

STATE STREET CORP  
Form 10-Q  
November 04, 2011  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended September 30, 2011

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

Edgar Filing: STATE STREET CORP - Form 10-Q

(State or other jurisdiction

(I.R.S. Employer Identification No.)

of incorporation or organization)

**One Lincoln Street**

**Boston, Massachusetts**  
(Address of principal executive office)

**02111**  
(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 Exchange Act). Yes  No

The number of shares of State Street's common stock outstanding on October 31, 2011 was 491,950,765

**Table of Contents**

**STATE STREET CORPORATION**

**Quarterly Report on Form 10-Q for the Quarterly Period Ended September 30, 2011**

**Table of Contents**

	<b>Page</b>
<b>PART I. FINANCIAL INFORMATION</b>	
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	2
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	48
<u>Controls and Procedures</u>	48
<u>Consolidated Statement of Income (Unaudited) for the three and nine months ended September 30, 2011 and 2010</u>	49
<u>Consolidated Statement of Condition as of September 30, 2011 (Unaudited) and December 31, 2010</u>	50
<u>Consolidated Statement of Changes in Shareholders' Equity (Unaudited) for the nine months ended September 30, 2011 and 2010</u>	51
<u>Consolidated Statement of Cash Flows (Unaudited) for the nine months ended September 30, 2011 and 2010</u>	52
<u>Table of Contents for Condensed Notes to Consolidated Financial Statements (Unaudited)</u>	53
<u>Condensed Notes to Consolidated Financial Statements (Unaudited)</u>	54
<u>Report of Independent Registered Public Accounting Firm</u>	107
<b><u>FORM 10-Q PART I CROSS-REFERENCE INDEX</u></b>	108
<b>PART II. OTHER INFORMATION</b>	
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	109
<u>Exhibits</u>	109
<b><u>SIGNATURES</u></b>	110
<b><u>EXHIBIT INDEX</u></b>	111

---

**Table of Contents**

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

**GENERAL**

State Street Corporation, the parent company, is a financial holding company headquartered in Boston, Massachusetts. Unless otherwise indicated or unless the context requires otherwise, all references in this Management's Discussion and Analysis to State Street, we, us, our or similar terms mean State Street Corporation and its subsidiaries on a consolidated basis. Our principal banking subsidiary is State Street Bank and Trust Company, or State Street Bank. At September 30, 2011, we had consolidated total assets of \$208.80 billion, consolidated total deposits of \$135.00 billion, consolidated total shareholders' equity of \$19.65 billion and 29,685 employees.

We are a leader in providing financial services and products to meet the needs of institutional investors worldwide, with \$21.51 trillion of assets under custody and administration and \$1.88 trillion of assets under management as of September 30, 2011. Our clients include U.S. mutual funds, collective investment funds and other investment pools, corporate and public retirement plans, insurance companies, foundations, endowments and investment managers.

We have two lines of business:

*Investment Servicing* provides products and services including custody, product- and participant-level accounting; daily pricing and administration; master trust and master custody; recordkeeping; foreign exchange, brokerage and other trading services; securities finance; deposit and short-term investment facilities; loan and lease financing; investment manager and alternative investment manager operations outsourcing; and performance, risk and compliance analytics.

*Investment Management* provides, through State Street Global Advisors, or SSgA, a broad array of investment management, investment research and other related services, such as securities finance. SSgA offers strategies for managing financial assets, including passive and active, such as enhanced indexing and hedge fund strategies, using quantitative and fundamental methods for both U.S. and global equities and fixed-income securities. SSgA also offers exchange-traded funds.

Financial information about our lines of business is provided in the Line of Business Information section of this Management's Discussion and Analysis and in 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 third quarter of 2011, and updates the Management's Discussion and Analysis in our Annual Report on Form 10-K, or Form 10-K, for the year ended December 31, 2010, and in our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2011 and June 30, 2011. You should read the financial information contained in this Management's Discussion and Analysis and elsewhere in this Form 10-Q in conjunction with the financial and other information contained in those reports. Certain previously reported amounts have been reclassified to conform to current period classifications as presented in this Form 10-Q.

Our consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles, or GAAP, and we apply accounting policies that affect the determination of amounts reported in those financial statements. The majority of the accounting policies applied by us do not involve difficult, subjective or complex judgments or estimates in their application, or the variability of the estimates is not material to our consolidated financial statements. However, certain of our accounting policies, by their nature, require

---

**Table of Contents**

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

management to make judgments, involving significant estimates and assumptions, about the effects of matters that are inherently uncertain. These estimates and assumptions are based on information available as of the date of the financial statements, and changes in this information over time could materially affect the amounts of assets, liabilities, equity, revenue and expenses reported in subsequent consolidated financial statements.

Based on the sensitivity of reported financial statement amounts to the underlying estimates and assumptions, the relatively more significant accounting policies applied by State Street have been identified by management as those associated with our accounting for fair value measurements; interest revenue recognition and other-than-temporary impairment; and impairment of goodwill and other intangible assets. These accounting policies require the most subjective or complex judgments, and underlying estimates and assumptions could be subject to revision as new information becomes available. An understanding of the judgments, estimates and assumptions underlying these accounting policies is essential in order to understand our reported consolidated results of operations and financial condition.

Additional information about these accounting policies is included in the Significant Accounting Estimates section of Management's Discussion and Analysis in our 2010 Form 10-K. We did not change these accounting policies during the first nine months of 2011.

Certain financial information provided in this Management's Discussion and Analysis has been prepared on both a GAAP basis and a non-GAAP, or operating, basis. Management measures and compares certain financial information on an operating basis, as it believes that this presentation supports meaningful comparisons from period to period and supports the analysis of comparable financial trends with respect to State Street's normal ongoing business operations. Management believes that operating-basis financial information, which reports revenue from non-taxable sources on a fully taxable-equivalent basis and excludes the effect of revenue and expenses outside of the normal course of our business, facilitates an investor's understanding and analysis of State Street's underlying financial performance and trends. Operating-basis financial information should be considered in addition to, not as a substitute for or superior to, financial information prepared in accordance with GAAP. Any non-GAAP, or operating-basis, financial information presented in this Management's Discussion and Analysis is reconciled to its nearest GAAP-basis measure.

**FORWARD-LOOKING STATEMENTS**

This Form 10-Q, including this Management's Discussion and Analysis, as well as other reports filed by us under the Securities Exchange Act of 1934 or registration statements filed by us under the Securities Act of 1933, contain statements that are considered forward-looking statements within the meaning of U.S. securities laws, including statements about industry trends, management's expectations about our financial performance, market growth, acquisitions and divestitures, new technologies, services and opportunities and earnings, management's confidence in our strategies and other matters that do not relate strictly to historical facts. Forward-looking statements are often, but not always, identified by such forward-looking terminology as expect, look, believe, anticipate, estimate, future state, forecast, seek, may, will, or similar statements or variations of 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

**Table of Contents**

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

global economies, the equity, debt, currency and other financial markets, as well as factors specific to State Street and its subsidiaries, including State Street Bank. Factors that could cause changes in the expectations or assumptions on which forward-looking statements are based include, but are not limited to:

the manner in which the Federal Reserve and other regulators implement the Dodd-Frank Act and other regulatory initiatives in the U.S. and internationally, including any increases in the minimum regulatory capital ratios applicable to us and regulatory developments that result in changes to our operating model, or other changes to the provision of our services in order to comply with or respond to such regulations;

required regulatory capital ratios under Basel II and Basel III, in each case as fully implemented by State Street and State Street Bank (and in the case of Basel III, when finally adopted by the Federal Reserve), which may result in the need for substantial additional regulatory capital or increased levels of liquidity in the future;

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

financial market disruptions and economic recession, whether in the U.S. or internationally;

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

increases in the volatility of, or declines in the levels of, our net interest revenue, changes in the composition of the assets carried in our consolidated statement of condition and the possibility that we may be required to change the manner in which we fund those assets;

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;

the credit quality, credit agency ratings, and fair values of the securities in our investment securities portfolio, a deterioration or downgrade of which could lead to other-than-temporary impairment of the respective securities and the recognition of an impairment loss in our consolidated statement of income;

delays or difficulties in the execution of our previously announced business operations and information technology transformation program, which could lead to changes in our estimates of the charges, expenses or expense savings associated with the planned program, resulting in increased volatility of our earnings;

## Edgar Filing: STATE STREET CORP - Form 10-Q

the maintenance of credit agency ratings for our debt and depository obligations as well as the level of credibility of credit agency ratings;

the results of, and costs associated with, government investigations, litigation, and similar claims, disputes or proceedings;

the risks that acquired businesses will not be integrated successfully, or that the integration will take longer than anticipated, that expected synergies will not be achieved or unexpected dissynergies 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 relationships with clients, employees or regulators;

**Table of Contents**

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

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

the performance of and demand for the products and services we offer, including the level and timing of redemptions and withdrawals from our collateral pools and other collective investment products;

the possibility that our clients will incur substantial losses in investment pools where we act as agent, and the possibility of significant reductions in the valuation of assets;

our ability to attract deposits and other low-cost, short-term funding;

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

the level and volatility of interest rates and the performance and volatility of securities, credit, currency and other markets in the U.S. and internationally;

our ability to measure the fair value of the investment securities carried in our consolidated statement of condition;

our ability to control operating risks, data security breach risks, information technology systems risks and outsourcing risks, and our ability to protect our intellectual property rights, the possibility of errors in the quantitative models we use to manage our businesses and the possibility that our controls will prove insufficient, fail or be circumvented;

adverse publicity or other reputational harm;

our ability to grow revenue, attract and/or retain and compensate highly skilled people, control expenses and attract the capital necessary to achieve our business goals and comply with regulatory requirements;

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.



