends in market asset class preferences.

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

Management fees are generally affected by changes in month-end valuations of assets under management.

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

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

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Performance fees are generated when the performance of certain managed portfolios exceeds benchmarks specified in the management agreements. Generally, we experience more volatility with performance fees than with more traditional management fees.

In light of the above, we estimate, using relevant information as of September 30, 2016 and assuming that all other factors remain constant, that:

A 10% increase or decrease in worldwide equity valuations, over the relevant periods for which our servicing and management fees are calculated, would result in a corresponding change in our total revenue of approximately 2%; and

A 10% increase or decrease in worldwide fixed income security valuations, over the relevant periods for which our servicing and management fees are calculated, would result in a corresponding change in our total revenue of approximately 1%.

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

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

Further discussion of fee revenue is provided under "Line of Business Information" in this Management's Discussion and Analysis.

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

	Daily Averages of Indices			Averages of Month-End Indices			Quarter-End Indices		
	Quarters Ended September 30,			Quarters Ended September 30,			As of September 30,		
	2016	2015	% Change	2016	2015	% Change	2016	2015	% Change
S&P 500®	2,162	2,027	7 %	2,171	1,999	9 %	2,168	1,920	13 %
NASDAQ®	5,169	4,924	5 %	5,229	4,842	8 %	5,312	4,620	15 %
MSCI® EAFE®	1,678	1,785	(6)	1,692	1,754	(4)	1,702	1,644	4 %
MSCI® Emerging Markets	887	860	3 %	890	837	6 %	903	792	14 %

	Daily Averages of Indices			Averages of Month-End Indices		
	Nine Months Ended September 30,			Nine Months Ended September 30,		
	2016	2015	% Change	2016	2015	% Change
S&P 500®	2,065	2,064	— %	2,078	2,047	2 %
NASDAQ®	4,880	4,928	(1)	4,922	4,891	1 %
MSCI EAFE®	1,640	1,836	(11)	1,650	1,827	(10)
MSCI® Emerging Markets	821	948	(13)	830	940	(12)

NET INTEREST REVENUE

See Table 2: Total Revenue, for the breakout of interest revenue and interest expense for the quarters and nine months ended September 30, 2016 and 2015.

Net interest revenue is defined as interest revenue earned on interest-earning assets less interest expense incurred on interest-bearing liabilities. Interest-earning assets, which principally consist of investment securities, interest-bearing deposits with banks, repurchase agreements, loans and leases and other liquid assets, are financed primarily by client deposits, short-term borrowings and long-term debt.

Net interest margin represents the relationship between annualized fully taxable-equivalent net interest revenue and average total interest-earning assets for the period. It is calculated by dividing fully taxable-equivalent net interest revenue by average interest-earning assets. Revenue that is exempt from income taxes, mainly that earned from certain investment securities (state and political subdivisions), is adjusted to a fully taxable-equivalent basis using a federal statutory income tax rate of 35%, adjusted for applicable state income taxes, net of the related federal tax benefit.

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Federal funds purchased	33	—	—	21	—	—
Other short-term borrowings	1,727	4	.34	4,211	5	.16
Long-term debt	11,306	191	2.24	9,779	185	2.52
Other interest-bearing liabilities	5,550	57	1.38	6,835	34	.65
Average total interest-bearing liabilities	\$148,124	\$326	.29	\$167,248	\$291	.23
Interest-rate spread			1.07 %			.95 %
Net interest revenue—fully taxable-equivalent basis		\$1,694			\$1,725	
Net interest margin—fully taxable-equivalent basis			1.14 %			1.02 %
Tax-equivalent adjustment		(124)			(131)	
Net interest revenue—GAAP basis		\$1,570			\$1,594	

(1) Reflects the impact of balance sheet netting under enforceable netting agreements.

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See Table 4: Average Balances and Interest Rates - Fully Taxable-Equivalent Basis, for the breakout of net interest revenue on a fully taxable-equivalent basis for the quarters and nine months ended September 30, 2016 and 2015. Net interest revenue increased 4% on a fully taxable-equivalent basis in the third quarter of 2016 compared to the third quarter of 2015. Benefits during the third quarter of 2016 from the U.S. rate hike in December 2015 were partially offset by lower global interest rates that affected our revenue from certain floating-rate assets, the rate at which payments from the maturity or prepayment of portfolio holdings could be reinvested, and the effect of the stronger U.S. dollar. The third quarter of 2016 also reflects our management actions toward the end of the third quarter of 2015 to manage the size and composition of our investment portfolio as we seek to optimize our capital and liquidity positions in light of the evolving regulatory environment. Net interest revenue decreased 2% in the nine months ended September 30, 2016 compared to the same period in 2015. The decrease is primarily the result of the previously mentioned management actions, which contributed to a reduction of average interest and non-interest bearing deposits of \$22 billion for the nine months ended September 30, 2016 compared to the same period in 2015.

The effect of the stronger U.S. dollar relative to other currencies, particularly the GBP, also negatively impacted our net interest revenue. The stronger U.S. dollar had the effect of reducing fully taxable-equivalent net interest revenue by approximately \$5 million in the third quarter of 2016 compared to the third quarter of 2015.

We recorded aggregate discount accretion in interest revenue of \$42 million and \$72 million for the third quarter and first nine months of 2016, respectively, related to the assets we consolidated onto our balance sheet in 2009 from our asset-backed commercial paper conduits. Subsequent to the commercial paper conduit consolidation in 2009, we have recorded total discount accretion in interest revenue as follows:

TABLE 5: TOTAL DISCOUNT ACCRETION IN
INTEREST REVENUE

(In millions)	Discount Accretion in Interest Revenue
Twelve Months Ended December 31, 2009	\$ 621
Twelve Months Ended December 31, 2010	712
Twelve Months Ended December 31, 2011	220
Twelve Months Ended December 31, 2012	215
Twelve Months Ended December 31, 2013	137
Twelve Months Ended December 31, 2014	119
Twelve Months Ended December 31, 2015	98
Nine Months Ended September 30, 2016	72
Total Discount Accretion	\$ 2,194

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

Depending on the factors discussed above, among others, we anticipate that until the former conduit securities remaining in our investment portfolio mature or are sold, discount accretion will continue to contribute to our net interest revenue, though generally in declining amounts. Assuming that we hold them to maturity, all else being equal, we expect the remaining former conduit securities carried in our investment portfolio as of September 30, 2016 to generate aggregate discount accretion in future periods of approximately \$173 million over their remaining terms,

with approximately one third of this discount accretion to be recorded through 2019. We estimate that we will have approximately \$10 million to \$15 million of discount accretion in the fourth quarter of 2016, excluding the impact of potential significant prepayments.

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

Average total interest-earning assets were lower for the third quarter and first nine months ended September 30, 2016 compared to the same periods in 2015 as a result of the previously described management actions.

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

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The deposits with central banks are also included in our total consolidated assets, and lower deposit levels impact our regulatory leverage ratios. If global interest rates increase, we would expect to see some additional decreases in client deposits. In general, we continue to anticipate higher levels of client deposits when compared to longer-term historical trends, irrespective of the interest rate environment, particularly during periods of market stress. If ECB monetary policy continues to pressure European interest rates downward and the U.S. dollar remains strong or strengthens, the negative effects on our net interest revenue may continue or worsen.

Interest-bearing deposits with banks averaged \$57.58 billion and \$52.42 billion for the third quarter and first nine months of 2016, respectively, compared to \$73.47 billion and \$74.83 billion for the same periods in 2015, respectively. These decreases reflect management's effort to reduce elevated client deposit levels as a component of our balance sheet management actions. These lower levels of deposits reflected our maintenance of cash balances at the Federal Reserve, the ECB and other non-U.S. central banks both to satisfy regulatory reserve requirements, and elevated levels of client deposits and our investment of the excess deposits with central banks.

We expect to continue to invest deposits we deem as elevated in investment securities or short-term assets, including central bank deposits, depending on our assessment of the underlying characteristics of the deposits.

Loans and leases averaged \$18.74 billion and \$18.67 billion for the third quarter and first nine months of 2016, respectively, compared to \$17.61 billion and \$17.71 billion for the same periods in 2015, respectively. The increase in average loans and leases resulted from growth in municipal loans and our continued investment in senior secured loans, offset by a reduction in mutual fund lending.

TABLE 6: U.S. AND NON-U.S. SHORT-DURATION ADVANCES

(Dollars in millions, except where otherwise noted)	Quarters Ended			
	September 30,			
	2016	2015		
Average U.S. short-duration advances	\$2,114	\$2,226		
Average non-U.S. short-duration advances	1,299	1,325		
Average total short-duration advances	\$3,413	\$3,551		
Average short-duration advances to average loans and leases	18	% 20	%	
	Nine Months			
	Ended September			
	30,			
(Dollars in millions, except where otherwise noted)	2016	2015		
Average U.S. short-duration advances	\$2,163	\$2,284		
Average non-U.S. short-duration advances	1,345	1,432		
Average total short-duration advances	\$3,508	\$3,716		
Average short-duration advances to average loans and leases	19	% 21	%	

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

Average other interest-earning assets decreased to \$21.72 billion and \$22.32 billion for the third quarter and first nine months of 2016, respectively, from \$24.00 billion and \$22.73 billion for the same periods in 2015, respectively. Our average other interest-earning assets, largely associated with our enhanced custody business, comprised approximately 11% of our average total interest-earning assets for both the third quarter and first nine months of 2016, compared to approximately 11% and 10% of our average total interest-earning assets for the same periods in 2015, respectively. The enhanced custody business, which is our principal securities financing business for our custody clients, generates securities finance revenue. The net interest revenue earned on these transactions is generally lower than the interest

earned on other alternative investments.

Aggregate average interest-bearing deposits decreased to \$129.29 billion and \$125.40 billion for the third quarter and first nine months of 2016, respectively, from \$137.33 billion and \$136.83 billion for the same periods in 2015, respectively. The lower levels in the third quarter and first nine months of 2016 were primarily the result of management's actions to reduce both U.S. and non-U.S. transaction accounts, offset by increases in time deposits.

Future deposit levels will be influenced by the underlying asset servicing business, client deposit behavior, 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 \$1.57 billion and \$1.73 billion for the third quarter and first nine months of 2016, respectively, from \$3.79 billion and \$4.21 billion for the same periods in 2015, respectively. The decrease was the result of the phase-out of our commercial paper program during 2015, consistent with the objectives of our 2015 recovery and resolution plan developed pursuant to the requirements of the Dodd-Frank Act.

Average long-term debt increased to \$11.89 billion and \$11.31 billion for the third quarter and first nine months of 2016, respectively, from \$10.50 billion and \$9.78 billion for the same periods in 2015, respectively. The increase primarily reflected the issuance of \$3.0 billion of senior debt in August 2015 and \$1.5 billion of senior debt in May 2016 which was offset by a \$900 million extendible note called at the end of February 2015 and the maturities of \$200

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million of senior debt in December 2015, \$400 million of senior debt in January 2016 and \$1.0 billion of senior debt in March 2016.

Average other interest-bearing liabilities were \$5.65 billion and \$5.55 billion for the third quarter and first nine months of 2016, respectively, compared to \$4.46 billion and \$6.84 billion for the same periods in 2015, respectively, primarily the result of changes in the level of cash collateral received from clients in connection with our enhanced custody business, which is presented on a net basis in accordance with enforceable netting agreements.

Several factors could affect future levels of our net interest revenue and margin, including the volume and 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; the yields earned on securities purchased compared to the yields earned on securities sold or matured; and changes in our enhanced custody business.

Based on market conditions and other factors, including regulatory requirements, we continue to reinvest the majority of the proceeds from pay-downs and maturities of investment securities in highly-rated securities, such as U.S. Treasury and agency securities, municipal securities, federal agency mortgage-backed securities and U.S. and non-U.S. mortgage- and asset-backed securities. The pace at which we continue to reinvest and the types of investment securities purchased will depend on the impact of market conditions, the implementation of regulatory standards, 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.

EXPENSES

Table 7: Expenses, provides the breakout of expenses for the quarters and nine months ended September 30, 2016 and 2015.

TABLE 7: EXPENSES

(Dollars in millions, except where otherwise noted)	Quarters Ended September 30,		% Change
	2016	2015	
Compensation and employee benefits	\$1,013	\$1,051	(4)%
Information systems and communications	285	265	8
Transaction processing services	200	201	—
Occupancy	107	110	(3)
Acquisition costs	33	7	371
Restructuring charges, net	9	3	200
Other:			
Professional services	95	136	(30)
Amortization of other intangible assets	55	48	15
Securities processing costs	10	40	(75)
Regulatory fees and assessments	28	31	(10)
Other	149	70	113
Total other	337	325	4
Total expenses	\$1,984	\$1,962	1
Number of employees at quarter-end	33,332	31,860	

(In millions)	Nine Months Ended September 30,		
	2016	2015	% Change
Compensation and employee benefits	\$3,109	\$3,122	— %
Information systems and communications	827	761	9
Transaction processing services	601	599	—
Occupancy	331	332	—
Acquisition costs	47	15	213
Restructuring charges, net	119	4	2,875
Other:			
Professional services	270	368	(27)
Amortization of other intangible assets	153	147	4
Securities processing costs	20	75	(73)
Regulatory fees and assessments	65	90	(28)
Other	352	680	(48)
Total other	860	1,360	(37)
Total expenses	\$5,894	\$6,193	(5)

Compensation and employee benefits expenses decreased 4% in the third quarter of 2016 compared to the third quarter of 2015. The decrease was primarily due to lower severance costs and savings related to State Street Beacon, partially offset by higher costs related to the acquired GEAM business and increased costs to support regulatory initiatives and new business.