## Edgar Filing: STATE STREET CORP - Form 10-Q

Therefore, 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 2010 Form 10-K. Forward-looking statements should not be relied upon 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 the forward-looking statements contained in this Form 10-Q to reflect events after the time it is filed with the SEC. The factors discussed above are not intended to be a complete summary of all risks and uncertainties that may affect our businesses. We cannot anticipate all political, operational, market, financial and other developments that may adversely affect our consolidated results of operations and financial condition.

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

**Table of Contents**

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

**OVERVIEW OF FINANCIAL RESULTS**

(Dollars in millions, except per share amounts)	Quarters Ended September 30,			Nine Months Ended September 30,		
	2011	2010	% Change	2011	2010 <sup>(1)</sup>	% Change
Total fee revenue	\$ 1,844	\$ 1,569	18%	\$ 5,527	\$ 4,805	15%
Net interest revenue	578	724	(20)	1,727	2,043	(15)
Gains related to investment securities, net	5	17		25	62	
Total revenue	2,427	2,310	5	7,279	6,910	5
Provision for loan losses		1		1	26	
Expenses:						
Expenses from operations	1,713	1,518	13	5,153	4,552	13
Securities lending charge					414	
Acquisition and restructuring costs and U.K. bonus tax, net <sup>(2)</sup>	85	9		121	84	
Total expenses	1,798	1,527	18	5,274	5,050	4
Income before income tax expense	629	782	(20)	2,004	1,834	9
Income tax expense	74	236		465	361	
Net income	\$ 555	\$ 546		\$ 1,539	\$ 1,473	
Adjustments to net income:						
Dividends on preferred stock	\$ (6)			\$ (13)		
Earnings allocated to participating securities <sup>(3)</sup>	(6)	(6)		(15)	(14)	
Net income available to common shareholders	\$ 543	\$ 540		\$ 1,511	\$ 1,459	
Earnings per common share:						
Basic	\$ 1.11	\$ 1.09		\$ 3.05	\$ 2.94	
Diluted	1.10	1.08		3.03	2.93	
Average common shares outstanding (in thousands):						
Basic	490,840	495,729		495,015	495,312	
Diluted	494,780	498,159		498,417	497,715	
Cash dividends declared	\$ .18	\$ .01		\$ .54	\$ .03	
Return on average common equity	11.2%	12.9%		10.8%	12.4%	

(1) Financial results for the nine months ended September 30, 2010 included those of the acquired Intesa Sanpaolo securities services, or Intesa, and Maurant International Finance Administration, or MIFA, businesses beginning May 17, 2010 and April 1, 2010, respectively.

(2) Amount for the quarter ended September 30, 2010 was composed of acquisition costs of \$23 million, net of a one-time partial reversal of \$14 million of expense associated with a tax on bonus payments to employees in the U.K. Amount for the nine months ended September 30, 2010 was composed of acquisition costs of \$77 million and \$7 million of net expense associated with a tax on bonus payments to employees in the U.K.

Edgar Filing: STATE STREET CORP - Form 10-Q

- <sup>(3)</sup> Adjustments represented the allocation of earnings to participating securities. See note 16 to the consolidated financial statements included in this Form 10-Q.

---

**Table of Contents**

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

**Highlights**

This section provides highlights with respect to our consolidated financial results for the third quarter of 2011 compared to the third quarter of 2010 presented in the preceding table, as well as other information related to the quarter. Additional information about our financial results is provided under Consolidated Results of Operations, which follows this section.

***Significant Developments***

During the third quarter, we declared a quarterly common stock dividend of \$0.18 per share, or approximately \$90 million, which was paid in October 2011. This dividend, together with aggregate dividends of \$0.36 per share, or approximately \$180 million, declared in the first half of this year, totals approximately \$270 million, compared to aggregate dividends of \$0.04 per share, or \$20 million, paid in all of 2010. The 2011 dividends represented the first increase in our common stock dividend since we announced a reduction of such dividends in the first quarter of 2009, in connection with our plan to strengthen our tangible common equity.

During the period April 1, 2011 through September 30, 2011, we purchased approximately 10.7 million shares of our common stock under the program approved by the Board of Directors and publicly announced in March 2011, under which we are authorized to purchase up to \$675 million of our common stock during 2011. The shares were purchased at an average per-share and aggregate cost of \$42.06 and approximately \$450 million, respectively. The shares were recorded as treasury stock in our consolidated statement of condition as of September 30, 2011. We had remaining authority to purchase approximately \$225 million of our common stock under the program as of September 30, 2011.

During the third quarter of 2011, we recorded restructuring charges of approximately \$66 million in connection with the continuing implementation of our business operations and information technology transformation program. The charges during the quarter consisted mainly of costs related to employee severance and information technology. In addition, we expect to achieve approximately \$80 million of annual pre-tax expense savings in 2011 in connection with our implementation of the program. Additional information is provided under Consolidated Results of Operations Expenses in this Management's Discussion and Analysis.

***Financial Results***

Total revenue for the third quarter of 2011 increased 5% compared to the same period in 2010; total fee revenue increased 18% and net interest revenue declined 20% in the same comparison.

Servicing and management fees for the third quarter of 2011 were up 10% and 17%, respectively, compared to the third quarter of 2010. The increase in servicing fee revenue was due mainly to the impact of net new business installed and improvements in daily average equity market valuations. The increase in management fee revenue resulted mainly from improvements in average month-end equity market valuations, as well as the addition of revenue from the acquired Bank of Ireland Asset Management, or BIAM, business, which acquisition was completed in January 2011. The impact of net new business installed also contributed to the increase in revenue.

Trading services revenue increased 46% comparing the third quarter of 2011 to the third quarter of 2010, primarily the result of a 91% increase in foreign exchange trading revenue associated with higher volatility and higher client volumes (foreign exchange revenue), as well as an increase in revenue from electronic trading (brokerage and other trading services revenue). In the same comparison, securities finance revenue increased 25% as a result of improvement in spreads, partly offset by a slight decrease in average lending volumes. Processing fees and other revenue increased 27%, mainly as a result of gains related to real estate and certain leases.

**Table of Contents**

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

For the third quarter of 2011, we recorded net interest revenue of \$578 million, which included \$46 million of discount accretion related to investment securities added to our consolidated statement of condition in connection with the May 2009 asset-backed commercial paper conduit consolidation. Net interest revenue for the third quarter of 2010 was \$724 million, including \$189 million of conduit-related accretion. Accordingly, net interest revenue declined 20% compared to the prior-year third quarter (refer to the Net Interest Revenue section under Consolidated Results of Operations in this Management's Discussion and Analysis). This decrease primarily reflected the impact of the decline in conduit related accretion, which was generally due to sales of investment portfolio securities, in particular the repositioning of our investment portfolio executed by us in December 2010, and paydowns.

Net interest margin, computed on fully taxable-equivalent net interest revenue of \$610 million (\$578 million of GAAP-basis net interest revenue plus a tax-equivalent adjustment of \$32 million), declined 80 basis points from 2.36% in the third quarter of 2010 to 1.56% in the third quarter of 2011. The above-mentioned conduit-related discount accretion accounted for 12 basis points of net interest margin for the third quarter of 2011, compared to 59 basis points for the third quarter of 2010. Excluding discount accretion, fully taxable-equivalent net interest revenue for the third quarter of 2011 would have been \$564 million (\$610 million less \$46 million), compared to \$568 million (\$757 million, which includes a tax-equivalent adjustment of \$33 million, less \$189 million) for the third quarter of 2010. Net interest margin for the third quarter of 2011 computed on the same basis would have been 1.44% compared to 1.77% for the third quarter of 2010. A little over a third of this decrease in margin was the result of the effect of a higher level of client deposits on average interest-earning assets (refer to the Net Interest Revenue section of this Management's Discussion and Analysis for additional information).

We recorded net realized gains of \$15 million from sales of available-for-sale securities during the third quarter of 2011, compared to net realized gains of \$91 million during the third quarter of 2010. Separately, we recorded credit-related other-than-temporary impairment of \$10 million during the third quarter of 2011, compared to \$74 million during the third quarter of 2010, with the impairment for both periods largely related to non-agency mortgage-backed securities. The aggregate net realized gains and net impairment losses resulted in net gains related to investment securities of \$5 million for the third quarter of 2011, compared to net gains of \$17 million for the same period in 2010.

Total expenses increased 18% for the third quarter of 2011 compared to the third quarter of 2010. This increase included higher salaries and employee benefits expenses in 2011 associated with year-over-year salary adjustments and the addition of expenses of acquired businesses, as well as non-recurring expenses associated with our implementation of the business operations and information technology transformation program.

We recorded income tax expense of \$74 million for the third quarter of 2011, compared to \$236 million for the third quarter of 2010. Our effective tax rate for the third quarter of 2011 was 11.7%, down from 30.1% for the third quarter of 2010, due to a \$91 million discrete tax benefit related to the cost of terminating funding obligations that supported former conduit asset structures, as well as the geographic mix of earnings.

During the third quarter of 2011, we were awarded approximately \$245 billion of new business in assets to be serviced; approximately \$65 billion was installed prior to September 30, 2011, with substantially all of the remainder expected to be installed during the fourth quarter of this year. In addition, of the new asset servicing business awarded in prior periods that had not been installed as of June 30, 2011, approximately \$179 billion was installed during the third quarter of 2011.

**Table of Contents**

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

With respect to the new asset servicing business referenced above, we will provide various services for these assets, including accounting, fund administration, custody, foreign exchange, securities finance, transfer agency, performance analytics, compliance reporting and monitoring, hedge fund servicing, private equity administration, real estate administration, depository banking services, wealth management services and investment manager operations outsourcing.

During the third quarter of 2011, we were awarded approximately \$88 billion of gross new business in assets to be managed. We installed \$76 billion of this new asset management business during the third quarter, and we are scheduled to install the remaining new business in the fourth quarter of this year. This new business is composed of a variety of investment strategies, mainly passive and exchange-traded funds.

**CONSOLIDATED RESULTS OF OPERATIONS**

This section discusses our consolidated results of operations for the third quarter and first nine months of 2011 compared to the same periods in 2010, and should be read in conjunction with the consolidated financial statements and accompanying condensed notes included in this Form 10-Q.

**TOTAL REVENUE**

Information with respect to the sources of our revenue, the products and activities that generate it, and the factors that influence the levels of revenue generated during any period is provided under "Consolidated Results of Operations - Total Revenue" in Management's Discussion and Analysis included in our 2010 Form 10-K.

(Dollars in millions)	Quarters Ended September 30,			Nine Months Ended September 30,		
	2011	2010	% Change	2011	2010	% Change
<b>Fee revenue:</b>						
Servicing fees	\$ 1,106	\$ 1,006	10%	\$ 3,325	\$ 2,874	16%
Management fees	229	196	17	715	608	18
Trading services	334	228	46	947	796	19
Securities finance	85	68	25	288	249	16
Processing fees and other	90	71	27	252	278	(9)
<b>Total fee revenue</b>	<b>1,844</b>	<b>1,569</b>	<b>18</b>	<b>5,527</b>	<b>4,805</b>	<b>15</b>
<b>Net interest revenue:</b>						
Interest revenue	728	904	(19)	2,181	2,628	(17)
Interest expense	150	180	(17)	454	585	(22)
<b>Net interest revenue</b>	<b>578</b>	<b>724</b>	<b>(20)</b>	<b>1,727</b>	<b>2,043</b>	<b>(15)</b>
Gains related to investment securities, net	5	17		25	62	
<b>Total revenue</b>	<b>\$ 2,427</b>	<b>\$ 2,310</b>	<b>5</b>	<b>\$ 7,279</b>	<b>\$ 6,910</b>	<b>5</b>

**Fee Revenue**

Servicing and management fees collectively comprised approximately 72% and 73%, respectively, of our total fee revenue for the third quarter and first nine months of 2011, compared to approximately 77% and 72%, respectively, for the corresponding periods in 2010. These fees are influenced by, among other factors, the mix and volume of assets under custody and administration and assets under management, securities positions held and the volume of portfolio transactions and the types of products and services used by our clients, and are generally affected by changes in worldwide equity and fixed-income valuations.



**Table of Contents**

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

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

Generally, our management fee revenue is more sensitive to market valuations than our servicing fee revenue. Management fees for enhanced index and actively managed products are generally earned at higher rates than those for passive products. Enhanced index and actively managed products may also involve performance-fee arrangements.

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

The following table presents selected equity market indices. Daily averages and the averages of month-end indices demonstrate worldwide changes in equity market valuations that affect our servicing fee and management fee revenue, respectively. Quarter-end indices affect the value of assets under custody and administration and assets under management at those dates. The index names listed in the table are service marks of their respective owners.

**INDEX**

	Daily Averages of Indices			Average of Month-End Indices			Quarter-End Indices		
	Quarters Ended September 30,			Quarters Ended September 30,			As of September 30,		
	2011	2010	% Change	2011	2010	% Change	2011	2010	% Change
S&P 500®	1,225	1,096	12%	1,214	1,097	11%	1,131	1,141	(1)%
NASDAQ®	2,607	2,237	17	2,584	2,246	15	2,415	2,369	2
MSCI EAFE®	1,531	1,472	4	1,526	1,487	3	1,373	1,561	(12)

	Daily Averages of Indices			Average of Month-End Indices		
	Nine Months Ended September 30,			Nine Months Ended September 30,		
	2011	2010	% Change	2011	2010	% Change
S&P 500®	1,282	1,118	15%	1,290	1,105	17%
NASDAQ®	2,703	2,286	18	2,722	2,261	20
MSCI EAFE®	1,646	1,493	10	1,663	1,480	12

***Servicing Fees***

The 10% increase in servicing fees in the quarterly comparison resulted primarily from the impact of net new business installed on current period revenue, as well as increases in daily average equity market valuations. The 16% increase in the nine-month comparison resulted primarily from the impact of net new business installed, the addition of revenue from the acquired Intesa and MIFA businesses (full nine months for 2011 versus approximately five months for 2010) and increases in daily average equity market valuations. For both the third quarter and first nine months of 2011, servicing fees generated outside the U.S. were approximately 42% of total servicing fees, compared to approximately 43% and 41% for the third quarter and first nine months of 2010, respectively.



**Table of Contents**

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

At September 30, 2011, we had aggregate assets under custody and administration, presented in the tables that follow, of \$21.51 trillion, compared to \$21.53 trillion at December 31, 2010, and up \$1.28 trillion, or 6%, from \$20.23 trillion at September 30, 2010. The impact of net new business installed during the first nine months of 2011 was essentially offset by declines in period-end asset valuations. The increase from September 30, 2010 mainly reflected the installation of new business, partly offset by declines in period-end asset valuations. New asset servicing business not installed by September 30, 2011 was not included in our assets under custody and administration at that date, and had no impact on our servicing fee revenue for the third quarter of 2011, as the assets are not included until their installation is complete and we begin to service them. The assets do not begin generating servicing fee revenue until after they are installed.

**ASSETS UNDER CUSTODY AND ADMINISTRATION**

(In billions)	September 30, 2011	December 31, 2010	September 30, 2010
Mutual funds	\$ 5,117	\$ 5,540	\$ 5,018
Collective funds	4,317	4,350	4,000
Pension products	4,940	4,726	4,539
Insurance and other products	7,136	6,911	6,669
<b>Total</b>	<b>\$ 21,510</b>	<b>\$ 21,527</b>	<b>\$ 20,226</b>

**FINANCIAL INSTRUMENT MIX OF ASSETS UNDER CUSTODY AND ADMINISTRATION**

(In billions)	September 30, 2011	December 31, 2010	September 30, 2010
Equities	\$ 10,420	\$ 11,000	\$ 9,950
Fixed-income	8,345	7,875	7,607
Short-term and other investments	2,745	2,652	2,669
<b>Total</b>	<b>\$ 21,510</b>	<b>\$ 21,527</b>	<b>\$ 20,226</b>

**Management Fees**

Management fees increased 17% and 18% during the third quarter and first nine months of 2011, respectively, compared to the third quarter and first nine months of 2010. The increases in both periods were primarily the result of increases in average month-end equity market valuations and the addition of revenue from the acquired BIAM business, as well as the impact of net new business installed in current and prior periods. Average month-end equity market valuations, individually presented in the foregoing INDEX table, were up an average of 11% for the third quarter of 2011 compared to the third quarter of 2010, and were up 17% in the nine-month comparison. For both the third quarter and first nine months of 2011, management fees generated outside the U.S. were approximately 41% of total management fees, compared to approximately 33% and 34% for the third quarter and first nine months of 2010, respectively.

At September 30, 2011, we had aggregate assets under management, presented in the tables that follow, of \$1.88 trillion, which decreased \$133 billion from \$2.01 trillion at December 31, 2010, and decreased \$82 billion from \$1.96 trillion at September 30, 2010. The decreases in both comparisons generally reflected the effects of declines in period-end asset valuations and net lost business (including the previously anticipated reduction



**Table of Contents**

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

associated with the U.S. Treasury's winding down of its portfolio of agency-guaranteed mortgage-backed securities), partly offset by the addition of managed assets from the BIAM acquisition. New asset management business awarded to us, but not installed by September 30, 2011, was not included in our assets under management as of September 30, 2011, and will be included in managed assets as the new business is installed. The assets do not begin generating management fee revenue until after they are installed.

**ASSETS UNDER MANAGEMENT**

(In billions)	September 30, 2011	December 31, 2010	September 30, 2010
Passive:			
Equities	\$ 597	\$ 655	\$ 573
Fixed-income	288	363	393
Exchange-traded funds <sup>(1)</sup>	247	255	223
Other	202	210	217
Total Passive	1,334	1,483	1,406
Active:			
Equities	39	55	54
Fixed-income	18	17	22
Other	51	28	26
Total Active	108	100	102
Cash	435	427	451
Total	\$ 1,877	\$ 2,010	\$ 1,959

<sup>(1)</sup> Includes SPDR® Gold Fund, for which State Street is not the investment manager but acts as distribution agent.

The following table presents the components of the changes in assets under management during the twelve months ended September 30, 2011:

**ASSETS UNDER MANAGEMENT**

(In billions)	
September 30, 2010	\$ 1,959
Net new (lost) business	(12)
Market appreciation	63
December 31, 2010	\$ 2,010
Net new (lost) business <sup>(1)</sup>	(47)
Assets added from BIAM acquisition	23
Market depreciation	(109)
September 30, 2011	\$ 1,877

- <sup>(1)</sup> Includes the sale of approximately \$35 billion of U.S. government securities associated with the U.S. Treasury's winding down of its portfolio of agency-guaranteed mortgage-backed securities. Future sales by the U.S. Treasury of the remaining portfolio of approximately \$88 billion will further reduce our assets under management.

---

**Table of Contents**

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

***Trading Services***

Trading services revenue includes revenue from foreign exchange trading, as well as brokerage and other trading services. We earn foreign exchange trading revenue by acting as a market maker. We offer a range of foreign exchange, or FX, products, services and execution models which focus on clients' global requirements for our proprietary research and the execution of trades in any time zone. Most of our FX products and execution models can be grouped into three broad categories: direct FX, indirect FX, and electronic trading. 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, commission recapture and self-directed brokerage. These products are differentiated by our position as an agent of the institutional investor. Direct and indirect FX revenue is recorded in foreign exchange trading revenue; revenue from electronic trading is recorded in brokerage and other trading services revenue.