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Information systems and communications expenses increased 8% in the third quarter of 2016 compared to the third quarter of 2015 and 9% in the nine months ended September 30, 2016 compared to the same period in 2015. The increase for both comparative periods was primarily related to investments supporting new business and State Street Beacon, the impact of the acquired GEAM business, and costs related to regulatory initiatives.

Other expenses increased 4% in the third quarter of 2016 compared to the third quarter of 2015 and decreased 37% in the nine months ended September 30, 2016 compared to the same period in 2015. The increase in the third quarter of 2016 was primarily due to establishing a legal reserve of approximately \$42 million related to the previously disclosed investigations by U.S. governmental agencies concerning our transition management business activities and the impact of the acquired GEAM business, partially offset by lower professional services expenses. The decrease in the nine months ended September 30, 2016 was primarily due to legal accruals of approximately \$400 million recorded in 2015, relating to our indirect foreign exchange business, as well as lower levels of professional services, securities processing, travel and insurance expenses in 2016.

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

to complete our 2017 resolution plan (due to be submitted on July 1, 2017), as discussed within the Liquidity Risk Management section included in this Form 10-Q, will continue to affect our expenses. Our employee compensation and benefits, information systems and other expenses could increase, as we further adjust our operations in response to new or proposed requirements and heightened expectations.

Acquisition Costs

We recorded acquisition costs of \$33 million in the third quarter of 2016 compared to \$7 million in the third quarter of 2015, and \$47 million in the nine months ended September 30, 2016 compared to \$15 million during the nine months ended September 30, 2015. These amounts include approximately \$29 million related to our acquisition of GEAM on July 1, 2016. As we integrate GEAM's operations into our business, we expect to incur total merger and integration costs of approximately \$80 million through 2018. For further information on the GEAM acquisition, refer to Note 1 to the consolidated financial statements included in this Form 10-Q.

Restructuring Charges

We expect to incur aggregate pre-tax restructuring charges of approximately \$300 million to \$400 million beginning in 2016 through December 31, 2020 to implement State Street Beacon, our previously announced multi-year transformation program to fully digitize our business, deliver significant value and innovation for our clients and lower expenses across the organization. We estimate those charges will include approximately \$250 million to \$300 million in severance and benefits costs associated with targeted staff reductions (a substantial portion of which will result in future cash expenditures) and approximately \$50 million to \$100 million in information technology application rationalization and real estate actions.

In the third quarter and nine months ended September 30, 2016, we recorded net restructuring charges of \$10 million and \$120 million, respectively, associated with State Street Beacon.

The following table presents aggregate restructuring activity for the periods indicated.

TABLE 8: RESTRUCTURING CHARGES

(In millions)

Total

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	Employee Related Costs	Real Estate Consolidation	Asset and Other Write-offs	
Balance at December 31, 2015	\$ 9	\$ 11	\$ 3	\$23
Accruals for State Street Beacon	86	—	11	97
Payments and Other Adjustments	(4)	(1)	(7)	(12)
Balance at March 31, 2016	91	10	7	108
Accruals for State Street Beacon	(1)	15	(1)	13
Payments and Other Adjustments	(35)	(3)	(1)	(39)
Balance at June 30, 2016	55	22	5	82
Accruals for State Street Beacon	8	3	(1)	10
Payments and Other Adjustments	(14)	(3)	(1)	(18)
Balance at September 30, 2016	\$ 49	\$ 22	\$ 3	\$74

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INCOME TAX EXPENSE

Income tax expense was \$72 million in the third quarter of 2016 compared to \$67 million in the third quarter of 2015. In the first nine months of 2016 and 2015, income tax expense was \$226 million and \$215 million, respectively. Our effective tax rate for the first nine months of 2016 was 12.8% compared to 13.3% for the same period in 2015. The effective tax rate for the first nine months 2016 reflects a benefit from additional alternative energy investments in 2016. The 2015 tax rate benefited from the approval of a prior year tax refund and the reduction of an Italian deferred tax liability, partially offset by a change in New York tax law and a non-deductible legal accrual.

LINE OF BUSINESS INFORMATION

Our operations are organized for management reporting purposes into two lines of business: Investment Servicing and Investment Management, which are defined based on products and services provided. 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. For information about our two lines of business, as well as the revenues, expenses and capital allocation methodologies associated with them, refer to Note 24 to the consolidated financial statements included in our 2015 Form 10-K and Note 17 to the consolidated financial statements included in this Form 10-Q.

Investment Servicing

TABLE 9: INVESTMENT SERVICING LINE OF BUSINESS RESULTS

	Quarters Ended September 30,			Nine Months Ended September 30,		
	2016	2015	% Change	2016	2015	% Change
(Dollars in millions, except where otherwise noted)						
Servicing fees	\$1,303	\$1,289	1 %	\$3,784	\$3,876	(2) %
Trading services	254	283	(10)	771	869	(11)
Securities finance	136	113	20	426	369	15
Processing fees and other	6	131	(95)	153	212	(28)
Total fee revenue	1,699	1,816	(6)	5,134	5,326	(4)
Net interest revenue	536	514	4	1,567	1,593	(2)
Gains (losses) related to investment securities, net	4	(2)	nm	5	(6)	nm
Total revenue	2,239	2,328	(4)	6,706	6,913	(3)
Provision for loan losses	—	5	nm	8	11	(27)
Total expenses	1,634	1,673	(2)	4,920	5,389	(9)
Income before income tax expense	\$605	\$650	(7)	\$1,778	\$1,513	18
Pre-tax margin	27	% 28	%	27	% 22	%

^{nm} Not meaningful

Net interest revenue increased 4% in the third quarter of 2016 compared to the same period in 2015. Benefits during the third quarter of 2016 from the U.S. rate hike in December 2015 were partially offset by lower global interest rates that affected our revenue from certain floating-rate assets, the rate at which payments from the maturity or prepayment of portfolio holdings could be reinvested, and the effect of the stronger U.S. dollar. The third quarter of 2016 also reflects our management actions toward the end of the third quarter of 2015 to manage the size and composition of our investment portfolio as we seek to optimize our capital and liquidity positions in light of the evolving regulatory environment.

Net interest revenue decreased 2% in the first nine months of 2016 compared to the same period in 2015. The decrease is primarily the result of the previously mentioned management actions, which contributed to a reduction of average

interest and non-interest bearing deposits, as well as lower global interest rates, that affected our revenue from floating-rate assets, and the effect of the stronger U.S. dollar, partially offset by the benefit of higher levels of certain interest-earning assets. A discussion of net interest revenue is provided under “Net Interest Revenue” in

“Total Revenue” in this Management's Discussion and Analysis.

Total expenses decreased 2% and 9% in the third quarter and first nine months of 2016, respectively, compared to the same periods in 2015. The decreases primarily resulted from savings related to State Street Beacon and other expense reduction initiatives, partially offset by higher regulatory spending, net new business activity, and expenses for legal accruals recorded in the first nine months of 2015 in connection with outstanding and potential claims arising out of our indirect FX client activities.

In December 2015, we announced a review of the manner in which we invoiced certain expenses to certain of our Investment Servicing clients, primarily in the United States, during a period going back to 1998. We have informed our clients that we will pay to them the expenses we concluded were incorrectly invoiced to them, plus interest. In conjunction with that review, we are evaluating other aspects of invoicing relating to billing our Investment Servicing clients, including calculation of asset-based fees. See Note 10 to the consolidated financial statements included in this Form 10-Q.

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Servicing Fees

Servicing fees increased 1% in the third quarter of 2016 compared to the same period in 2015, primarily due to net new business. Servicing fees decreased 2% in the first nine months of 2016 compared to the same period in 2015, primarily due to lower international market levels and the effect of the strong U.S. dollar, partially offset by net new business.

Servicing fees generated outside the U.S. were approximately 43% and 42% of total servicing fees in the third quarter and first nine months of 2016, respectively, compared to approximately 41% for the same periods in 2015, respectively.

TABLE 10: COMPONENTS OF ASSETS UNDER CUSTODY AND
ADMINISTRATION

(In billions)	September 30, 2016	December 31, 2015	September 30, 2015
Mutual funds	\$ 6,906	\$ 6,768	\$ 6,698
Collective funds	7,541	7,088	6,883
Pension products	5,671	5,510	5,497
Insurance and other products	9,060	8,142	8,187
Total	\$ 29,178	\$ 27,508	\$ 27,265

TABLE 11: COMPOSITION OF ASSETS UNDER CUSTODY AND
ADMINISTRATION

(In billions)	September 30, 2016	December 31, 2015	September 30, 2015
Equities	\$ 16,012	\$ 14,888	\$ 14,223
Fixed-income	9,891	9,264	9,470
Short-term and other investments	3,275	3,356	3,572
Total	\$ 29,178	\$ 27,508	\$ 27,265

TABLE 12: GEOGRAPHIC MIX OF ASSETS UNDER CUSTODY
AND ADMINISTRATION⁽¹⁾

(In billions)	September 30, 2016	December 31, 2015	September 30, 2015
North America	\$ 21,561	\$ 20,842	\$ 20,536
Europe/Middle East/Africa	6,107	5,387	5,452
Asia/Pacific	1,510	1,279	1,277
Total	\$ 29,178	\$ 27,508	\$ 27,265

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

Asset levels as of September 30, 2016 did not reflect the estimated \$506 billion of new business in assets to be serviced, which was awarded to us in the second quarter of 2016 and prior periods but not installed prior to September 30, 2016. This new business will be reflected in AUCA in future periods after installation and will generate servicing fee revenue in subsequent periods.

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

Trading Services

TABLE 13: TRADING SERVICES REVENUE

(In millions)	Quarters Ended September 30,		
	2016	2015	% Change
Foreign exchange trading:			
Direct sales and trading	\$94	\$108	(13)%
Indirect foreign exchange trading	65	69	(6)
Total foreign exchange trading	159	177	(10)
Brokerage and other trading services:			
Electronic foreign exchange services	41	46	(11)
Other trading, transition management and brokerage	54	60	(10)
Total brokerage and other trading services	95	106	(10)
Total trading services revenue	\$254	\$283	(10)

(In millions)	Nine Months Ended September 30,		
	2016	2015	% Change
Foreign exchange trading:			
Direct sales and trading	\$271	\$331	(18)%
Indirect foreign exchange trading	201	216	(7)
Total foreign exchange trading	472	547	(14)
Brokerage and other trading services:			
Electronic foreign exchange services	128	138	(7)
Other trading, transition management and brokerage	171	184	(7)
Total brokerage and other trading services	299	322	(7)
Total trading services revenue	\$771	\$869	(11)

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

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

Our FX trading revenue is influenced by multiple factors, including: the volume and type of client FX transactions and related spreads; currency volatility, reflecting market conditions; and our management of exchange rate, interest rate and other market risks associated with our foreign exchange activities. The

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relative impact of these factors on our total FX trading revenues often differs from period to period. For example, assuming all other factors remain constant, increases or decreases in volumes or spreads across product mix tend to result in increases or decreases, as the case may be, in client-related FX revenue. Revenue earned from direct sales and trading and indirect FX trading is recorded in FX trading revenue.

Total FX trading revenue decreased 10% and 14% in the third quarter and first nine months of 2016, respectively, compared to the same periods in 2015, primarily due to lower volumes and market volatility. In 2015, significant market events in Europe and China stimulated trading activity, in contrast to the same periods in 2016, which included reduced trading volumes during the first and second quarters of 2016 in advance of the U.K.'s referendum to exit from the European Union, or "Brexit," which largely leveled off during the third quarter of 2016.

We enter into FX transactions with clients and investment managers that contact our trading desk directly. These trades are all executed at negotiated rates. We refer to this activity, and our principal market-making activities, as "direct sales and trading" and it includes many transactions for funds serviced by third party custodians or prime brokers, as well as those funds under custody at State Street. Direct sales and trading revenue represented 59% and 57% of total foreign exchange trading revenue in the third quarter and first nine months of 2016, respectively, compared to 61% for each of the same periods in 2015.

Alternatively, clients or their investment managers may elect to route FX transactions to our FX desk through our asset-servicing operation; we refer to this activity as "indirect FX trading" and, in all cases, we are the funds' custodian. We execute indirect FX trades as a principal at rates disclosed to our clients. Estimated indirect sales and trading revenue represented 41% and 43% of total foreign exchange trading revenue in the third quarter and first nine months of 2016, respectively, as compared to 39% for each of the same periods in 2015. We calculate revenue for indirect FX trading using an attribution methodology. This methodology takes into consideration estimated mark-ups/downs and observed client volumes. Direct sales and trading revenue is all other FX trading revenue other than the revenue attributed to indirect FX trading.

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

enables our clients to define their FX execution strategy and automate the FX trade execution process, both for funds under custody with us as well as those under custody at another bank.

Our direct sales and trading revenue decreased by 13% and 18% for the third quarter and first nine months of 2016, respectively, compared to the same periods in 2015. The decreases are primarily due to lower volumes and volatility. Our estimated indirect FX trading revenue decreased 6% and 7% in the third quarter and first nine months of 2016, respectively, as compared to the same periods in 2015. The decreases mainly resulted from lower volumes and volatility.

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

Total brokerage and other trading services revenue decreased 10% and 7% in the third quarter and first nine months of 2016, respectively, compared to the same periods in 2015. The decreases were primarily due to lower transition management revenues, a non-recurring gain in the prior year, and reduced client volumes.

Our clients may choose to execute FX transactions through one of our electronic trading platforms. These transactions generate revenue through a "click" fee. Revenue from such electronic FX services decreased 11% and 7% in the third quarter and first nine months of 2016, respectively, compared to the same periods in 2015, mainly due to reduced client volumes.

Other trading, transition management and brokerage revenue decreased 10% and 7% in the third quarter and first nine months of 2016, respectively, compared to the same periods in 2015, primarily due to a non-recurring gain in the prior year.

In recent years, our transition management revenue was adversely affected by compliance issues in our U.K. business during 2010 and 2011. The reputational and regulatory impact of those compliance issues continues and may adversely affect our results in future periods. See Note 10 to the consolidated financial statements included in this Form 10-Q.

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Securities Finance

Our securities finance business consists of three components:

- (1) an agency lending program for SSGA-managed investment funds with a broad range of investment objectives, which we refer to as the SSGA lending funds;
- (2) an agency lending program for third-party investment managers and asset owners, which we refer to as the agency lending funds; and
- (3) security lending transactions which we enter into as principal, which we refer to as our enhanced custody business. See Table 9: Investment Servicing Line of Business Results, for the comparison of securities finance revenue for the quarters and nine months ended September 30, 2016 and 2015.

Securities finance revenue earned from our agency lending activities, which is composed of our split of both the spreads related to cash collateral and the fees related to non-cash collateral, is principally a function of the volume of securities on loan, the interest-rate spreads and fees earned on the underlying collateral, and our share of the fee split. As principal, our enhanced custody business borrows securities from the lending client and then lends such securities to the subsequent borrower, either a State Street client or a broker/dealer. We act as principal when the lending client is unable to, or elects not to, transact directly with the market and execute the transaction and furnish the securities. In our role as principal, we provide support to the transaction through our credit rating. While we source a significant proportion of the securities furnished by us in our role as principal from third parties, we have the ability to source securities through our assets under custody and administration from clients who have designated State Street as an eligible borrower.

Securities finance revenue increased 20% and 15% in the third quarter and first nine months of 2016, respectively, compared to the same periods in 2015. The increase was primarily the result of growth in our enhanced custody business and higher agency lending.

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, the constantly evolving regulatory environment may affect the volume of our securities lending activity and related revenue and profitability in future periods.

Processing Fees and Other

Processing fees and other revenue includes diverse types of fees and revenue, including fees from our structured products business, fees from software licensing and maintenance, equity income from our joint venture investments, gains and losses on sales of leased equipment and other assets, and amortization of our tax-advantaged investments. Processing fees and other revenue, presented in Table 9: Investment Servicing Line of Business Results, decreased 95% in the third quarter of 2016 compared to the same period in 2015. The decrease was primarily due to a non-recurring gain of \$83 million on the sale of commercial real estate in the third quarter of 2015. Processing fees and other revenue decreased 28% in the first nine months of 2016 compared to the same period in 2015, primarily due to the aforementioned non-recurring gain as well as lower earnings from equity method investments, partially offset by a pre-tax gain of \$53 million on the sale of WM/Reuters in the second quarter of 2016.

Investment Management

TABLE 14: INVESTMENT MANAGEMENT LINE OF BUSINESS
RESULTS

(Dollars in millions, except where otherwise noted)	Quarters Ended		% Change
	2016	2015	
Management fees	\$368	\$287	28 %
Trading services	13	11	18

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Processing fees and other	(1)	(11)	nm
Total fee revenue	380	287	32
Net interest revenue	1	(1)	nm
Total revenue	381	286	33
Total expenses	317	204	55
Income before income tax expense	\$64	\$82	(22)
Pre-tax margin	17 %	29 %	

Nine Months
Ended
September 30,

(Dollars in millions, except where otherwise noted)	2016	2015	% Change
Management fees	\$931	\$892	4 %
Trading services	35	30	17
Processing fees and other	2	(14)	nm
Total fee revenue	968	908	7
Net interest revenue	3	1	nm
Total revenue	971	909	7
Total expenses	817	711	15
Income before income tax expense	\$154	\$198	(22)
Pre-tax margin	16 %	22 %	

^{nm} Not meaningful

Total revenue for our Investment Management Line of Business, presented in Table 14: Investment Management Line of Business Results, increased 33% and 7% in the third quarter and first nine months of 2016, respectively, compared to the same periods

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in 2015. Total fee revenue increased 32% and 7% in the third quarter and first nine months of 2016, respectively, compared to the same periods in 2015.

Total expenses increased in the third quarter of 2016 and first nine months of 2016 compared to the same periods in 2015 primarily due to costs related to the acquisition of GEAM, partially offset by savings related to State Street Beacon.

In July 2016, we completed our acquisition of GEAM in a cash transaction with a total initial purchase price of approximately \$437 million and approximately \$46 million in potential incremental purchase price related to future opportunities with General Electric. AUM associated with the acquired GEAM operations totaled \$112 billion as of September 30, 2016. Our consolidated financial statements include the operating results for the acquired business from the date of acquisition, July 1, 2016.

Management Fees

Through SSGA, we provide a broad range of investment management strategies, specialized investment management advisory services, OCIO and other financial services for corporations, public funds, and other sophisticated investors. SSGA offers an array of investment management strategies, including passive and active, such as enhanced indexing, using quantitative and fundamental methods for both U.S. and global equity and fixed income securities. SSGA also offers ETFs, such as the SPDR® ETF brand. While certain management fees are directly determined by the values of assets under management and the investment strategies employed, management fees reflect other factors as well, including our relationship pricing for clients who use multiple services, and the benchmarks specified in the respective management agreements related to performance fees.

Management fees increased 28% in the third quarter of 2016 compared to the same period in 2015, primarily due to the acquisition of GEAM on July 1, 2016 and a decline in money market fee waivers. Management fees increased 4% in the first nine months of 2016 compared to the same period in 2015, primarily due to the aforementioned acquisition and a decline in money market fee waivers, partially offset by weaker international markets and the effect of the strong U.S. dollar.

Management fees generated outside the U.S. were approximately 29% and 33% of total management fees in the third quarter and first nine months of 2016, respectively, compared to 34% and 35% for the same periods in 2015, respectively.

TABLE 15: ASSETS UNDER MANAGEMENT BY ASSET CLASS AND INVESTMENT APPROACH

(In billions)	September 30, 2016	December 31, 2015	September 30, 2015
Equity:			
Active	\$ 70	\$ 32	\$ 29
Passive	1,340	1,294	1,237
Total Equity	1,410	1,326	1,266
Fixed-Income:			
Active	73	18	16
Passive	318	294	300
Total Fixed-Income	391	312	316
Cash⁽¹⁾	351	368	380
Multi-Asset-Class Solutions:			
Active	19	17	26
Passive	106	86	85
Total Multi-Asset-Class Solutions	125	103	111
Alternative Investments⁽²⁾:			

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Active	29	17	17
Passive	140	119	113
Total Alternative Investments	169	136	130
Total	\$ 2,446	\$ 2,245	\$ 2,203

(1) Includes both floating- and constant-net-asset-value portfolios held in commingled structures or separate accounts.

(2) Includes real estate investment trusts, currency and commodities, including SPDR® Gold Fund, for which State Street is not the investment manager, but acts as distribution agent.

TABLE 16: EXCHANGE - TRADED FUNDS BY ASSET CLASS⁽¹⁾⁽²⁾

(In billions)	September 30, 2016	December 31, 2015	September 30, 2015
Alternative Investments ⁽²⁾	\$ 54	\$ 34	\$ 35
Cash	2	3	3
Equity	370	350	323
Fixed-income	52	41	39
Total Exchange-Traded Funds	\$ 478	\$ 428	\$ 400

(1) ETFs are a component of assets under management presented in the preceding table.

(2) Includes SPDR® Gold Fund, for which State Street is not the investment manager, but acts as distribution agent.

TABLE 17: GEOGRAPHIC MIX OF ASSETS UNDER MANAGEMENT⁽¹⁾

(In billions)	September 30, 2016	December 31, 2015	September 30, 2015
North America	\$ 1,641	\$ 1,452	\$ 1,409
Europe/Middle East/Africa	495	489	500
Asia/Pacific	310	304	294
Total	\$ 2,446	\$ 2,245	\$ 2,203

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

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TABLE 18: ACTIVITY IN ASSETS UNDER MANAGEMENT BY PRODUCT CATEGORY

(In billions)	Equity	Fixed-Income	Cash ⁽²⁾	Multi-Asset-Class Solutions	Alternative Investments ⁽³⁾	Total
Balance as of September 30, 2015	\$1,266	\$ 316	\$ 380	\$ 111	\$ 130	\$2,203
Long-term institutional inflows ⁽¹⁾	59	14	—	9	3	85
Long-term institutional outflows ⁽¹⁾	(72)	(22)	—	(7)	(3)	(104)
Long-term institutional flows, net	(13)	(8)	—	2	—	(19)
ETF flows, net	10	3	(1)	—	(1)	11
Cash fund flows, net	—	—	(10)	—	—	(10)
Total flows, net	(3)	(5)	(11)	2	(1)	(18)
Market appreciation	65	3	—	(9)	7	66
Foreign exchange impact	(2)	(2)	(1)	(1)	—	(6)
Total market/foreign exchange impact	63	1	(1)	(10)	7	60
Balance as of December 31, 2015	1,326	312	368	103	136	2,245
Long-term institutional inflows ⁽¹⁾	161	62	—	34	9	266
Long-term institutional outflows ⁽¹⁾	(206)	(71)	—	(26)	(16)	(319)
Long-term institutional flows, net	(45)	(9)	—	8	(7)	(53)
ETF flows, net	(3)	7	(1)	—	13	16
Cash fund flows, net	—	—	(21)	—	—	(21)
Total flows, net	(48)	(2)	(22)	8	6	(58)
Market appreciation	84	19	1	11	15	130
Foreign exchange impact	10	6	—	—	1	17
Total market/foreign exchange impact	94	25	1	11	16	147
Acquisitions and transfers ⁽⁴⁾	38	56	4	3	11	112
Balance as of September 30, 2016	\$1,410	\$ 391	\$ 351	\$ 125	\$ 169	\$2,446

(1) Amounts represent long-term portfolios, excluding ETFs.

(2) Includes both floating- and constant-net-asset-value portfolios held in commingled structures or separate accounts.

(3) Includes real estate investment trusts, currency and commodities, including SPDR® Gold Fund, for which State Street is not the investment manager, but acts as distribution agent.

(4) Includes assets under management acquired as part of the acquisition of GEAM on July 1, 2016.

The preceding table did not include new asset management business which was awarded to SSGA but not installed as of September 30, 2016. New business will be reflected in AUM in future periods after installation and will generate management fee revenue in subsequent periods. Total AUM as of September 30, 2016 included managed assets lost but not 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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FINANCIAL CONDITION

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

Deposits and other liabilities resulting from client initiated transactions are invested in assets that generally have contractual maturities significantly longer than our liabilities; however, we evaluate the operational nature of our deposits and seek to maintain appropriate short-term liquidity of those liabilities that are not operational in nature and maintain longer-termed assets for our operational deposits. Our assets consist primarily of securities held in our available-for-sale or held-to-maturity portfolios and short-duration financial instruments, such as interest-bearing deposits with banks and securities purchased under resale agreements. The actual mix of assets is determined by the characteristics of the client liabilities and our desire to maintain a well-diversified portfolio of high-quality assets.

TABLE 19: AVERAGE STATEMENT OF CONDITION⁽¹⁾

(In millions)	Nine Months Ended	
	September 30, 2016	September 30, 2015
	Average Balance	Average Balance
Assets:		
Interest-bearing deposits with banks	\$52,423	\$74,830
Securities purchased under resale agreements	2,610	3,325
Trading account assets	908	1,234
Investment securities	101,243	107,216
Loans and leases	18,674	17,711
Other interest-earning assets	22,316	22,731
Average total interest-earning assets	198,174	227,047
Cash and due from banks	3,402	2,577
Other noninterest-earning assets	27,052	28,313
Average total assets	\$228,628	\$257,937
Liabilities and shareholders' equity:		
Interest-bearing deposits:		
U.S.	\$30,388	\$31,479
Non-U.S.	95,013	105,347
Total interest-bearing deposits	125,401	136,826
Securities sold under repurchase agreements	4,107	9,576
Federal funds purchased	33	21
Other short-term borrowings	1,727	4,211
Long-term debt	11,306	9,779
Other interest-bearing liabilities	5,550	6,835
Average total interest-bearing liabilities	148,124	167,248
Noninterest-bearing deposits	43,806	54,153
Other noninterest-bearing liabilities	14,697	15,231

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Preferred shareholders' equity	3,015	2,322
Common shareholders' equity	18,986	18,983
Average total liabilities and shareholders' equity	\$228,628	\$257,937

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

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Investment Securities

TABLE 20: CARRYING VALUES OF INVESTMENT
SECURITIES

(In millions)	September 30, 2016	December 31, 2015
Available-for-sale:		
U.S. Treasury and federal agencies:		
Direct obligations	\$ 5,302	\$ 5,718
Mortgage-backed securities	17,995	18,165
Asset-backed securities:		
Student loans ⁽¹⁾	7,307	7,176
Credit cards	1,375	1,341
Sub-prime	354	419
Other	1,273	1,764
Total asset-backed securities	10,309	10,700
Non-U.S. debt securities:		
Mortgage-backed securities	7,161	7,071
Asset-backed securities	2,529	3,267
Government securities	5,984	4,355
Other	5,919	4,834
Total non-U.S. debt securities	21,593	19,527
State and political subdivisions	10,756	9,746
Collateralized mortgage obligations	2,806	2,987
Other U.S. debt securities	2,338	2,624
U.S. equity securities	41	39
Non-U.S. equity securities	3	3
U.S. money-market mutual funds	361	542
Non-U.S. money-market mutual funds	16	19
Total	\$ 71,520	\$ 70,070
Held-to-maturity:		
U.S. Treasury and federal agencies:		
Direct obligations	\$ 17,553	\$ 20,878
Mortgage-backed securities	4,280	610
Asset-backed securities:		
Student loans ⁽¹⁾	1,440	1,592
Credit cards	897	897
Other	76	366
Total asset-backed securities	2,413	2,855
Non-U.S. debt securities:		
Mortgage-backed securities	1,581	2,202
Asset-backed securities	697	1,415
Government securities	288	239
Other	119	65
Total non-U.S. debt securities	2,685	3,921
State and political subdivisions	—	1

Collateralized mortgage obligations	1,437	1,687
Total	\$ 28,368	\$ 29,952

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

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

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

Approximately 92% of the carrying value of the portfolio was rated “AAA” or “AA” as of both September 30, 2016 and December 31, 2015.