Trading services revenue increased 46% for the third quarter of 2011 compared to the third quarter of 2010 and increased 19% in the nine-month comparison. Foreign exchange trading revenue increased 91% to \$204 million for the third quarter of 2011 from \$107 million for the third quarter of 2010 and increased 25% to \$533 million from \$426 million in the nine-month comparison. The quarterly increase was primarily the result of a 6% increase in currency volatility and a 19% increase in client volumes. The increase in the nine-month comparison primarily resulted from higher client volumes, up 9%, partly offset by a 10% decrease in currency volatility.

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 market-making activities, as direct FX. Alternatively, clients or their investment managers may elect to route FX transactions to our FX desk through our asset servicing operation, to which we refer as indirect FX. We execute indirect FX trades as a principal at rates based on a published formula. We derive our estimated revenue for indirect FX using an attribution methodology based on estimated effective mark-ups/downs and observed client volumes. For the third quarter and first nine months of 2011, our estimated indirect FX revenue was approximately \$88 million and \$259 million, respectively. All other FX revenue not included in this indirect FX revenue estimate, and unrelated to electronic trading, is estimated and considered by us to be direct FX revenue. For the third quarter and first nine months of 2011, our estimated direct FX revenue was \$116 million and \$274 million, respectively.

Brokerage and other trading services revenue increased 7% to \$130 million for the third quarter of 2011, compared to \$121 million for the third quarter of 2010. For the first nine months of 2011, brokerage and other trading services revenue totaled \$414 million, up 12% from \$370 million for the first nine months of 2010. The increase in both comparisons was largely related to higher electronic trading volumes and higher trading profits, partly offset by lower levels of revenue from transition management.

Our clients may choose to execute FX transactions through one of our electronic trading platforms. This service generates revenue through a click fee. For the third quarter and first nine months of 2011, our FX revenue from electronic trading was approximately \$67 million and \$187 million, respectively, and as described above, was recorded in brokerage and other trading services revenue.

***Securities Finance***

Information about the agency lending fund and SSgA lending fund components of our securities finance business is included under Consolidated Results of Operations Total Revenue Securities Finance in Management's Discussion and Analysis in our 2010 Form 10-K.

**Table of Contents**

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

Securities finance revenue for the third quarter of 2011 increased 25% compared to the third quarter of 2010, and for the first nine months increased 16% compared to the corresponding period in 2010. The increase in both periods was substantially the result of improved spreads, partly offset by a slight decrease in average lending volumes. Spreads increased 19% and 24%, respectively, for the third quarter and first nine months of 2011 compared to the same periods in 2010. Securities on loan averaged \$368 billion for both the third quarter and first nine months of 2011, down from \$382 billion and \$405 billion for the third quarter and first nine months of 2010, respectively.

As previously reported, in December 2010, we divided certain of the agency lending collateral pools into liquidity pools, from which clients can obtain cash redemptions, and duration pools, which are restricted and operate as liquidating accounts. These actions were taken to provide greater flexibility to participants with respect to their control of their level of participation in our agency lending program. As of September 30, 2011, the aggregate net assets of the liquidity pools and duration pools were \$25.9 billion and \$4.8 billion, respectively, compared to \$26.2 billion and \$11.8 billion, respectively, as of December 31, 2010.

The decline in the aggregate net assets of the duration pools from year-end 2010 reflected both paydowns on securities held by some of the pools and in-kind redemptions by clients into separately managed accounts. These declines were partly offset by improvement in the market value of securities held by the pools. The return obligations of participants in the agency lending program represented by interests in the duration pools exceeded the market value of the assets in the duration pools by approximately \$249 million as of September 30, 2011, compared to \$319 million as of December 31, 2010. This amount is expected to be eliminated as the assets in the duration pools mature or pay down.

***Processing Fees and Other***

Processing fees and other revenue was \$90 million for the third quarter of 2011, a 27% increase compared to the third quarter of 2010, mainly the result of \$22 million of aggregate gains related to real estate and certain leases. Processing fees and other revenue was \$252 million for the first nine months of 2011, a decrease of 9% compared to the same period in 2010, primarily due to lower income from joint ventures and from our structured products business.

**Table of Contents**

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

**NET INTEREST REVENUE**

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

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

(Dollars in millions; fully taxable-equivalent basis)	Quarters Ended September 30,					
	Average Balance	2011 Interest Revenue/ Expense	Rate	Average Balance	2010 Interest Revenue/ Expense	Rate
Interest-bearing deposits with banks	\$ 24,271	\$ 39	.64%	\$ 13,024	\$ 22	.68%
Securities purchased under resale agreements	5,728	6	.42	3,211	7	.85
Trading account assets	2,084			427		
Investment securities	104,387	647	2.46	98,169	837	3.39
Loans and leases	12,353	68	2.18	12,083	70	2.29
Other interest-earning assets	6,355		.03	711	1	.28
<b>Total average interest-earning assets</b>	<b>\$ 155,178</b>	<b>\$ 760</b>	<b>1.95</b>	<b>\$ 127,625</b>	<b>\$ 937</b>	<b>2.91</b>
Interest-bearing deposits:						
U.S.	\$ 3,201	\$ 2	.16%	\$ 9,841	\$ 14	.56%
Non-U.S.	84,083	50	.23	70,512	48	.27
Securities sold under repurchase agreements	9,335	3	.13	8,000	1	.08
Federal funds purchased	556		.01	2,121	1	.08
Other short-term borrowings	4,945	20	1.65	12,892	42	1.29
Long-term debt	9,305	73	3.17	8,566	72	3.33
Other interest-bearing liabilities	3,803	2	.26	1,013	2	.89
<b>Total average interest-bearing liabilities</b>	<b>\$ 115,228</b>	<b>\$ 150</b>	<b>.52</b>	<b>\$ 112,945</b>	<b>\$ 180</b>	<b>.63</b>
Interest-rate spread			1.43%			2.28%
Net interest revenue fully taxable-equivalent basis		\$ 610			\$ 757	
Net interest margin fully taxable-equivalent basis			1.56%			2.36%
Tax-equivalent adjustment		(32)			(33)	
<b>Net interest revenue GAAP basis</b>		<b>\$ 578</b>			<b>\$ 724</b>	

Table of Contents

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

(Dollars in millions; fully taxable-equivalent basis)	Nine Months Ended September 30,					
	Average Balance	2011 Interest Revenue/ Expense	Rate	Average Balance	2010 Interest Revenue/ Expense	Rate
Interest-bearing deposits with banks	\$ 16,255	\$ 94	.77%	\$ 12,500	\$ 63	.67%
Securities purchased under resale agreements	4,391	22	.67	2,827	17	.81
Trading account assets	2,213			249		
Investment securities	101,585	1,944	2.56	96,111	2,386	3.32
Loans and leases	12,602	216	2.29	11,710	256	2.92
Other interest-earning assets	5,182	1	.03	959	2	.32
<b>Total average interest-earning assets</b>	<b>\$ 142,228</b>	<b>\$ 2,277</b>	<b>2.15</b>	<b>\$ 124,356</b>	<b>\$ 2,724</b>	<b>2.93</b>
Interest-bearing deposits:						
U.S.	\$ 3,312	\$ 8	.30%	\$ 8,707	\$ 27	.41%
Non-U.S.	82,069	146	.24	65,832	114	.23
Securities sold under repurchase agreements	9,190	8	.12	8,292	4	.07
Federal funds purchased	943		.05	1,861	1	.06
Other short-term borrowings	5,201	66	1.70	14,875	220	1.98
Long-term debt	9,254	220	3.17	8,719	215	3.28
Other interest-bearing liabilities	3,127	6	.26	820	4	.71
<b>Total average interest-bearing liabilities</b>	<b>\$ 113,096</b>	<b>\$ 454</b>	<b>.55</b>	<b>\$ 109,106</b>	<b>\$ 585</b>	<b>.72</b>
Interest-rate spread			<b>1.60%</b>			<b>2.21%</b>
Net interest revenue fully taxable-equivalent basis		<b>\$ 1,823</b>			<b>\$ 2,139</b>	
Net interest margin fully taxable-equivalent basis			<b>1.71%</b>			<b>2.30%</b>
Tax-equivalent adjustment		<b>(96)</b>			<b>(96)</b>	
<b>Net interest revenue GAAP basis</b>		<b>\$ 1,727</b>			<b>\$ 2,043</b>	

For the nine months ended September 30, 2011 compared to the 2010 period, interest-earning assets were higher, mainly as a result of the impact of increases in interest-bearing and noninterest-bearing client deposits. These deposit increases resulted from the full year-to-date impact of the acquired Intesa business on the 2011 aggregate deposits, as well as additional deposits placed with us amidst market and public concerns related to the federal government debt-ceiling impasse and global market events. The incremental deposits were placed with the Federal Reserve and other central banks, invested in securities portfolio purchases, and used to reduce our U.S. interest-bearing deposits and other short-term borrowings. The investment of the incremental noninterest-bearing deposits generated net interest revenue, but because the invested deposits increased our average interest-earning assets, they negatively affected our net interest margin. Securities purchased under resale agreements increased in the nine-month comparison, as we reduced our U.S. Treasury holdings, given the extremely low yields offered for such investments. In the nine-month comparison, long-term debt increased, as we prefunded the maturity of parent company debt scheduled to occur in 2012.