TABLE 21: INVESTMENT
PORTFOLIO BY EXTERNAL CREDIT
RATING

	September 30, 2016		December 31, 2015	
AAA ⁽¹⁾	78	%	80	%
AA	14		12	
A	5		5	
BBB	2		2	
Below BBB	1		1	
	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 September 30, 2016, the investment portfolio of 12,194 securities was diversified with respect to asset class. Approximately 51% of the aggregate carrying value of the portfolio as of September 30, 2016 and December 31, 2015 was composed of mortgage-backed and asset-backed securities. The asset-backed securities portfolio, of which approximately 92% of the carrying value as of both September 30, 2016 and December 31, 2015 was floating-rate, consisted primarily of student loan-backed and credit card-backed securities. Mortgage-backed securities were composed of securities issued by the Federal National Mortgage Association and Federal Home Loan Mortgage Corporation, as well as U.S. and non-U.S. large-issuer collateralized mortgage obligations.

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

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The Volcker rule became effective in July 2012, and the final implementing regulations became effective in April 2014. Under a 2016 conformance period extension issued by the Federal Reserve, all investments in and relationships with investments in a covered fund made or entered into after December 31, 2013 by a banking entity and its affiliates, and all proprietary trading activities of those entities, were required to be in conformance with the Volcker rule and its final implementing regulations by July 21, 2016. On July 7, 2016, the Federal Reserve announced a final one-year extension of the general conformance period for banking entities to conform ownership interests in and relationships with legacy covered funds to July 21, 2017.

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

As of September 30, 2016, we held approximately \$1.39 billion of investments in CLOs. As of the same date, these investments had an aggregate pre-tax net unrealized gain of approximately \$17 million, composed primarily of gross unrealized gains of \$17 million. Comparatively, as of December 31, 2015, we held approximately \$2.10 billion of investments in CLOs which had an aggregate pre-tax net unrealized gain of approximately \$43 million, composed of gross unrealized gains of \$46 million and gross unrealized losses of \$3 million. In the event that we or our banking regulators conclude that such investments in CLOs, or other investments, are covered funds under the Volker rule, we may be required to divest of such investments. If other banking entities reach similar conclusions with respect to similar investments held by them, the prices of such investments could decline significantly, and we may be required to divest of such investments at a significant discount compared to the investments' book value. This could result in a material adverse effect on our consolidated results of operations or on our consolidated financial condition in the period in which such a divestiture occurs.

The final Volcker rule regulations also require banking entities to establish extensive programs designed to ensure compliance with the restrictions of the Volcker rule. We have established a compliance program which we believe complies with the final Volcker rule regulations as currently in effect. Such compliance program restricts our ability in the future to engage in certain activities including priority trading

and service certain types of funds, in particular covered funds for which SSGA acts as an advisor and certain types of trustee relationships. Consequently, Volcker rule compliance entails both the cost of a compliance program and loss of certain revenue and future opportunities.

Non-U.S. Debt Securities

Approximately 24% of the aggregate carrying value of our investment securities portfolio was non-U.S. debt securities as of September 30, 2016, compared to approximately 23% as of December 31, 2015.

TABLE 22: NON-U.S. DEBT SECURITIES

(In millions)	September 30, 2016	December 31, 2015
Available-for-sale:		
United Kingdom	\$ 5,694	\$ 5,754
Australia	4,130	3,316
Canada	3,109	2,400
Japan	1,600	1,348
Netherlands	1,517	1,839
South Korea	941	1,052
France	872	954
Germany	731	990

Italy	666	389
Hong Kong	557	—
Norway	546	524
Belgium	315	234
Finland	256	319
Sweden	186	123
Spain	195	150
Ireland	118	29
Other ⁽¹⁾	160	106
Total	\$ 21,593	\$ 19,527
Held-to-maturity:		
Netherlands	\$ 673	\$ 684
United Kingdom	607	1,067
Australia	539	917
Germany	449	832
Singapore	174	129
Spain	106	108
Italy	53	59
Ireland	—	10
Other ⁽²⁾	84	115
Total	\$ 2,685	\$ 3,921

⁽¹⁾ Included approximately \$91 million and \$26 million as of September 30, 2016 and December 31, 2015, respectively, related to Portugal and Austria, all of which were related to mortgage-backed securities and auto loans.

⁽²⁾ Included approximately \$38 million and \$31 million as of September 30, 2016 and December 31, 2015, respectively, related to Portugal and Norway, all of which were related to mortgage-backed securities and auto loans. Approximately 88% and 89% of the aggregate carrying value of these non-U.S. debt securities was rated “AAA” or “AA” as of September 30, 2016 and December 31, 2015, respectively. The majority of these securities comprised senior positions within the security structures; these positions have a level of protection provided through subordination and other forms of credit protection. As of September 30, 2016 and December 31, 2015, approximately 66% and

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70%, respectively, of the aggregate carrying value of these non-U.S. debt securities was floating-rate, and accordingly, we consider these securities to have minimal interest-rate risk.

As of September 30, 2016, our non-U.S. debt securities had an average market-to-book ratio of 100.7%, and an aggregate pre-tax net unrealized gain of approximately \$171 million, composed of gross unrealized gains of \$203 million and gross unrealized losses of \$32 million. These unrealized amounts included a pre-tax net unrealized gain of \$100 million, composed of gross unrealized gains of \$114 million and gross unrealized losses of \$14 million, associated with non-U.S. debt securities available-for-sale.

As of September 30, 2016, the underlying collateral for non-U.S. mortgage- and asset-backed securities primarily included U.K. prime mortgages, Australian and Dutch mortgages and German automobile loans. The securities listed under "Canada" were composed of Canadian government securities and corporate debt and covered bonds. The securities listed under "France" were composed of automobile loans, prime mortgages, and corporate debt and covered bonds. The securities listed under "Japan" were substantially composed of Japanese government securities and corporate debt. The securities listed under "South Korea" were composed of South Korean government securities.

Additional information on our exposures relating to Spain, Italy, Ireland and Portugal as of September 30, 2016 is provided under "Financial Condition - Cross-Border Outstandings" in this Management's Discussion and Analysis.

Municipal Obligations

We carried approximately \$10.76 billion of municipal securities classified as state and political subdivisions in our investment securities portfolio as of September 30, 2016 as shown in Table 20: Carrying Values of Investment Securities. Substantially all of these securities were classified as AFS, with the remainder classified as HTM. As of the same date, we also provided approximately \$9.17 billion of credit and liquidity facilities to municipal issuers.

TABLE 23: STATE AND MUNICIPAL OBLIGORS⁽¹⁾

(In millions)	Total Municipal Securities	Credit and Liquidity Facilities ⁽²⁾	Total	% of Total Municipal Exposure	
September 30, 2016					
State of Issuer:					
Texas	\$ 1,830	\$ 1,773	\$3,603	18	%
California	531	2,342	2,873	14	
Massachusetts	951	1,073	2,024	10	
New York	779	1,146	1,925	10	
Maryland	512	413	925	5	
Total	\$ 4,603	\$ 6,747	\$11,350		
December 31, 2015					
State of Issuer:					
Texas	\$ 1,250	\$ 1,962	\$3,212	17	%
California	444	2,220	2,664	14	
New York	817	1,259	2,076	11	
Massachusetts	927	731	1,658	9	
Maryland	454	413	867	5	
Total	\$ 3,892	\$ 6,585	\$10,477		

⁽¹⁾ Represented 5% or more of our aggregate municipal credit exposure of approximately \$19.93 billion and \$18.50 billion across our businesses as of September 30, 2016 and December 31, 2015, respectively.

⁽²⁾ Includes municipal loans which are also presented within Table 25.

Our aggregate municipal securities exposure presented in Table 23: State and Municipal Obligors, was concentrated primarily with highly-rated counterparties, with approximately 92% of the obligors rated “AAA” or “AA” as of September 30, 2016. As of that date, approximately 51% and 43% of our aggregate municipal securities exposure was associated with general obligation and revenue bonds, respectively. In addition, we had no exposures associated with industrial development or land development bonds. The portfolios are also diversified geographically, with the states that represent our largest exposures widely dispersed across the U.S.

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 AFS and HTM debt securities, we record impairment in our consolidated statement of income when management intends to sell (or may be required to sell) the securities before they recover in value, or when management expects the present value of cash flows expected to be collected from the securities to be less than the amortized cost of the impaired security (a credit loss).

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The increase in the net unrealized gain position as of September 30, 2016 as compared to December 31, 2015, presented in Table 24: Amortized Cost, Fair Value and Net Unrealized Gains (Losses) of Investment Securities, was primarily attributable to the decline in interest rates.

TABLE 24: AMORTIZED COST, FAIR VALUE AND NET UNREALIZED GAINS (LOSSES) OF INVESTMENT SECURITIES

(In millions)	September 30, 2016			December 31, 2015		
	Amortized Cost	Net Unrealized Gains(Losses)	Fair Value	Amortized Cost	Net Unrealized Gains(Losses)	Fair Value
Available-for-sale ⁽¹⁾	\$70,795	\$ 725	\$71,520	\$69,843	\$ 227	\$70,070
Held-to-maturity ⁽¹⁾	28,368	412	28,780	29,952	(154)	29,798
Total investment securities	\$99,163	\$ 1,137	\$100,300	\$99,795	\$ 73	\$99,868
Net after-tax unrealized gain (loss)		\$ 682			\$ 44	

⁽¹⁾ AFS securities are carried at fair value, with after-tax net unrealized gains and losses recorded in AOCI. HTM securities are carried at amortized cost, and unrealized gains and losses are not recorded in our consolidated financial statements.

We conduct periodic reviews of individual securities to assess whether OTTI exists. Our assessment of OTTI 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 or due to idiosyncratic bond performance, OTTI could increase, in particular the credit-related component that would be recorded in our consolidated statement of income.

In the nine months ended September 30, 2016 and 2015, we recorded \$2 million and \$1 million, respectively, of OTTI. Management considers the aggregate decline in fair value of the remaining investment securities and the resulting gross unrealized losses of \$366 million as of September 30, 2016 to be temporary and not the result of any material changes in the credit characteristics of the securities. Additional information with respect to OTTI, net impairment losses and gross unrealized losses is provided in Note 3 to the consolidated financial statements included in this Form 10-Q.

Our evaluation of potential OTTI of structured credit securities with collateral in the U.K. takes into account the outcome from the Brexit referendum and assumes no disruption of payments on these securities.

Our evaluation of potential OTTI of mortgage-backed securities with collateral in Spain, Italy, Ireland, and Portugal takes into account slow economic growth, austerity measures, and government intervention in the corresponding mortgage markets and assumes a conservative baseline macroeconomic environment. Our baseline view assumes a recessionary period characterized by high unemployment and by additional declines in housing prices between 3% and 21%. Our evaluation of OTTI in our base case does not assume a disorderly sovereign debt restructuring or a break-up of the Eurozone.

Loans and Leases

TABLE 25: U.S. AND NON- U.S. LOANS AND LEASES

(In millions)	September 30, 2016	December 31, 2015
Institutional:		
U.S.	\$ 17,598	\$ 16,237
Non-U.S.	3,877	2,534
Commercial real estate:		

U.S.	27	28
Total loans and leases	\$ 21,502	\$ 18,799

The increase in loans in the institutional segment as of September 30, 2016 as compared to December 31, 2015 was primarily driven by higher levels of short-duration advances, partially offset by a decrease in other commercial and financial loans.

Short-duration advances to our clients included in the institutional segment were \$5.70 billion and \$2.62 billion as of September 30, 2016 and December 31, 2015, respectively. These short-duration advances provide liquidity to fund clients in support of their transaction flows associated with securities settlement activities.

As of September 30, 2016 and December 31, 2015, our investment in senior secured loans totaled approximately \$3.38 billion and \$3.14 billion, respectively. In addition, we had binding unfunded commitments as of September 30, 2016 and December 31, 2015 of \$107 million and \$186 million, respectively, to participate in such syndications.

These senior secured loans, which are primarily 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 both September 30, 2016 and December 31, 2015. Our investment strategy involves generally limiting our investment to larger, more liquid credits underwritten by major global financial institutions, applying our internal credit analysis process to each potential investment, and diversifying our exposure by

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counterparty and industry segment. However, these loans have significant exposure to credit losses relative to higher-rated loans.

As of September 30, 2016 and December 31, 2015, unearned income deducted from our investment in leveraged lease financing was \$96 million and \$102 million, respectively, for U.S. leases and \$198 million and \$231 million, respectively, for non-U.S. leases.

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

No loans, including CRE loans, were modified in troubled debt restructurings in the first nine months of 2016 and 2015.