For the third quarter and first nine months of 2011, on a fully taxable-equivalent basis, net interest revenue declined 19% and 15%, respectively, compared to the same periods in 2010. On a GAAP basis, net interest revenue declined 20% and 15%, respectively, compared to the same periods in 2010. The decreases were mainly



---

**Table of Contents**

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

the result of lower discount accretion recorded in the 2011 periods associated with former conduit securities, more fully described below. The level of accretion recorded was affected by sales of securities, particularly the investment portfolio repositioning completed by us in December 2010, and paydowns.

If the conduit-related discount accretion were excluded, fully taxable-equivalent net interest revenue for the third quarter of 2011 was essentially flat at \$564 million (\$610 million presented in the preceding quarterly table less accretion of \$46 million) compared to \$568 million (\$757 million presented in the preceding quarterly table less accretion of \$189 million) for the third quarter of 2010. On the same basis, for the nine-month period, fully taxable-equivalent net interest revenue would have increased 6% to \$1.66 billion (\$1.82 billion presented in the preceding nine-month table less accretion of \$159 million) from \$1.57 billion (\$2.14 billion presented in the preceding nine-month table less accretion of \$573 million). This increase was primarily generated by lower funding costs, as higher levels of noninterest-bearing client deposits replaced interest-bearing short-term funding.

Subsequent to the consolidation of the asset-backed commercial paper conduits in May 2009, we have recorded aggregate discount accretion in interest revenue of \$1.49 billion (\$621 million in 2009, \$712 million in 2010 and \$159 million in the first nine months of 2011). The timing and ultimate recognition of 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 discount accretion can also be influenced by our ongoing management of the risks and other characteristics associated with our investment portfolio, including sales of securities which would otherwise generate accretion, such as the portfolio repositioning that we completed in December 2010.

Depending on the factors discussed above, among others, we anticipate that, until the former conduit securities remaining in our portfolio mature or are sold, discount accretion will continue to contribute to our net interest revenue, and may increase the volatility of our net interest revenue and margin. The December 2010 portfolio repositioning resulted in a significant decrease in the discount accretion that we expect to recognize in future periods. Assuming that we hold the remaining former conduit securities to maturity, all other things equal, we expect the remaining former conduit securities carried in our investment portfolio as of September 30, 2011 to generate aggregate discount accretion in future periods of approximately \$1.14 billion over their remaining terms, including \$200 million for all of 2011. We have recorded \$159 million of discount accretion for the first nine months of 2011, as described earlier in this section.

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

Interest-bearing deposits with banks, including cash balances held at the Federal Reserve to satisfy reserve requirements, averaged \$24.27 billion for the third quarter of 2011, a significant increase compared to \$13.02 billion for the third quarter of 2010. For the first nine months of 2011, interest-bearing deposits with banks averaged \$16.26 billion, compared to \$12.50 billion for the same period in 2010. An average of \$14.27 billion was held at the Federal Reserve Bank during the third quarter of 2011, compared to \$3.23 billion held during the third quarter of 2010, with balances in both periods exceeding minimum reserve requirements. The significant increase in the quarterly comparison reflected growth in noninterest-bearing client deposits.

Average securities purchased under resale agreements increased to \$5.73 billion for the third quarter of 2011 from \$3.21 billion for the third quarter of 2010, and increased to \$4.39 billion from \$2.83 billion in the nine-month

**Table of Contents**

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

comparison. Average trading account assets increased to \$2.08 billion for the third quarter of 2011 from \$427 million for the third quarter of 2010, and for the nine-month period increased to \$2.21 billion from \$249 million. Both averages benefited largely from an increase in client demand associated with our trading activities. In connection with these activities, we trade in highly liquid fixed-income securities as principal with our custody clients and other third-parties that trade in these securities. These activities generate trading services revenue.

Our average investment securities portfolio increased to \$104.39 billion for the third quarter of 2011 from \$98.17 billion for the third quarter of 2010, and for the nine-month period increased to \$101.59 billion from \$96.11 billion. The increases in both comparisons were generally the result of ongoing purchases of securities, partly offset by maturities and sales. In December 2010, we repositioned our portfolio by selling approximately \$11 billion of mortgage- and asset-backed securities and re-invested approximately \$7 billion of the proceeds, primarily in agency mortgage-backed securities. During the third quarter and first nine months of 2011, we purchased \$10 billion and \$41 billion, respectively, of highly rated U.S. Treasury securities, federal agency mortgage-backed securities and U.S. and non-U.S. asset-backed securities. As of September 30, 2011, securities rated AAA and AA comprised approximately 89% of our portfolio, compared to 82% rated AAA and AA as of September 30, 2010. The change resulted primarily from the effects of the December 2010 repositioning and subsequent re-investment.

Loans and leases averaged \$12.35 billion for the third quarter of 2011, compared to \$12.08 billion for the third quarter of 2010, and \$12.60 billion for the first nine months of 2011, up from \$11.71 billion for the 2010 period. The increases primarily resulted from higher client demand for short-duration liquidity, offset in part by a decrease in the purchased receivables added in connection with the conduit consolidation, mainly from maturities and paydowns. For the third quarters of 2011 and 2010, approximately 30% and 26%, respectively, of our average loan and lease portfolio was composed of short-duration advances that provided liquidity to clients in support of their investment activities related to securities settlement. The following table presents average U.S. and non-U.S. short-duration advances for the periods indicated:

(In millions)	Quarters ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Average U.S. short-duration advances	\$ 2,284	\$ 2,017	\$ 2,038	\$ 1,846
Average non-U.S. short-duration advances	1,448	1,112	1,634	980
<b>Total average short-duration advances</b>	<b>\$ 3,732</b>	<b>\$ 3,129</b>	<b>\$ 3,672</b>	<b>\$ 2,826</b>

For the nine months ended September 30, 2011, the increase in average non-U.S. short-duration advances compared to the prior-year period was mainly due to activity associated with clients added in connection with the acquired Intesa business.

Average other interest-earning assets increased to \$6.36 billion for the third quarter of 2011 from \$711 million for the third quarter of 2010, and to \$5.18 billion from \$959 million in the nine-month comparison. Both increases were primarily the result of higher levels of cash collateral associated with our role as principal in certain securities borrowing activities.

Average interest-bearing deposits increased to \$87.28 billion for the third quarter of 2011 from \$80.35 billion for the third quarter of 2010. In the nine-month comparison, average interest-bearing deposits were \$85.38 billion for 2011 compared to \$74.54 billion for 2010. The nine-month comparison reflected the client deposits added in connection with the Intesa acquisition, while both comparisons reflected higher levels of non-U.S. transaction accounts associated with new and existing business in assets under custody and administration.

**Table of Contents**

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

Average other short-term borrowings declined to \$4.95 billion for the third quarter of 2011 from \$12.89 billion for the third quarter of 2010, and to \$5.20 billion for the first nine months of 2011 from \$14.88 billion for the corresponding period in 2010, as the higher levels of client deposits provided additional liquidity. Average long-term debt increased to \$9.31 billion for the third quarter of 2011 from \$8.57 billion for the same period in 2010, and increased to \$9.25 billion from \$8.72 billion in the nine-month comparison. These increases primarily reflected the issuance of an aggregate of \$2 billion of senior notes by us in March 2011, partly offset by the maturities of \$1 billion of senior notes in February 2011 and \$1.45 billion of senior notes in September 2011, both previously issued by State Street Bank under the FDIC's Temporary Liquidity Guarantee Program. Additional information about our long-term debt is provided in note 7 to the consolidated financial statements included in this Form 10-Q.

Average other interest-bearing liabilities increased to \$3.80 billion for the third quarter of 2011 from \$1.01 billion for the third quarter of 2010, and increased to \$3.13 billion from \$820 million in the nine-month comparison. The increases in both comparisons were primarily the result of higher levels of client cash collateral held in connection with our role as principal in certain securities lending activities.

Several factors could affect future levels of our net interest revenue and margin, including the mix of client liabilities; actions of the various central banks; changes in U.S. and non-U.S. interest rates; the various yield curves around the world; the amount of discount accretion generated by the former conduit securities that remain in our investment portfolio; and the relative impact of the yields earned on the securities purchased by us with the proceeds from the December 2010 portfolio repositioning compared to the yields earned on the securities sold. Based on market conditions and other factors, we have continued to re-invest the proceeds from paydowns and maturities of securities in highly rated investment securities, such as U.S. Treasuries and federal agency mortgage-backed securities and U.S. and non-U.S. asset-backed securities. The pace at which we continue to re-invest and the types of securities purchased will depend on the impact of market conditions and other factors over time. These factors and the level of interest rates worldwide are expected to dictate what effect the re-investment program will have on future levels of our net interest revenue and net interest margin.

**Gains (Losses) Related to Investment Securities, Net**

From time to time, in connection with our ongoing management of the investment portfolio, we sell available-for-sale securities, to manage risk, to take advantage of favorable market conditions, or for other reasons. We recorded net realized gains of approximately \$15 million from sales of approximately \$1.70 billion of available-for-sale securities in the third quarter of 2011, and net realized gains of \$81 million from sales of \$11.07 billion of available-for-sale securities during the first nine months of 2011, compared to net realized gains of \$91 million and \$286 million, respectively, in the 2010 periods.

Management regularly reviews the investment securities portfolio to identify other-than-temporary impairment of individual securities. The aggregate unrealized losses on securities for which other-than-temporary impairment was recorded in the third quarter and first nine months of 2011 were \$25 million and \$104 million, respectively. Of this total, \$15 million and \$48 million, respectively, related to factors other than credit, and were recorded, net of related taxes, as a component of other comprehensive income in our consolidated statement of condition. The remaining \$10 million and \$56 million, respectively, were recorded in our consolidated statement of income.

**Table of Contents**

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

For the third quarter and first nine months of 2011, other-than-temporary impairment was largely related to non-agency mortgage-backed securities which management concluded had experienced credit losses resulting from deterioration in financial performance of those securities during the period. The securities are reported as asset-backed securities in note 3 to the consolidated financial statements included in this Form 10-Q.

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

(In millions)	Quarters Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net realized gains from sales of available-for-sale securities	\$ 15	\$ 91	\$ 81	\$ 286
Losses from other-than-temporary impairment	(25)	(132)	(104)	(612)
Losses not related to credit	15	58	48	388
Net impairment losses	(10)	(74)	(56)	(224)
Gains related to investment securities, net	\$ 5	\$ 17	\$ 25	\$ 62
Impairment associated with expected credit losses	\$ (7)	\$ (71)	\$ (36)	\$ (201)
Impairment associated with management's intent to sell the impaired securities prior to their recovery in value		(1)	(8)	(1)
Impairment associated with adverse changes in timing of expected future cash flows	(3)	(2)	(12)	(22)
Net impairment losses	\$ (10)	\$ (74)	\$ (56)	\$ (224)

Additional information about our investment securities, including the gross gains and gross losses that compose the net realized gains from sales of available-for-sale securities presented in the table above and our process to identify other-than-temporary impairment, is provided in note 3 to the consolidated financial statements included in this Form 10-Q.

**PROVISION FOR LOAN LOSSES**

We did not record a provision for loan losses for the third quarter of 2011; our provision for loan losses for the first nine months of 2011 was \$1 million. For the third quarter and first nine months of 2010, we recorded provisions for loan losses of \$1 million and \$26 million, respectively. The majority of the year-to-date 2010 provision resulted from a revaluation of the collateral supporting a commercial real estate, or CRE, loan. The loan was part of the portfolio acquired in 2008 pursuant to indemnified repurchase agreements with an affiliate of Lehman as a result of the Lehman Brothers bankruptcy.

We review our loans and leases on a regular basis, in connection with our evaluation of the allowance for loan losses, and consider factors including the effect of economic conditions on borrowers' ability to repay, the estimated value of any underlying collateral, the contract terms underlying extensions of credit and previous loss experience. Provisions for loan losses reflect our estimate of the amount necessary to maintain the allowance at a

**Table of Contents**

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

level considered by us to be appropriate to absorb estimated probable credit losses inherent in the loan and lease portfolio. With respect to the CRE loans, any provisions for loan losses reflect management's expectations with respect to future cash flows from these loans and the value of available collateral, based on an assessment of economic conditions in the commercial real estate market and other factors. Future changes in expectations with respect to these loans or in our estimates of probable credit losses inherent in the loan and lease portfolio could result in additional provisions for loan losses.

**EXPENSES**

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

(Dollars in millions)	Quarters Ended September 30,			Nine Months Ended September 30,		
	2011	2010	% Change	2011	2010	% Change
Salaries and employee benefits	\$ 965	\$ 857	13%	\$ 2,948	\$ 2,589	14%
Information systems and communications	191	181	6	581	522	11
Transaction processing services	180	165	9	553	482	15
Occupancy	119	112	6	339	346	(2)
Securities lending charge					414	
Acquisition and restructuring costs	85	23	270	121	77	57
Other:						
Professional services	83	58	43	249	224	11
Amortization of other intangible assets	50	52	(4)	149	132	13
Securities processing costs (recoveries)	2	24	(92)	(15)	68	(122)
Regulator fees and assessments	11	9	22	32	35	(9)
Other	112	46	143	317	161	97
Total other	258	189	37	732	620	18
Total expenses	\$ 1,798	\$ 1,527	18	\$ 5,274	\$ 5,050	4

Number of employees at quarter end	29,685	28,940
------------------------------------	--------	--------

The increase in salaries and employee benefits expenses for the third quarter of 2011 compared to the third quarter of 2010 was primarily due to the effect of year-over-year salary adjustments; the addition of the expenses of the acquired BIAM business; and non-recurring costs associated with the implementation of our business operations and information technology transformation program. The increase in the nine-month comparison resulted from the above-mentioned salary adjustments; higher cash incentive compensation, partly the result of a reduction of such compensation in 2010 related to the securities lending charge; the inclusion of the expenses of the acquired Intesa and MIFA businesses for the full nine months versus approximately five months in 2010; the addition of the above-mentioned BIAM expenses; and non-recurring costs associated with the implementation of our business operations and information technology transformation program. Salaries and benefits expenses included non-recurring costs associated with the program of \$13 million for the third quarter of 2011 and \$34 million for the first nine months of 2011.

Information systems and communications expenses for the third quarter of 2011 increased over the prior-year quarter primarily as a result of the effect of higher levels of spending on telecommunications hardware and software related to improvements in our investor technology and global infrastructure. In the nine-month

**Table of Contents**

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

comparison, the increase also reflected the inclusion of the expenses of the acquired Intesa and MIFA business for the full nine months versus approximately five months in 2010, as well as the addition of the expenses of the acquired BIAM business.

Transaction processing services expenses for the third quarter and first nine months of 2011 increased over the prior-year periods due to higher external contract services and increased levels of broker fees, both reflective of higher volumes in investment servicing. Expenses for sub-custodian services were higher in the nine-month comparison.

During the third quarter and first nine months of 2011, we recorded \$85 million and \$121 million respectively, of acquisition and restructuring costs, composed of \$19 million and \$46 million, respectively, of integration costs related to the Intesa, MIFA and BIAM acquisitions and restructuring charges of \$66 million and \$75 million, respectively, related to the business operations and information technology transformation program described below.

The increase in aggregate other expenses (professional services, amortization of other intangible assets, securities processing costs (recoveries), regulator fees and assessments and other) for the third quarter and first nine months of 2011 compared to the same periods in 2010 resulted primarily from the effect of \$50 million of insurance recoveries in 2010 on expenses for the 2010 periods, higher sales and promotion expenses, and, in the nine-month comparison, higher amortization of other intangible assets from acquisitions.

In November 2010, we announced a global multi-year business operations and information technology transformation program. The program includes operational and information technology enhancements and targeted cost initiatives, including plans related to reductions in both staff and occupancy costs.

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

To implement this program, we expect to incur aggregate pre-tax restructuring charges of approximately \$400 million to \$450 million over the four-year period ending December 31, 2014. To date, we have recorded aggregate pre-tax restructuring charges of \$231 million in our consolidated statement of income. The following table presents the charges by type of cost:

(In millions)	Employee-Related Costs	Real Estate Consolidation	Information Technology Costs	Total
Fourth Quarter 2010	\$ 105	\$ 51		\$ 156
First Quarter 2011	5			5
Second Quarter 2011	1	3		4
Third Quarter 2011	47	2	\$ 17	66
<b>Total</b>	<b>\$ 158</b>	<b>\$ 56</b>	<b>\$ 17</b>	<b>\$ 231</b>

**Table of Contents**

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

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

As reported in our 2010 Form 10-K, in 2010, in connection with the program, we initiated a reduction of 1,400 employees, or approximately 5% of our global workforce, which we expect to have substantially completed by the end of 2011. In addition, in the third quarter of 2011, in connection with the expansion of our use of service providers associated with our information technology infrastructure and application maintenance and support, we identified approximately 530 employees who will be provided with severance and outplacement services as their roles are eliminated. As of September 30, 2011, in connection with the planned aggregate staff reductions of 1,930 employees described above, approximately 1,260 employees had been involuntarily terminated and left State Street, including approximately 710 employees during the first nine months of 2011.

The following table presents activity associated with restructuring-related accruals that resulted from the above-described charges:

(In millions)	Employee-Related Costs	Real Estate Consolidation	Information Technology Costs	Total
Initial accrual	\$ 105	\$ 51		\$ 156
Payments	(15)	(4)		(19)
Balance at December 31, 2010	90	47		137
Additional restructuring-related accruals	53	5	\$ 17	75
Payments	(66)	(12)	(4)	(82)
Balance at September 30, 2011	\$ 77	\$ 40	\$ 13	\$ 130

During the fourth quarter of this year, as we continue to implement the program, we expect to incur additional pre-tax restructuring charges of approximately \$45 million to \$65 million to accrue for severance and related costs associated with additional workforce reduction and other transition costs. In addition, we expect to achieve approximately \$80 million of annual pre-tax expense savings in 2011 in connection with our implementation of the program. Excluding the expected aggregate restructuring charges of \$400 million to \$450 million described earlier, we expect the program to reduce our pre-tax expenses from operations, on an annualized basis, by approximately \$575 million to \$625 million by the end of 2014 from what such expenses would have been without implementation of the program, with the full effect realized in 2015.

Assuming all other things equal, we expect to achieve annual pre-tax expense savings of approximately \$540 million by the end of 2014, for a total annual pre-tax expense savings of approximately \$600 million realized in 2015. We expect the business operations transformation to result in annual pre-tax expense savings of approximately \$440 million by the end of 2014 for full effect in 2015, with the majority of these savings expected to be achieved by the end of 2013. In addition, we expect the information technology transformation to result in annual pre-tax expense savings of approximately \$160 million by the end of 2014, for full effect in 2015.

The majority of the annualized savings will affect salaries and employee benefits expenses; these savings will be modestly offset by increases in information systems and communications expenses as we implement the program. These savings estimates relate only to the program; our actual expenses may increase or decrease over the duration of the program as a result of other factors.

**Table of Contents**

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

**INCOME TAX EXPENSE**

We recorded income tax expense of \$74 million at an effective tax rate of 11.7% for the third quarter of 2011, compared to \$236 million at an effective tax rate of 30.1% for the third quarter of 2010. For the first nine months of 2011, income tax expense was \$465 million, or 23.2%, compared to \$361 million, or 19.7%, for the corresponding 2010 period. Each of the third quarter of 2011 and the second quarter of 2010 included a discrete tax benefit (\$91 million in 2011 and \$180 million in 2010) related to the cost of terminating funding obligations that supported former conduit asset structures. The reduction of the 2011 effective tax rate also resulted from the geographic mix of earnings.