TABLE 26: ALLOWANCE FOR LOAN AND
LEASE LOSSES

	Nine Months Ended September 30,	
(In millions)	2016	2015
Allowance for loan and lease losses:		
Beginning balance	\$ 46	\$ 37
Provision for loan losses	8	11
Charge-offs	(3)	—
Ending balance	\$ 51	\$ 48

The provision of \$8 million and the charge-offs of \$3 million recorded in the first nine months of 2016 were associated with our exposure to senior secured loans to non-investment grade institutional borrowers, which were purchased in connection with our participation in syndicated loans.

As of September 30, 2016, approximately \$43 million of our allowance for loan and lease losses was related to senior secured loans included in the institutional segment. As this portfolio grows and matures, our allowance for loan and lease losses related to these loans may increase through additional provisions for credit losses. The remaining \$8 million was related to other institutional segment loans.

Cross-Border Outstandings

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

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

sheet netting where we deem appropriate. In addition, the Country Risk Committee performs country-risk analyses and monitors limits on country exposure.

The total cross-border outstandings presented in Table 27: Cross-Border Outstandings, represented approximately 28% and 25% of our consolidated total assets as of September 30, 2016 and December 31, 2015, respectively.

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AND RESULTS OF OPERATIONS (Continued)TABLE 27: CROSS-BORDER OUTSTANDINGS⁽¹⁾

(In millions)	Investment Securities and Other Assets	Derivatives and Securities on Loan	Total Cross-Border Outstandings
September 30, 2016			
United Kingdom	\$ 19,328	\$ 1,494	\$ 20,822
Germany	17,609	274	17,883
Japan	15,955	192	16,147
Australia	7,802	244	8,046
Canada	3,610	633	4,243
Luxembourg	3,366	226	3,592
December 31, 2015			
United Kingdom	\$ 16,965	\$ 1,589	\$ 18,554
Japan	17,328	87	17,415
Germany	12,111	569	12,680
Australia	4,035	292	4,327
Canada	3,156	1,113	4,269
Luxembourg	3,034	514	3,548

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

As of September 30, 2016 and 2015, aggregate cross-border outstandings in countries which amounted to between 0.75% and 1% of our consolidated assets totaled approximately \$2.46 billion and \$2.20 billion, respectively, to Netherlands.

TABLE 28: CROSS-BORDER OUTSTANDINGS (IRELAND,
ITALY, SPAIN AND PORTUGAL)

(In millions)	Investment Securities and Other Assets	Derivatives and Securities on Loan	Total Cross-Border Outstandings
September 30, 2016			
Ireland	\$ 887	\$ 410	\$ 1,297
Italy	988	—	988
Spain	301	8	309
Portugal	55	1	56
December 31, 2015			
Ireland	\$ 326	\$ 678	\$ 1,004
Italy	460	—	460
Spain	150	12	162
Portugal	26	—	26

As market and economic conditions change, the major independent credit rating agencies may downgrade U.S. and non-U.S. financial institutions and sovereign issuers which have been, and may in the future be, significant counterparties to us, or whose financial instruments serve as collateral on which we rely for credit risk mitigation purposes, and may do so again in the future. As a result, we may be exposed to increased counterparty risk, leading to negative ratings volatility.

Risk Management

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

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

Many of these risks, as well as certain of the factors underlying each of these risks that could affect our businesses and our consolidated financial statements, are discussed in detail under Item 1A, “Risk Factors,” included in our 2015 Form 10-K.

For additional information on our risk management, including our risk appetite framework and risk governance committee structure, refer to pages 77 to 82 in our 2015 Form 10-K.

Credit Risk Management

We define credit risk as the risk of financial loss if a counterparty, borrower or obligor, collectively referred to as a counterparty, is either unable or unwilling to repay borrowings or settle a transaction in accordance with underlying contractual terms. We assume credit risk in our traditional non-trading lending activities, such as loans and contingent commitments, in our investment securities portfolio, where recourse to a counterparty exists, and in our direct and indirect trading activities, such as principal securities lending and foreign exchange and indemnified agency securities lending. We also assume credit risk in our day-to-day treasury and securities and other settlement operations, in the form of deposit placements and other cash balances, with central banks or private sector institutions.

For additional information on our credit risk management, including our core policies and principles, structure and organization, credit ratings, risk parameter estimates, credit risk mitigation, credit limits, reporting, monitoring, controls and reserve for credit losses, refer to pages 82 to 87 in our 2015 Form 10-K.

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Liquidity Risk Management

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

We manage our liquidity on a global, consolidated basis. We also manage liquidity on a stand-alone basis at the parent company, as well as at certain branches and subsidiaries of State Street Bank. State Street Bank generally has access to markets and funding sources limited to banks, such as the federal funds market and the Federal Reserve's discount window. Our parent company is managed to a more conservative liquidity profile, reflecting narrower market access. Our parent company typically holds enough cash, primarily in the form of interest-bearing deposits or time deposits with its banking subsidiaries, to meet its current debt maturities and cash needs, as well as those projected over the next one-year period. As of September 30, 2016, the value of our parent company's net liquid assets totaled \$4.47 billion, compared with \$5.73 billion as of December 31, 2015. As of September 30, 2016, our parent company and State Street Bank had approximately \$450 million of senior notes outstanding that will mature in the next twelve months.

For additional information on our liquidity risk management, as well as liquidity risk metrics, refer to pages 87 to 88 in our 2015 Form 10-K. For additional information on our liquidity ratios, including LCR and Net Stable Funding Ratio, refer to page 9 in our 2015 Form 10-K. Beginning in July 2015, we were required to report our LCR to the Federal Reserve on a daily basis. As of September 30, 2016, our LCR was in excess of 100%.

Asset Liquidity

Central to the management of our liquidity is asset liquidity, which consists primarily of unencumbered highly liquid securities, cash and cash equivalents reported on our consolidated statement of condition. We restrict the eligibility of securities of asset liquidity to U.S. Government and federal agency securities (including mortgage-backed securities), selected non-U.S. Government and supranational securities as well as certain other high-quality securities which generally are more liquid than

other types of assets even in times of stress. Our asset liquidity metric is similar to the HQLA under the U.S. LCR, and our HQLA, under the LCR final rule definition, were estimated to be \$109.47 billion and \$109.39 billion as of September 30, 2016 and December 31, 2015, respectively.

TABLE 29: COMPONENTS OF HQLA BY TYPE OF ASSET

(In millions)	September 30, December 31,	
	2016	2015
Excess Central Bank Balances	\$ 68,937	\$ 66,063
U.S. Treasuries	19,563	22,518
Other Investment securities	15,771	16,952
Foreign government	5,202	3,861
Total	\$ 109,473	\$ 109,394

With respect to highly liquid short-term investments presented in the preceding table, due to the continued elevated level of client deposits as of September 30, 2016, we maintained cash balances in excess of regulatory requirements governing deposits with the Federal Reserve of approximately \$68.94 billion at the Federal Reserve, the ECB and other non-U.S. central banks, compared to \$66.06 billion as of December 31, 2015. The higher levels of deposits with central banks as of September 30, 2016 compared to December 31, 2015 was due to normal deposit volatility. The increase in other investment securities as of September 30, 2016 compared to December 31, 2015, presented in the

table above, was primarily associated with repositioning the investment portfolio in light of the liquidity requirements of the LCR.

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

Access to primary, intra-day and contingent liquidity provided by these utilities is an important source of contingent liquidity with utilization subject to underlying conditions. As of September 30, 2016 and December 31, 2015, we had no outstanding primary credit borrowings from the FRBB discount window or any other central bank facility, and as of the same dates, no FHLB advances were outstanding.

In addition to the securities included in our asset liquidity, we have significant amounts of other unencumbered investment securities. The aggregate fair value of those securities was \$40.16 billion as of September 30, 2016, compared to \$41.00 billion as of December 31, 2015. These securities are available sources of liquidity, although not as rapidly deployed as those included in our asset liquidity.

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Uses of Liquidity

Significant uses of our liquidity could result from the following: withdrawals of client deposits; draw-downs of unfunded commitments to extend credit or to purchase securities, generally provided through lines of credit; and short-duration advance facilities. Such circumstances would generally arise under stress conditions including deterioration in credit ratings. We had unfunded commitments to extend credit with gross contractual amounts totaling \$21.72 billion and \$22.58 billion as of September 30, 2016 and December 31, 2015, respectively. These amounts do not reflect the value of any collateral. As of September 30, 2016, approximately 75% of our unfunded commitments to extend credit expire within one year. Since many of our commitments are expected to expire or renew without being drawn upon, the gross contractual amounts do not necessarily represent our future cash requirements.

State Street, like other bank holding companies with total consolidated assets of \$50 billion or more, periodically submits a plan for rapid and orderly resolution in the event of material financial distress or failure--commonly referred to as a resolution plan or a living will--to the Federal Reserve and the FDIC under Section 165(d) of the Dodd-Frank Act. Through resolution planning, we seek, in the event of the insolvency of State Street, to maintain State Street Bank's role as a key infrastructure provider within the financial system, while minimizing risk to the financial system and maximizing value for the benefit of our stakeholders. We have and will continue to focus management attention and resources to meet regulatory expectations with respect to resolution planning. In the event of material financial distress or failure, our preferred resolution strategy, referred to as the single point of entry strategy, provides for the recapitalization of State Street Bank and our other material entities by the parent company (for example, by forgiving inter-company indebtedness of State Street Bank owed, directly or indirectly, to the parent company) prior to the parent company's entry into bankruptcy proceedings. The recapitalization, if successful, is intended to enable State Street Bank and our other material entities to continue operating. To implement this strategy, we anticipate establishing a pre-funded intermediate holding company that would support State Street Bank and our other material entities throughout the resolution period. The amount of assets available to the intermediate holding company is anticipated to vary over time and may not be sufficient to meet the liquidity and capital needs of State Street Bank and our other material entities. The parent company and the intermediate holding company would obligate themselves to recapitalizing and/or providing liquidity to State Street Bank and all of our other material entities in the event

of material financial distress, under a contract known as a support agreement. The parent company and the intermediate holding company would secure their obligations under the support agreement by entering into a contract known as a security agreement and by pledging their rights in the assets that the parent company and the intermediate holding company would use to fulfill their support obligations to State Street Bank and our other material entities. The parent company intends to pre-fund the intermediate holding company upon the execution of the support agreement by transferring assets to it that will be available for the subsequent provision of capital and liquidity to State Street Bank and all of our other material entities. Under this single point of entry strategy, State Street Bank and our material entities would not themselves enter into resolution proceedings; they would instead be transferred to a newly organized holding company held by a reorganization trust for the benefit of the parent company's claimants. In the event that such recapitalization actions occur and were unsuccessful in stabilizing State Street Bank, the parent company's financial condition would be adversely impacted and equity and debt holders of the parent company may, as a consequence, be in a worse position than if the recapitalization did not occur.

On April 13, 2016, the Federal Reserve and the FDIC announced the completion of their review of our resolution plan submitted in July 2015. While the Federal Reserve and the FDIC noted improvements in the plan over our prior resolution plans, the regulatory authorities jointly determined that the 2015 resolution plan is not credible or would not facilitate an orderly resolution. We responded to the deficiencies jointly identified by the Federal Reserve and the FDIC in our 2016 resolution plan submission filed on October 1, 2016. Although our October 2016 submission describes the actions we have taken to address the deficiencies identified by the regulatory authorities, those authorities may consider those actions to be insufficient due to a number of factors, including, but not limited to,

challenges we may experience in interpreting and addressing regulatory expectations, failure to implement remediation in a timely manner, the complexities of development of a comprehensive plan to resolve a global custodial bank and related costs and dependencies. If we fail to meet regulatory expectations to the satisfaction of the Federal Reserve and the FDIC in our resolution plan submission filed on October 1, 2016 or in any future submission, we could be subject to more stringent capital, leverage or liquidity requirements, or restrictions on our growth, activities or operations.

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Funding

Deposits

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

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

TABLE 30: CLIENT DEPOSITS

	September 30,		Average Balance Nine Months Ended September 30,	
	2016	2015	2016	2015
(In millions)				
Client deposits ⁽¹⁾	\$183,900	\$168,757	\$153,612	\$178,313

⁽¹⁾ Balance as of September 30, 2016 and September 30, 2015 excluded term wholesale CDs of \$14.87 billion and \$17.61 billion, respectively; average balances for the periods ended September 30, 2016 and September 30, 2015 excluded average CDs of \$15.59 billion and \$12.67 billion, respectively.

Short-Term Funding

We phased out our commercial paper program prior to December 31, 2015, consistent with the objectives of our 2015 recovery and resolution plan developed pursuant to the requirements of the Dodd-Frank Act. Accordingly, we had no commercial paper outstanding at September 30, 2016 or December 31, 2015.

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

Short-term secured funding also comes in the form of securities lent or sold under agreements to repurchase. These transactions are short-term in

nature, generally overnight, and are collateralized by high-quality investment securities. These balances were \$4.36 billion and \$4.50 billion as of September 30, 2016 and December 31, 2015, respectively.

State Street Bank currently maintains a line of credit with a financial institution of CAD 1.40 billion, or approximately \$1.08 billion as of September 30, 2016, to support its Canadian securities processing operations. The line of credit has no stated termination date and is cancelable by either party with prior notice. As of September 30, 2016, there was no balance outstanding on this line of credit.

Long-Term Funding

As of September 30, 2016, State Street Bank had Board authority to issue unsecured senior debt securities from time to time, provided that the aggregate principal amount of such unsecured senior debt outstanding at any one time does not exceed \$5 billion. As of September 30, 2016, \$4 billion was available for issuance pursuant to this authority. As of September 30, 2016, State Street Bank also had Board authority to issue an additional \$500 million of subordinated debt.