**LINE OF BUSINESS INFORMATION**

We have two lines of business: Investment Servicing and Investment Management. Given our services and management organization, the results of operations for these lines of business are not necessarily comparable with those of other companies, including companies in the financial services industry. Information about our two lines of business, as well as the revenues, expenses and capital allocation methodologies with respect to these lines of business, is provided in note 24 to the consolidated financial statements included in our 2010 Form 10-K.

The following tables present our line-of-business results. The Other column for 2011 represents integration costs associated with acquisitions and restructuring charges associated with our business operations and information technology transformation program. The Other column for 2010 represents integration costs. The amounts in the Other columns were not allocated to State Street's business lines. During the first quarter of 2011, management revised its methodology with respect to funds transfer pricing, which is used in the measurement of business unit net interest revenue. Prior-year net interest revenue and average assets have been restated for comparative purposes to reflect the revised methodology.

	Investment Servicing		Quarters Ended September 30, Investment Management		Other		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
<b>(Dollars in millions,</b>								
<b>except where otherwise noted)</b>								
Fee revenue:								
Servicing fees	\$ 1,106	\$ 1,006					\$ 1,106	\$ 1,006
Management fees			\$ 229	\$ 196			229	196
Trading services	334	228					334	228
Securities finance	77	62	8	6			85	68
Processing fees and other	57	39	33	32			90	71
<b>Total fee revenue</b>	<b>1,574</b>	<b>1,335</b>	<b>270</b>	<b>234</b>			<b>1,844</b>	<b>1,569</b>
Net interest revenue	539	688	39	36			578	724
Gains related to investment securities, net	5	17					5	17
<b>Total revenue</b>	<b>2,118</b>	<b>2,040</b>	<b>309</b>	<b>270</b>			<b>2,427</b>	<b>2,310</b>
Provision for loan losses		1						1
Expenses from operations	1,477	1,341	236	163			1,713	1,504
Acquisition and restructuring costs					\$ 85	\$ 23	85	23
<b>Total expenses</b>	<b>1,477</b>	<b>1,341</b>	<b>236</b>	<b>163</b>	<b>85</b>	<b>23</b>	<b>1,798</b>	<b>1,527</b>
<b>Income from continuing operations before income taxes</b>	<b>\$ 641</b>	<b>\$ 698</b>	<b>\$ 73</b>	<b>\$ 107</b>	<b>\$ (85)</b>	<b>\$ (23)</b>	<b>\$ 629</b>	<b>\$ 782</b>



Edgar Filing: STATE STREET CORP - Form 10-Q

Pre-tax margin	<b>30%</b>	34%	<b>24%</b>	40%		
Average assets (in billions)	<b>\$ 175.9</b>	\$ 149.4	<b>\$ 5.1</b>	\$ 4.6	<b>\$ 181.0</b>	\$ 154.0

**Table of Contents**

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

	Investment Servicing		Investment Management		Other		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
<b>(Dollars in millions, except where otherwise noted)</b>								
Fee revenue:								
Servicing fees	\$ 3,325	\$ 2,874					\$ 3,325	\$ 2,874
Management fees			\$ 715	\$ 608			715	608
Trading services	947	796					947	796
Securities finance	252	204	36	45			288	249
Processing fees and other	179	192	73	86			252	278
<b>Total fee revenue</b>	<b>4,703</b>	<b>4,066</b>	<b>824</b>	<b>739</b>			<b>5,527</b>	<b>4,805</b>
Net interest revenue	1,593	1,928	134	115			1,727	2,043
Gains related to investment securities, net	25	62					25	62
<b>Total revenue</b>	<b>6,321</b>	<b>6,056</b>	<b>958</b>	<b>854</b>			<b>7,279</b>	<b>6,910</b>
Provision for loan losses	1	26					1	26
Expenses from operations	4,468	3,980	685	579			5,153	4,559
Acquisition and restructuring costs					\$ 121	\$ 77	121	77
Securities lending charge		75		339				414
<b>Total expenses</b>	<b>4,468</b>	<b>4,055</b>	<b>685</b>	<b>918</b>	<b>121</b>	<b>77</b>	<b>5,274</b>	<b>5,050</b>
Income (Loss) from continuing operations before income taxes	\$ 1,852	\$ 1,975	\$ 273	\$ (64)	\$ (121)	\$ (77)	\$ 2,004	\$ 1,834
Pre-tax margin	29%	33%	28%	nm				
Average assets (in billions)	\$ 162.5	\$ 144.3	\$ 5.5	\$ 5.1			\$ 168.0	\$ 149.4

nm not meaningful

**Investment Servicing**

Total revenue for both the third quarter and first nine months of 2011 increased 4% compared to the same periods in 2010. Total fee revenue in the same comparisons increased 18% and 16%, respectively, with the increases mainly attributable to growth in servicing fees, trading services revenue and securities finance revenue.

The increase in servicing fees in the quarterly comparison primarily resulted from the impact of net new business installed on current period revenue, as well as increases in daily average equity market valuations. The increase in servicing fees in the nine-month comparison primarily resulted from the impact of net new business installed, the addition of revenue from the acquired Intesa and MIFA businesses (full versus partial periods), and increases in daily average equity market valuations.

Trading services revenue increased 46% in the third quarter of 2011 compared to the third quarter of 2010 and increased 19% in the nine-month comparison. The quarterly increase was primarily the result of an increase in currency volatility and higher client trading volumes. The increase in the nine-month comparison primarily resulted from higher client trading volumes, partly offset by a decline in currency volatility. Securities finance revenue in both the quarterly and nine-month comparisons increased primarily as a result of the effect of improved spreads, partly offset by a slight decrease in average lending volumes.



**Table of Contents**

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

Processing fees and other revenue increased compared to the third quarter of 2010 mainly due to aggregate gains related to real estate and certain leases. Processing fees and other revenue decreased compared to the first nine months of 2010 primarily due to lower income from joint ventures and from our structured products business.

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

Net interest revenue for both the third quarter and first nine months of 2011 decreased 22% and 17%, respectively, compared to the same periods in 2010, primarily as a result of lower discount accretion associated with former conduit securities. A portion of net interest revenue is recorded in the Investment Management business line based on the volume of client liabilities attributable to that business.

Total expenses from operations increased 10% in both the third quarter of 2011 and the first nine months of 2011 compared to the corresponding periods in 2010. Components of the increase included higher salaries and employee benefits expenses, higher costs related to transaction processing associated with higher volumes, and the addition of the expenses of the acquired Intesa and MIFA businesses for the full nine months in 2011 versus partial periods in 2010. The increases also reflected the impact of the reduction of cash incentive compensation in 2010 related to the securities lending charge.

**Investment Management**

Total revenue for the third quarter of 2011 increased 14% compared to the third quarter of 2010, and increased 12% for the first nine months of 2011 compared to the first nine months of 2010. These increases generally resulted from higher levels of management fees and net interest revenue. Management fees, generated by SSgA, increased 17% in the third quarter of 2011 compared to the third quarter of 2010, and increased 18% in the nine-month comparison, due to improvements in average month-end equity market valuations, the addition of revenue from the acquired BIAM business, and the impact of net new business installed in current and prior periods.

Management fees for the Investment Management business line are identical to the respective consolidated results. Refer to the Fee Revenue Management Fees section under Total Revenue in this Management's Discussion and Analysis for a more-in depth discussion. A discussion of securities finance revenue and processing fees and other revenue is provided in the Securities Finance and Processing Fees and Other sections under Total Revenue.

Total expenses from operations for the third quarter of 2011 increased 45% compared to the third quarter of 2010, and increased 18% in the nine-month comparison. The increases were related to higher salaries and employee benefits expenses mainly reflective of the reduction of incentive compensation in 2010 related to the securities lending charge, as well as the addition of the expenses of the acquired BIAM business.

**Table of Contents**

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

**FINANCIAL CONDITION**

The structure of our consolidated statement of condition is primarily driven by the liabilities generated by our Investment Servicing and Investment Management businesses. 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 use short-term investments and deposits that constitute the majority of our liabilities. These liabilities are generally in the form of non-interest-bearing demand deposits; interest-bearing transaction account deposits, which are denominated in a variety of currencies; and repurchase agreements, which generally serve as short-term investment alternatives for our clients.

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

As our non-U.S. business activities continue to grow, we have expanded our capabilities and processes to enable us to manage the liabilities generated by our core businesses and the related assets in which these liabilities are invested, in a manner that more closely aligns our businesses and related activities with the cash management, investment activities and other operations of our clients. As a result, the structure of our statement of condition continues to evolve to reflect these efforts.