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

Agency Credit Ratings

Our ability to maintain consistent access to liquidity is fostered by the maintenance of high investment-grade ratings as measured by the major independent credit rating agencies. Factors essential to maintaining high credit ratings include diverse and stable core earnings; relative market position; strong risk management; strong capital ratios; diverse liquidity sources, including the global capital markets and client deposits; strong liquidity monitoring procedures; and preparedness for current or future regulatory developments. High ratings limit borrowing costs and enhance our liquidity by providing assurance for unsecured funding and depositors, increasing the potential market for our debt and improving our ability to offer products, serve markets, and engage in transactions in which clients value high credit ratings. A downgrade or reduction of our credit ratings could have a material adverse effect on our liquidity by restricting our ability to access the capital

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markets, which could increase the related cost of funds. In turn, this could cause the sudden and large-scale withdrawal of unsecured deposits by our clients, which could lead to draw-downs of unfunded commitments to extend credit or trigger requirements under securities purchase commitments; or require additional collateral or force terminations of certain trading derivative contracts.

A majority of our derivative contracts have been entered into under bilateral agreements with counterparties who may require us to post collateral or terminate the transactions based on changes in our credit ratings. We assess the impact of these arrangements by determining the collateral or termination payments that would be required assuming a downgrade by all rating agencies. The additional collateral or termination payments related to our net derivative liabilities under these arrangements that could have been called by counterparties in the event of a downgrade in our credit ratings below levels specified in the agreements is disclosed in Note 7 to the consolidated financial statements included in this Form 10-Q. Other funding sources, such as secured financing transactions and other margin requirements, for which there are no explicit triggers, could also be adversely affected.

Operational Risk Management

We consider operational risk to be the risk of loss resulting from inadequate or failed internal processes and systems, human error, or from external events. Operational risk encompasses fiduciary risk and legal risk. Fiduciary risk is defined as the risk that State Street fails to properly exercise its fiduciary duties in its provision of products or services to clients. Legal risk is the risk of loss resulting from failure to comply with laws and contractual obligations as well as prudent ethical standards in business practices in addition to exposure to litigation from all aspects of State Street's activities.

For additional information about our operational risk framework, refer to pages 92 to 95 in our 2015 Form 10-K.

Market Risk Management

Market risk is defined by U.S. banking regulators as the risk of loss that could result from broad market movements, such as changes in the general level of interest rates, credit spreads, foreign exchange rates or commodity prices. We are exposed to market risk in both our trading and certain of our non-trading, or asset-and-liability management, activities.

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

Trading Activities

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

For additional information about the market risk associated with our trading activities, refer to pages 95 to 96 in our 2015 Form 10-K.

As part of our trading activities, we assume positions in the foreign exchange and interest-rate markets by buying and selling cash instruments and entering into derivative instruments, including foreign exchange forward contracts, foreign exchange and interest-rate options and interest-rate swaps, interest-rate forward contracts, and interest-rate futures. As of September 30, 2016, the notional amount of these derivative contracts was \$1.34 trillion, of which \$1.32 trillion was composed of foreign exchange forward, swap and spot contracts. We seek to match positions closely with the objective of minimizing related currency and interest-rate risk. All foreign exchange contracts are valued daily at current market rates.

Value-at-Risk, Stress Testing and Stressed VaR

We use a variety of risk measurement tools and methodologies, including VaR, which is an estimate of potential loss for a given period within a stated statistical confidence interval. We use a risk measurement methodology to measure trading-related VaR daily. We have adopted standards for measuring trading-related VaR, and we maintain regulatory

capital for market risk associated with our trading activities in conformity with currently applicable bank regulatory market risk requirements.

For additional information about our VaR measurement tools and methodologies, refer to pages 97 to 101 in our 2015 Form 10-K.

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Stress Testing and Stressed VaR

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

We calculate a stressed VaR-based measure using the same model we use to calculate VaR, but with model inputs calibrated to historical data from a range of continuous twelve-month periods that reflect significant financial stress. The stressed VaR model identifies the second-worst outcome occurring in the worst continuous one-year rolling period since July 2007. This stressed VaR meets the regulatory requirement as the rolling ten-day period with an outcome that is worse than 99% of other outcomes during that twelve-month period of financial stress. For each portfolio, the stress period is determined algorithmically by seeking the one-year time horizon that produces the largest ten-business-day VaR from within the available historical data. This historical data set includes the financial crisis of 2008, the highly volatile period surrounding the Eurozone sovereign debt crisis and the Standard & Poor's downgrade of U.S. Treasury debt in August 2011. As the historical data set used to determine the stress

period expands over time, future market stress events will be automatically incorporated.

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

Validation and Back-Testing

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

We had no back-testing exceptions in the quarters ended September 30, 2016 and June 30, 2016.

The following tables present VaR and stressed VaR associated with our trading activities for covered positions held during the quarters ended September 30, 2016 and June 30, 2016, and as of September 30, 2016 and June 30, 2016, as measured by our VaR methodology:

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

	Quarter Ended September 30, 2016			Quarter Ended June 30, 2016			As of September 30, 2016	As of June 30, 2016
(In thousands)	Average	Maximum	Minimum	Average	Maximum	Minimum	VaR	VaR
Global Markets	\$7,594	\$ 14,160	\$ 4,215	\$6,051	\$ 12,827	\$ 3,605	\$ 9,393	\$5,830
Global Treasury	563	762	399	601	767	433	584	590
Total VaR	\$7,497	\$ 14,048	\$ 4,124	\$5,986	\$ 12,838	\$ 3,410	\$ 9,746	\$5,706

TABLE 32: TEN-DAY STRESSED VaR ASSOCIATED WITH TRADING ACTIVITIES FOR COVERED POSITIONS

(In thousands)	Quarter Ended September 30, 2016			Quarter Ended June 30, 2016			As of September 30, 2016	As of June 30, 2016
	Average	Maximum	Minimum	Average	Maximum	Minimum	Stressed VaR	Stressed VaR
Global Markets	\$35,056	\$ 56,298	\$ 20,763	\$32,573	\$ 40,723	\$ 20,363	\$ 41,487	\$30,486
Global Treasury	11,080	15,123	7,611	12,294	17,420	8,508	10,283	12,536
Total Stressed VaR	\$37,194	\$ 53,771	\$ 23,077	\$35,410	\$ 44,846	\$ 24,726	\$ 45,019	\$32,378

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The three month average of our stressed VaR-based measure was approximately \$37 million for the quarter ended September 30, 2016, compared to an average of approximately \$35 million for the quarter ended June 30, 2016. The increase in the total VaR and stressed VaR-based measures as of September 30, 2016, compared to June 30, 2016, was driven primarily by increased customer flows and larger FX end of day positions in G10 currencies on September 30, 2016 compared to June 30, 2016.

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

periods for the portfolios as of the close of business each day over the past one-year period.

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

The following tables present the VaR and stressed-VaR associated with our trading activities attributable to foreign exchange risk, interest-rate risk and volatility risk as of September 30, 2016 and June 30, 2016. The totals of the VaR-based and stressed VaR-based measures for the three attributes for each VaR and stressed-VaR component exceeded the related total VaR and total stressed VaR presented in the foregoing tables as of each period-end, primarily due to the benefits of diversification across risk types.

TABLE 33: TEN-DAY VaR ASSOCIATED WITH TRADING
ACTIVITIES BY RISK FACTOR⁽¹⁾

(In thousands)	As of September 30, 2016			As of June 30, 2016		
	Foreign Exchange Risk	Interest Rate Risk	Volatility Risk	Foreign Exchange Risk	Interest Rate Risk	Volatility Risk
By component:						
Global Markets	\$7,198	\$4,407	\$ 160	\$3,272	\$3,009	\$ —
Global Treasury	184	576	—	161	595	—
Total VaR	\$7,082	\$4,589	\$ 160	\$3,353	\$3,012	\$ —

TABLE 34: TEN-DAY STRESSED VaR ASSOCIATED WITH
TRADING ACTIVITIES BY RISK FACTOR⁽¹⁾

(In thousands)	As of September 30, 2016			As of June 30, 2016		
	Foreign Exchange Risk	Interest Rate Risk	Volatility Risk	Foreign Exchange Risk	Interest Rate Risk	Volatility Risk
By component:						
Global Markets	\$23,236	\$47,093	\$ 183	\$5,704	\$33,817	\$ —
Global Treasury	229	10,310	—	183	12,665	—
Total Stressed VaR	\$22,837	\$43,256	\$ 183	\$5,730	\$37,141	\$ —

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

embedded in these foreign exchange instruments is included in the interest-rate risk component.

Asset-and-Liability Management Activities

The primary objective of asset-and-liability management is to provide sustainable NIR under varying economic conditions, while protecting the economic value of the assets and liabilities carried in our consolidated statement of condition from the adverse effects of changes in interest rates. While many market factors affect the level of NIR and the economic value of our assets and liabilities, one of the most significant factors is our exposure to movements in interest rates. Most of our NIR is earned from the investment of client deposits generated by our businesses. We invest these client deposits in assets that conform generally to the characteristics of our balance sheet liabilities,

including the currency composition of our significant non-U.S. dollar denominated client liabilities.

We quantify NIR sensitivity using an earnings simulation model that includes our expectations for new business growth, changes in balance sheet mix and investment portfolio positioning. This measure compares our baseline view of NIR over a twelve-month horizon, based on our internal forecast of interest rates, to a wide range of instantaneous and gradual rate shocks. Economic value of equity sensitivity is a discounted cash flow model designed to estimate the fair value of assets and liabilities under a series of interest rate shocks over a long-term horizon. Each approach is routinely monitored as market conditions change and within internally-approved risk limits and guidelines.

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For additional information on our Asset-and-Liability Management Activities, refer to pages 101 to 104 in our 2015 Form 10-K.

In the table below, we report the expected change in NIR over the next twelve months from +/-100 basis point instantaneous and gradual parallel rate shocks. Each scenario assumes no management action is taken to mitigate the adverse effects of interest rate changes on our financial performance. While investment securities balances can fluctuate due to prepayment assumptions in our rate shocks, our deposit balances are consistent with the baseline forecast.

TABLE 35: NIR SENSITIVITY

(In millions)	September 30, 2016	December 31, 2015
Rate change:	Exposure/Benefit	
+100 bps shock	\$ 546	\$ 471
-100 bps shock	(232)	(181)
+100 bps ramp	240	198
-100 bps ramp	(139)	(96)

As of September 30, 2016, NIR sensitivity remains positioned to benefit from a rise in interest rates. The increase in asset sensitivity is primarily driven by fixed-rate deposit growth and slower forecasted re-pricing on interest-bearing deposits. Gradual rate shocks have a similar positioning compared with instantaneous shocks, but are less impactful due to the severity of the rate shift.

The following table highlights our economic value of equity sensitivity to a +/-200 basis point instantaneous rate shock, relative to spot interest rates. Management compares the change in EVE sensitivity against State Street's aggregate tier 1 and tier 2 risk-based capital, calculated in conformity with current applicable regulatory requirements. Economic value of equity sensitivity is dependent on the timing of interest and principal cash flows. Also, the measure only evaluates the spot balance sheet and does not include the impact of new business assumptions.

TABLE 36: EVE SENSITIVITY

(In millions)	September 30, 2016	December 31, 2015 (pro forma)	December 31, 2015 (as reported)
Rate change:	Exposure/Benefit		
+200 bps shock	\$(389)	\$(791)	\$(2,355)
-200 bps shock	27	(25)	1,655

As of September 30, 2016, economic value of equity sensitivity remains exposed to upward shifts in interest rates. The change in each scenario was primarily driven by an increase in our modeled deposit duration and the significant decline in long-term market rates. In the second quarter of 2016, we refined our deposit modeling framework to better reflect recent client activity and pricing actions. These

enhancements extended our expected deposit duration resulting in a significant exposure reduction in the up 200 basis point scenario. To allow for comparison between periods, we have included December 31, 2015 pro-forma information to show what the results would have been under the same model refinements that are included as of September 30, 2016.

Model Risk Management

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

management framework.

For additional information on our model risk management, including our governance and model validation, refer to pages 104 to 105 in our 2015 Form 10-K.

Capital

Managing our capital involves evaluating whether our actual and projected levels of capital are commensurate with our risk profile, are in compliance with all applicable regulatory requirements, and are sufficient to provide us with the financial flexibility to undertake future strategic business initiatives. We assess capital adequacy based on relevant regulatory capital requirements, as well as our own internal capital goals, targets and other relevant metrics.

We have a hierarchical structure supporting appropriate committee review of relevant risk and capital information. The ongoing responsibility for capital management rests with our Treasurer. The Capital Management group within Global Treasury is responsible for the Capital Policy and guidelines, development of the Capital Plan, the management of global capital, capital optimization, as well as enterprise stress testing, including stress revenue and expense modeling and information technology related matters associated with stress testing models.

MRAC provides oversight of our capital management, our capital adequacy, our internal targets and the expectations of the major independent credit rating agencies. In addition, MRAC approves our balance sheet strategy and related activities. The Board's RC assists the Board in fulfilling its oversight responsibilities related to the assessment and management of risk and capital. Our

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Capital Policy is reviewed and approved annually by the Board's RC.

For additional information about our capital, refer to pages 105 to 115 in our 2015 Form 10-K.

Global Systemically Important Bank

We are one among a group of 30 institutions worldwide that have been identified by the FSB and the BCBS as G-SIBs. Our designation as a G-SIB will require us to maintain an additional capital buffer above the Basel III final rule minimum common equity tier 1 capital ratio of 4.5%, based on a number of factors, as evaluated by banking regulators.

In addition to the U.S. Basel III final rule, the Dodd-Frank Act requires the Federal Reserve to establish more stringent capital requirements for large bank holding companies, including State Street. On August 14, 2015, the Federal Reserve published a final rule on the implementation of capital requirements that impose a capital surcharge on U.S. G-SIBs. The surcharge requirements within the final rule began to phase-in on January 1, 2016 and will be fully effective on January 1, 2019. The eight U.S. banks deemed to be G-SIBs, including State Street, are required to calculate the G-SIB surcharge according to two methods, and be bound by the higher of the two:

• Method 1: Assesses systemic importance based upon five equally-weighted components: size, interconnectedness, complexity, cross-jurisdictional activity and substitutability

• Method 2: Alters the calculation from Method 1 by factoring in a wholesale funding score in place of substitutability and applying a 2x multiplier to the sum of the five components

As part of the final rule, the Federal Reserve published estimated G-SIB surcharges for the eight U.S. G-SIBs based on relevant data from 2012 to 2014. Method 2 is identified as the binding methodology for State Street and the applicable surcharge on January 1, 2016 is calculated to be 1.5%. Assuming completion of the phase-in period for the capital conservation buffer, and a countercyclical buffer of 0%, the minimum capital ratios as of January 1, 2019, including a capital conservation buffer of 2.5% and G-SIB surcharge of 1.5% in 2019, would be 10.0% for tier 1 risk-based capital, 12.0% for total risk-based capital, and 8.5% for common equity tier 1 capital, in order for State Street to make capital distributions and discretionary bonus payments without limitation. Not all of our competitors have similarly been designated as systemically important, and therefore some of our competitors may not be subject to the same additional capital requirements.

Regulatory Capital

We and State Street Bank, as advanced approaches banking organizations, are subject to the current U.S. Basel III minimum risk-based capital and leverage ratio guidelines. The Basel III final rule incorporates several multi-year transition provisions for capital components and minimum ratio requirements for common equity tier 1 capital, tier 1 capital and total capital. The transition period started in January 2014 and will be completed by January 1, 2019 which is concurrent with the full implementation of the Basel III final rule in the U.S.

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

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

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

In addition to introducing new capital ratios and buffers, the U.S. Basel III final rule revises the eligibility criteria for regulatory capital instruments and provides for the phase-out of existing capital instruments that do not satisfy the new criteria. For example, existing trust preferred capital securities were phased out from tier 1 capital over a two-year period that ended on January 1, 2016, and subsequently, the qualification of these securities as

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tier 2 capital will be phased out over a multi-year transition period beginning on January 1, 2016 and ending on January 1, 2022. As of September 30, 2016 we had \$890 million of trust preferred securities included in tier 2 regulatory capital.

Under the U.S. Basel III final rule, certain new items are deducted from common equity tier 1 capital and certain regulatory capital deductions were modified as compared to the previously applicable capital regulations. Among other things, the final rule requires significant investments in the common stock of unconsolidated financial institutions, as defined, and certain deferred tax assets that exceed specified individual and aggregate thresholds to be deducted from common equity tier 1 capital. As an advanced approaches banking organization, after-tax unrealized gains and losses on AFS investment securities flow through to and affect State Street's and State Street Bank's common equity tier 1 capital, subject to a phase-in schedule.

We are required to use the advanced approaches framework as provided in the Basel III final rule to determine our risk-based capital requirements. The Dodd-Frank Act applies a "capital floor" to advanced approaches banking organizations, such as State Street and State Street Bank. We are subject to the more stringent of the risk-based capital ratios calculated under the standardized approach and those calculated under the advanced approaches in the assessment of our capital adequacy under the PCA framework.

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

TABLE 37: BASEL III FINAL RULES TRANSITION ARRANGEMENTS AND MINIMUM RISK-BASED CAPITAL RATIOS^{(1) (2)}

	2015	2016	2017	2018	2019
Capital conservation buffer (Common Equity Tier 1)	— %	0.625 %	1.250 %	1.875 %	2.500 %
G-SIB surcharge (CET1) ⁽¹⁾	—	0.375	0.750	1.125	1.500
Minimum common equity tier 1 ⁽³⁾	4.5	5.500	6.500	7.500	8.500
Minimum tier 1 capital ⁽³⁾	6.0	7.000	8.000	9.000	10.000
Minimum total capital ⁽³⁾	8.0	9.000	10.000	11.000	12.000

⁽¹⁾ As part of the G-SIB Surcharge final rule, the Federal Reserve published estimated G-SIB surcharges for the eight U.S. G-SIBs based on relevant data from 2012-2014 and the estimated resulting G-SIB surcharge for State Street is 1.5%. Including the 1.5% surcharge, State Street's minimum risk-based capital ratio requirements, as of January 1, 2019 would be 8.5% for common equity tier 1, 10.0% for tier 1 capital and 12.0% for total capital.

⁽²⁾ Minimum ratios shown above do not reflect the countercyclical buffer, currently set at zero by U.S. banking regulators.

⁽³⁾ Minimum common equity tier 1 capital, minimum tier 1 capital and minimum total capital presented include the transitional capital conservation buffer as well as the estimated transitional G-SIB surcharge being phased-in beginning January 1, 2016 through January 1, 2019 based on an estimated 1.5% surcharge in all periods.

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

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

TABLE 38: REGULATORY CAPITAL STRUCTURE AND RELATED REGULATORY CAPITAL RATIOS

(In millions)	State Street				State Street Bank			
	Basel III Advanced Approaches September 30, 2016 ⁽¹⁾	Basel III Standardized Approach September 30, 2016 ⁽²⁾	Basel III Advanced Approaches December 31, 2015 ⁽¹⁾	Basel III Standardized Approach December 31, 2015 ⁽²⁾	Basel III Advanced Approaches September 30, 2016 ⁽¹⁾	Basel III Standardized Approach September 30, 2016 ⁽²⁾	Basel III Advanced Approaches December 31, 2015 ⁽¹⁾	Basel III Standardized Approach December 31, 2015 ⁽²⁾
Common shareholders' equity:								
Common stock and related surplus	\$10,282	\$10,282	\$10,250	\$10,250	\$11,339	\$11,339	\$10,938	\$10,938
Retained earnings	17,047	17,047	16,049	16,049	11,593	11,593	10,655	10,655
Accumulated other comprehensive income (loss)	(1,107)	(1,107)	(1,422)	(1,422)	(880)	(880)	(1,230)	(1,230)
Treasury stock, at cost	(7,382)	(7,382)	(6,457)	(6,457)	—	—	—	—
Total	18,840	18,840	18,420	18,420	22,052	22,052	20,363	20,363
Regulatory capital adjustments:								
Goodwill and other intangible assets, net of associated deferred tax liabilities ⁽³⁾	(6,483)	(6,483)	(5,927)	(5,927)	(6,152)	(6,152)	(5,631)	(5,631)
Other adjustments	(88)	(88)	(60)	(60)	(83)	(83)	(85)	(85)
Common equity tier 1 capital	12,269	12,269	12,433	12,433	15,817	15,817	14,647	14,647
Preferred stock	3,196	3,196	2,703	2,703	—	—	—	—
Trust preferred capital securities subject to phase-out from tier 1 capital	—	—	237	237	—	—	—	—
Other adjustments	(58)	(58)	(109)	(109)	—	—	—	—
Tier 1 capital	15,407	15,407	15,264	15,264	15,817	15,817	14,647	14,647
Qualifying subordinated long-term debt	1,259	1,259	1,358	1,358	1,270	1,270	1,371	1,371
Trust preferred capital securities phased out of tier 1	890	890	713	713	—	—	—	—

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capital									
ALLL and other	3	75	12	66	4	75	8	66	
Other adjustments	1	1	2	2	—	—	—	—	
Total capital	\$17,560	\$17,632	\$17,349	\$17,403	\$17,091	\$17,162	\$16,026	\$16,084	
Risk-weighted assets:									
Credit risk	\$51,916	\$96,668	\$51,733	\$93,515	\$47,609	\$92,165	\$47,677	\$89,164	
Operational risk	44,643	NA	43,882	NA	44,115	NA	43,324	NA	
Market risk ⁽⁴⁾	3,177	1,706	3,937	2,378	3,177	1,706	3,939	2,378	
Total risk-weighted assets	\$99,736	\$98,374	\$99,552	\$95,893	\$94,901	\$93,871	\$94,940	\$91,542	
Adjusted quarterly average assets	\$226,093	\$226,093	\$221,880	\$221,880	\$221,508	\$221,508	\$217,358	\$217,358	

	2016										
	Minimum Requirements										
	Including										
Capital Ratios ⁽¹⁾ :	2015 Capital Minimum Requirements ⁽⁶⁾										
	Conservation Buffer and G-SIB Surcharge ⁽⁵⁾										
Common equity tier 1 capital	5.5%	4.5%	12.3%	12.5%	12.5%	13.0%	16.7%	16.8%	15.4%	16.0%	%
Tier 1 capital	7.0	6.0	15.4	15.7	15.3	15.9	16.7	16.8	15.4	16.0	
Total capital	9.0	8.0	17.6	17.9	17.4	18.1	18.0	18.3	16.9	17.6	
Tier 1 leverage	4.0	4.0	6.8	6.8	6.9	6.9	7.1	7.1	6.7	6.7	

NA: Not applicable.

(1) Common equity tier 1 capital, tier 1 capital and total capital ratios as of September 30, 2016 and December 31, 2015 were calculated in conformity with the advanced approaches provisions of the Basel III final rule. Tier 1 leverage ratio as of September 30, 2016 and December 31, 2015 were calculated in conformity with the Basel III final rule.

(2) Common equity tier 1 capital, tier 1 capital and total capital ratios as of September 30, 2016 and December 31, 2015 were calculated in conformity with the standardized approach provisions of the Basel III final rule. Tier 1 leverage ratio as of September 30, 2016 and December 31, 2015 were calculated in conformity with the Basel III final rule.

(3) Amounts for State Street and State Street Bank as of September 30, 2016 consisted of goodwill, net of associated deferred tax liabilities, and 60% of other intangible assets, net of associated deferred tax liabilities. Amounts for State Street and State Street Bank as of December 31, 2015 consisted of goodwill, net of deferred tax liabilities and 40% of other intangible assets, net of associated deferred tax liabilities. Intangible assets, net of associated deferred tax liabilities is phased in as a deduction from capital, in conformity with the Basel III final rule.

(4) Market risk risk-weighted assets reported in conformity with the Basel III advanced approaches included a CVA which reflected the risk of potential fair-value adjustments for credit risk reflected in our valuation of over-the-counter derivative contracts. The CVA was not provided for in the final market risk capital rule; however, it

was required by the advanced approaches provisions of the Basel III final rule. We used the simple CVA approach in conformity with the Basel III advanced approaches.

⁽⁵⁾ Minimum requirements will be phased in up to full implementation beginning on January 1, 2019; minimum requirements listed are as of September 30, 2016. See Table 37: Basel III Final Rules Transition Arrangements and Minimum Risk Based Capital Ratios.

⁽⁶⁾ Minimum requirements will be phased in up to full implementation beginning on January 1, 2019; minimum requirements listed are as of December 31, 2015. See Table 37: Basel III Final Rules Transition Arrangements and Minimum Risk Based Capital Ratios.

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As of January 1, 2015 we used the standardized provisions of the Basel III final rule in addition to the advanced approaches provisions which were previously implemented in the second quarter of 2014, and the lower of our regulatory capital ratios calculated under the advanced approaches and those ratios calculated under the standardized approach are applied in the assessment of our capital adequacy for regulatory capital purposes. Beginning in the second quarter of 2014, until January 1, 2015, we used the advanced approaches provisions in the Basel III final rule, and transitional provisions of the Basel III final rule, and the lower of our regulatory capital ratios calculated under the advanced approaches and those ratios calculated under the transitional provisions were applied in the assessment of our capital adequacy for regulatory capital purposes.

Our common equity tier 1 capital decreased \$164 million as of September 30, 2016 compared to December 31, 2015 as a result of purchases by us of our common stock of approximately \$1.04 billion, declarations of common and preferred stock dividends of \$551 million, the impact of the phase-in provisions of the Basel III final rule related to other intangible assets and the impact of the acquired GEAM business on deductions for goodwill and intangibles. The decreases in common equity tier 1 capital were mostly offset by net income and the positive effect of unrealized gains related to AFS investment securities on accumulated other comprehensive income. In the same comparative period, our tier 1 capital increased \$143 million, due to the \$500 million issuance of preferred stock in April 2016, partly offset by the phase-out of trust preferred capital securities from tier 1 capital into tier 2 capital and the decrease in common equity tier 1 capital. Total capital increased \$211 million under advanced approaches and increased \$229 million under standardized approach due to the changes to tier 1 capital, and the inclusion of trust preferred capital securities in tier 2 capital. State Street Bank's tier 1 capital increased \$1.17 billion, and total capital increased \$1.07 billion and \$1.08 billion under the advanced and standardized approaches, respectively, as of September 30, 2016, compared to December 31, 2015. The increase resulted from year-to-date net income, the GEAM acquisition and the previously-described impact to accumulated other comprehensive income, partly offset by the phase-in provisions of the Basel III final rule related to other intangible assets and dividends paid to State Street.

The table below presents a roll-forward of common equity tier 1 capital, tier 1 capital and total capital for the nine months ended September 30, 2016 and for the year ended December 31, 2015.

TABLE 39: CAPITAL ROLL-FORWARD

(In millions)	State Street			
	Basel III Advanced Approach September 30, 2016	Basel III Standardized Approach September 30, 2016	Basel III Advanced Approaches December 31, 2015	Basel III Standardized Approach December 31, 2015
Common equity tier 1 capital:				
Common equity tier 1 capital balance, beginning of period	\$ 12,433	\$ 12,433	\$ 13,327	\$ 13,327
Net income	1,550	1,550	1,980	1,980
Changes in treasury stock, at cost	(925)	(925)	(1,299)	(1,299)
Dividends declared	(551)	(551)	(666)	(666)
Goodwill and other intangible assets, net of associated deferred tax liabilities	(556)	(556)	(58)	(58)
Effect of certain items in accumulated other comprehensive income (loss)	315	315	(780)	(780)
Other adjustments	3	3	(71)	(71)
Changes in common equity tier 1 capital	(164)	(164)	(894)	(894)
Common equity tier 1 capital balance, end of period	12,269	12,269	12,433	12,433
Additional tier 1 capital:				

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Tier 1 capital balance, beginning of period	15,264	15,264	15,618	15,618
Change in common equity tier 1 capital	(164)(164)(894)(894
Net issuance of preferred stock	493	493	742	742
Trust preferred capital securities phased out of tier 1 capital	(237	)(237	)(238	)(238
Other adjustments	51	51	36	36
Changes in tier 1 capital	143	143	(354	)(354
Tier 1 capital balance, end of period	15,407	15,407	15,264	15,264
Tier 2 capital:				
Tier 2 capital balance, beginning of period	2,085	2,139	2,097	2,097
Net issuance and changes in long-term debt qualifying as tier 2	(99	)(99	)(260	)(260
Trust preferred capital securities phased into tier 2 capital	177	177	238	238
Changes in ALLL and other	(9	)(9	12	66
Change in other adjustments	(1	)(1	)(2	)(2
Changes in tier 2 capital	68	86	(12	)(42
Tier 2 capital balance, end of period	2,153	2,225	2,085	2,139
Total capital:				
Total capital balance, beginning of period	17,349	17,403	17,715	17,715
Changes in tier 1 capital	143	143	(354	)(354
Changes in tier 2 capital	68	86	(12)(42
Total capital balance, end of period	\$17,560	\$ 17,632	\$ 17,349	\$ 17,403

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The following table presents a roll-forward of the Basel III advanced approaches risk-weighted assets for the nine months ended September 30, 2016 and for the year ended December 31, 2015.

TABLE 40: ADVANCED APPROACHES RWA ROLL-FORWARD

(In millions)	State Street	
	Nine Months Ended September 30, 2016	Year Ended December 31, 2015
Total risk-weighted assets, beginning of period	\$99,552	\$107,827
Changes in credit risk-weighted assets:		
Net increase (decrease) in investment securities-wholesale	(629)	597
Net increase (decrease) in loans and leases	492	(944)
Net increase (decrease) in securitization exposures	(2,588)	(9,569)
Net increase (decrease) in repo-style transaction exposures	475	842
Net increase (decrease) in OTC derivatives exposures	296	(1,317)
Net increase (decrease) in all other ⁽¹⁾	2,137	(4,750)
Net increase (decrease) in credit risk-weighted assets	183	(15,141)
Net increase (decrease) in credit valuation adjustment	(88)	(618)
Net increase (decrease) in market risk-weighted assets	(672)	(532)
Net increase (decrease) in operational risk-weighted assets	761	8,016
Total risk-weighted assets, end of period	\$99,736	\$99,552

⁽¹⁾ Includes assets not in a definable category, cleared transactions, non-material portfolio, other wholesale, cash and due from, and interest-bearing deposits with banks, equity exposures, and 6% credit risk supervisory charge. As of September 30, 2016, total advanced approaches risk-weighted assets increased \$184 million compared to December 31, 2015, mainly due to an increase in operational risk and credit risk, mostly offset by a decrease in market risk resulting from a lower stressed VaR. The slight increase in credit risk-weighted assets was mainly due to an increase in cash and placements driven by an increase in customer deposits; an increase in securities finance agency and principal lending and an increase in short-duration advances to clients, mostly offset by maturities and amortization of the securitized investment portfolio and a decrease in wholesale investments due to calls of agency debt securities.

As of December 31, 2015, total advanced approaches risk-weighted assets decreased \$8.28 billion compared to December 31, 2014, primarily the result of a reduction in credit risk due to sales, maturities and amortization of the securitized investment portfolio and the subsequent reinvestment in HQLA, a decrease associated with the usage of the alternative modified look through approach for investments in investment funds, and a decline in

over-the-counter foreign exchange derivatives mainly due to a decrease in volumes and the addition of new netting agreements. The decreases were partially offset by an \$8.02 billion increase in operational risk, which reflects adjustments to the model inputs.

The following table presents a roll-forward of the Basel III standardized approach risk-weighted assets for the nine months ended September 30, 2016 and for the year ended December 31, 2015.

TABLE 41: STANDARDIZED APPROACH RWA ROLL-FORWARD

(In millions)	State Street	
	Nine Months	Year Ended

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	Ended September 30, 2016	December 31, 2015
Total estimated risk-weighted assets, beginning of period ⁽¹⁾	\$ 95,893	\$ 125,011
Changes in credit risk-weighted assets:		
Net increase (decrease) in investment securities- wholesale	(1,038)	(2,579)
Net increase (decrease) in loans and leases	2,339	(539)
Net increase (decrease) in securitization exposures	(2,589)	(9,569)
Net increase (decrease) in repo-style transaction exposures	4,409	(7,535)
Net increase (decrease) in OTC derivatives exposures	(1,617)	(4,007)
Net increase (decrease) in all other ⁽²⁾	1,649	(4,357)
Net increase (decrease) in credit risk-weighted assets	3,153	(28,586)
Net increase (decrease) in market risk-weighted assets	(672)	(532)
Total risk-weighted assets, end of period	\$ 98,374	\$ 95,893

⁽¹⁾ Standardized approach risk-weighted assets as of the periods noted above were calculated using State Street's estimates, based on our then current interpretation of the Basel III final rule.

⁽²⁾ Includes assets not in a definable category, cleared transactions, other wholesale, cash and due from, and interest-bearing deposits with banks and equity exposures.

As of September 30, 2016, total standardized approach risk-weighted assets increased \$2.48 billion compared to December 31, 2015, primarily the result of an increase in securities finance agency lending, an increase in short-duration advances to clients and an increase in cash and placements driven by an increase in customer deposits. The increases were partly offset by maturities and amortization of the securitized investment portfolio, a decrease in over-the-counter foreign exchange derivatives resulting from lower market values, a decrease in wholesale investments due to calls of agency debt securities and a reduction in market risk resulting from a lower stressed VaR.

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As of December 31, 2015, total standardized approach risk-weighted assets decreased \$29.12 billion compared to December 31, 2014, primarily the result of a reduction in credit risk due to sales, maturities and pay-downs of both securitized and wholesale investment portfolio and the subsequent reinvestment in HQLA, a decrease in securities financing exposure, a decrease associated with the usage of the alternative modified look through approach for investments in investment funds and a decline in over-the-counter foreign exchange derivatives primarily due to a decrease in volumes and the addition of new netting agreements.

The regulatory capital ratios as of September 30, 2016, presented in Table 38: Regulatory Capital Structure and Related Regulatory Capital Ratios, are calculated under the standardized approach and advanced approaches in conformity with the Basel III final rule. The advanced approaches-based ratios (actual and estimated pro forma) reflect calculations and determinations with respect to our capital and related matters as of September 30, 2016, based on State Street and external data, quantitative formulae, statistical models, historical correlations and assumptions, collectively referred to as "advanced systems," in effect and used by State Street for those purposes as of the time we first reported such ratios in a quarterly report on Form 10-Q. Significant components of these advanced systems involve the exercise of judgment by us and our regulators, and our advanced systems may not, individually or collectively, precisely represent or calculate the scenarios, circumstances, outputs or other results for which they are designed or intended.

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

Estimated Basel III Fully Phased-in Capital Ratios

Table 42: Regulatory Capital Structure and Related Regulatory Capital Ratios - State Street, and Table 43: Regulatory Capital Structure and Related Regulatory Capital Ratios - State Street Bank, present our capital ratios for State Street and State Street Bank as of September 30, 2016, calculated in conformity with the advanced approaches provisions and standardized approach of the Basel III final rule on a, pro forma basis under the fully phased-in provisions of the Basel III final rule.

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AND RESULTS OF OPERATIONS (Continued)TABLE 42: REGULATORY CAPITAL STRUCTURE AND RELATED REGULATORY CAPITAL RATIOS -
STATE STREET

September 30, 2016 (In millions)	Basel III Advanced Approaches	Phase-In Provisions	Basel III Advanced Approaches Fully Phased-In Pro-Forma Estimate	Basel III Standardized Approach	Phase-In Provisions	Basel III Standardized Approach Fully Phased-In Pro-Forma Estimate
Total common shareholders' equity	\$18,840	\$113	\$18,953	\$18,840	\$113	\$18,953
Regulatory capital adjustments:						
Goodwill and other intangible assets, net of associated deferred tax liabilities	(6,483)	(592)	(7,075)	(6,483)	(592)	(7,075)
Other adjustments	(88)	(58)	(146)	(88)	(58)	(146)
Common equity tier 1 capital	12,269	(537)	11,732	12,269	(537)	11,732
Additional tier 1 capital:						
Preferred stock	3,196	—	3,196	3,196	—	3,196
Trust preferred capital securities	—	—	—	—	—	—
Other adjustments	(58)	58	—	(58)	58	—
Additional tier 1 capital	3,138	58	3,196	3,138	58	3,196
Tier 1 capital	15,407	(479)	14,928	15,407	(479)	14,928
Tier 2 capital:						
Qualifying subordinated long-term debt	1,259	—	1,259	1,259	—	1,259
Trust preferred capital securities	890	(45)	845	890	(45)	845
ALLL and other	3	—	3	75	—	75
Other	1	(1)	—	1	(1)	—
Tier 2 capital	2,153	(46)	2,107	2,225	(46)	2,179
Total capital	\$17,560	\$(525)	\$17,035	\$17,632	\$(525)	\$17,107
Risk weighted assets	\$99,736	\$(528)	\$99,208	\$98,374	\$(497)	\$97,877
Adjusted average assets	226,093	(297)	225,796	226,093	(297)	225,796
Total assets for SLR	250,991	(297)	250,694	250,991	(297)	250,694
Capital ratios ⁽¹⁾ :	Minimum Requirement	Minimum Requirement	Minimum Requirement	Minimum Requirement	Minimum Requirement	Minimum Requirement
		Including Capital Conservation Buffer and G-SIB Surcharge	Including Capital Conservation Buffer and G-SIB Surcharge			

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	2016	2019									
Common equity tier 1 capital ⁽²⁾	4.5%	5.5%	8.5%	12.3	%	11.8	%	12.5	%	12.0	%
Tier 1 capital	6.0	7.0	10.0	15.4		15.0		15.7		15.3	
Total capital	8.0	9.0	12.0	17.6		17.2		17.9		17.5	
Tier 1 leverage	4.0	NA	NA	6.8		6.6		6.8		6.6	
Supplementary leverage	5.0	NA	NA	6.1		6.0		6.1		6.0	

NA: Not applicable.

⁽¹⁾ Common equity tier 1 ratio is calculated by dividing common equity tier 1 capital (numerator) by risk-weighted assets (denominator); tier 1 capital ratio is calculated by dividing tier 1 capital (numerator) by risk-weighted assets (denominator); total capital ratio is calculated by dividing total capital (numerator) by risk-weighted assets (denominator); tier 1 leverage ratio is calculated by dividing tier 1 capital (numerator) by adjusted average assets (denominator); and supplementary leverage ratio, or SLR, is calculated by dividing tier 1 capital (numerator) by total assets for SLR (denominator).

⁽²⁾ Common equity tier 1 ratios were calculated in conformity with the provisions of the Basel III final rule; refer to Table 38: Regulatory Capital Structure and Related Regulatory Capital Ratios.

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TABLE 43: REGULATORY CAPITAL STRUCTURE AND RELATED REGULATORY CAPITAL RATIOS - STATE STREET BANK

September 30, 2016 (In millions)	Basel III Advanced Approaches	Phase-In Provisions	Basel III Advanced Approaches Fully Phased-In Pro-Forma Estimate	Basel III Standardized Approach	Phase-In Provisions	Basel III Standardized Approach Fully Phased-In Pro-Forma Estimate
Total common shareholders' equity	\$ 22,052	\$ 122	\$ 22,174	\$ 22,052	\$ 122	\$ 22,174
Regulatory capital adjustments:						
Goodwill and other intangible assets, net of associated deferred tax liabilities	(6,152)	(565)	(6,717)	(6,152)	(565)	(6,717)
Other adjustments	(83)	—	(83)	(83)	—	(83)
Common equity tier 1 capital	15,817	(443)	15,374	15,817	(443)	15,374
Additional tier 1 capital:						
Preferred stock	—	—	—	—	—	—
Trust preferred capital securities	—	—	—	—	—	—
Other adjustments	—	—	—	—	—	—
Additional tier 1 capital	—	—	—	—	—	—
Tier 1 capital	15,817	(443)	15,374	15,817	(443)	15,374
Tier 2 capital:						
Qualifying subordinated long-term debt	1,270	—	1,270	1,270	—	1,270
Trust preferred capital securities	—	—	—	—	—	—
ALLL and other	4	—	4	75	—	75
Other	—	—	—	—	—	—
Tier 2 capital	1,274	—	1,274	1,345	—	—