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

**Table of Contents**

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

The following table presents the components of our average total interest-earning and noninterest-earning assets, average total interest-bearing and noninterest-bearing liabilities, and average preferred and common shareholders' equity for the nine months ended September 30:

(In millions)	2011 Average Balance	2010 Average Balance
<b>Assets:</b>		
Interest-bearing deposits with banks	\$ 16,255	\$ 12,500
Securities purchased under resale agreements	4,391	2,827
Trading account assets	2,213	249
Investment securities	101,585	96,111
Loans and leases	12,602	11,710
Other interest-earning assets	5,182	959
<b>Total interest-earning assets</b>	<b>142,228</b>	124,356
Cash and due from banks	2,809	2,518
Other assets	22,997	22,493
<b>Total assets</b>	<b>\$ 168,034</b>	<b>\$ 149,367</b>
<b>Liabilities and shareholders' equity:</b>		
<b>Interest-bearing deposits:</b>		
U.S.	\$ 3,312	\$ 8,707
Non-U.S.	82,069	65,832
<b>Total interest-bearing deposits</b>	<b>85,381</b>	74,539
Securities sold under repurchase agreements	9,190	8,292
Federal funds purchased	943	1,861
Other short-term borrowings	5,201	14,875
Long-term debt	9,254	8,719
Other interest-bearing liabilities	3,127	820
<b>Total interest-bearing liabilities</b>	<b>113,096</b>	109,106
Non-interest-bearing deposits	22,440	13,223
Other liabilities	13,207	11,161
Preferred shareholders' equity	366	
Common shareholders' equity	18,925	15,877
<b>Total liabilities and shareholders' equity</b>	<b>\$ 168,034</b>	<b>\$ 149,367</b>

**Table of Contents**

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

**Investment Securities**

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

(In millions)	September 30, 2011	December 31, 2010
<b>Available for sale:</b>		
U.S. Treasury and federal agencies:		
Direct obligations	\$ 5,365	\$ 7,577
Mortgage-backed securities	28,026	23,640
Asset-backed securities:		
Student loans <sup>(1)</sup>	16,533	14,415
Credit cards	10,495	7,603
Sub-prime	1,486	1,818
Other	3,338	2,569
 Total asset-backed securities	 31,852	 26,405
Non-U.S. debt securities:		
Mortgage-backed securities	9,392	6,294
Asset-backed securities	3,781	1,786
Government securities	3,014	2,915
Other	1,099	1,022
 Total non-U.S. debt securities	 17,286	 12,017
State and political subdivisions	6,896	6,604
Collateralized mortgage obligations	3,092	1,861
Other U.S. debt securities	3,261	2,536
U.S. equity securities	608	1,115
Non-U.S. equity securities	209	126
 Total	 \$ 96,595	 \$ 81,881
<b>Held to Maturity:</b>		
U.S. Treasury and federal agencies:		
Mortgage-backed securities	\$ 299	\$ 413
Asset-backed securities	38	64
Non-U.S. debt securities:		
Mortgage-backed securities	5,174	6,332
Asset-backed securities	574	646
Government securities	3	
Other	193	208
 Total non-U.S. debt securities	 5,944	 7,186
State and political subdivisions	113	134

Edgar Filing: STATE STREET CORP - Form 10-Q

Collateralized mortgage obligations	3,624	4,452
<b>Total</b>	<b>\$ 10,018</b>	<b>\$ 12,249</b>

<sup>(1)</sup> Substantially composed of securities guaranteed by the federal government with respect to the payment of principal and interest.



**Table of Contents**

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

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

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

The portfolio is concentrated in securities with high credit quality, with approximately 89% of the carrying value of the portfolio rated AAA or AA as of September 30, 2011. The following table presents the percentages of the carrying value of the portfolio, by external credit rating, as of the dates indicated:

	September 30, 2011	December 31, 2010
AAA	48%	79%
AAA/AA <sup>(1)</sup>	31	
AA	10	11
A	6	6
BBB	3	2
Below BBB	2	2
	<b>100%</b>	<b>100%</b>

<sup>(1)</sup> Includes U.S. Treasury securities that are split-rated, AAA by Moody's Investors Services and AA+ by Standard & Poor's. As of September 30, 2011, the investment portfolio of approximately 10,350 securities was diversified with respect to asset class. Approximately 81% of the aggregate carrying value of the portfolio as of that date was composed of mortgage-backed and asset-backed securities. The predominantly floating-rate asset-backed portfolio 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.

**Table of Contents**

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

Approximately 22% of the aggregate carrying value of the portfolio as of September 30, 2011 was composed of non-U.S. debt securities. The following table summarizes our non-U.S. debt securities available for sale and held to maturity, included in the preceding table of investment securities carrying values, by significant country of issuer or collateral, as of the dates indicated:

(In millions)	September 30, 2011	December 31, 2010
<b>Available for sale:</b>		
United Kingdom	\$ 7,447	\$ 4,451
Netherlands	2,972	2,320
Australia	2,409	1,332
Canada	1,851	2,138
Germany	1,335	916
France	376	219
Spain	252	285
Italy	252	
Other	392	356
<b>Total</b>	<b>\$ 17,286</b>	<b>\$ 12,017</b>
<b>Held to maturity:</b>		
Australia	\$ 2,700	\$ 3,121
United Kingdom	2,447	3,190
Italy	316	342
Spain	232	245
Other	249	288
<b>Total</b>	<b>\$ 5,944</b>	<b>\$ 7,186</b>

Approximately 87% and 88% of the aggregate carrying value of these non-U.S. debt securities was rated AAA and AA as of September 30, 2011 and December 31, 2010, respectively. As of September 30, 2011, the securities had an aggregate pre-tax unrealized loss of approximately \$54 million and an average market-to-book ratio of 99.8%. The majority is floating-rate securities, and accordingly the aggregate holdings have minimal interest-rate risk. The underlying collateral includes U.K. prime mortgages, Australia and Netherlands mortgages, Australian and Canadian government securities and German automobile loans. The other category of available-for-sale securities included approximately \$60 million and \$69 million of securities as of September 30, 2011 and December 31, 2010, respectively, related to Portugal and Ireland, substantially all of which were mortgage-backed securities. The other category of held-to-maturity securities included approximately \$245 million and \$262 million of securities as of September 30, 2011 and December 31, 2010, respectively, related to Portugal, Ireland and Greece, all of which were mortgage-backed securities.

**Table of Contents**

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

We carry approximately \$7.01 billion of municipal securities, classified as state and political subdivisions in the preceding table of investment securities carrying values, in our investment portfolio. Substantially all of these securities are classified as securities available for sale, with the remainder classified as securities held to maturity. We also provide approximately \$8.39 billion of credit and liquidity facilities to municipal issuers as a form of credit enhancement. The following table presents our combined credit exposure to state and municipal obligors which represents 5% or more of our aggregate municipal credit exposure of approximately \$15.40 billion across our businesses as of September 30, 2011, grouped by state to display geographic dispersion:

(Dollars in millions)	Total Municipal Securities	Credit and Liquidity Facilities	Total	% of Total Municipal Exposure
<b>State of Issuer:</b>				
Texas	\$ 958	\$ 1,674	\$ 2,632	17%
California	192	1,516	1,708	11
Massachusetts	852	479	1,331	9
Wisconsin	493	419	912	6
New York	294	596	890	6
Florida	170	690	860	6
Total	\$ 2,959	\$ 5,374	\$ 8,333	

Our total municipal securities exposure presented above is concentrated primarily with highly rated counterparties, with 86% of obligors rated AA and higher as of September 30, 2011. As of that date, approximately 66% and 32% of our aggregate exposure was associated with general obligation and revenue bonds, respectively. In addition, we had no exposures associated with healthcare, industrial development or land development bonds. The portfolios are also diversified geographically; the states that represent our largest exposure are widely dispersed across the U.S.

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

**Impairment**

The following table presents net unrealized gains (losses) on the available-for-sale securities portfolio as of the dates indicated:

(In millions)	September 30, 2011	December 31, 2010
Fair value	\$ 96,595	\$ 81,881
Amortized cost	96,573	82,329
Net unrealized gain (loss), pre-tax	\$ 22	\$ (448)
Net unrealized gain (loss), after-tax	\$ 13	\$ (270)

The net unrealized amounts presented above excluded the remaining net unrealized losses related to reclassifications of securities available for sale to securities held to maturity. These unrealized losses related to reclassifications totaled \$347 million, or \$215 million after-tax, and \$523 million, or \$317 million after-tax, as of September 30, 2011 and December 31, 2010, respectively, and were recorded in accumulated other comprehensive income, or OCI. See note 10 to the consolidated financial statements included in this Form 10-Q. The decline in these remaining after-tax unrealized losses related to reclassifications from December 31, 2010 to September 30, 2011 resulted primarily from amortization.



---

**Table of Contents**

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

We conduct periodic reviews of individual securities to assess whether other-than-temporary impairment exists. To the extent that other-than-temporary impairment is identified, the impairment is broken into a credit component and a non-credit component. The credit component is recorded in our consolidated statement of income, and the non-credit component is recorded in OCI to the extent that management does not intend to sell the security.

Our assessment of other-than-temporary impairment involves an evaluation, more fully described in note 3, of economic and security-specific factors. Such factors are based on estimates, derived by management, which contemplate current market conditions and security-specific performance. To the extent that market conditions are worse than management's expectations, other-than-temporary impairment could increase, in particular the credit component that would be recorded in our consolidated statement of income.

Given the exposure of our investment securities portfolio, particularly mortgage- and asset-backed securities, to residential mortgage and other consumer credit risks, the performance of the U.S. housing market is a significant driver of the portfolio's credit performance. As such, our assessment of other-than-temporary impairment relies to a significant extent on our estimates of trends in national housing prices. Generally, indices that measure trends in national housing prices are published in arrears. As of June 30, 2011, national housing prices, according to the Case-Shiller National Home Price Index, had declined by approximately 31.5% peak-to-current. Overall, management's expectation, for purposes of its evaluation of other-than-temporary impairment as of September 30, 2011, was that housing prices would decline by approximately 36% peak-to-trough.

The performance of certain mortgage products and vintages of securities continues to deteriorate. In addition, management continues to believe that housing prices will decline further as indicated above. The combination of these factors has led to an increase in management's overall loss expectations. Our investment portfolio continues to be sensitive to management's estimates of future cumulative losses. Ultimately, other-than-temporary impairment is based on specific CUSIP-level detailed analysis of the unique characteristics of each security. In addition, we perform sensitivity analysis across each significant product type within the non-agency U.S. residential mortgage-backed portfolio.

We estimate, for example, that other-than-temporary impairment of the investment portfolio could increase by approximately \$20 million to \$60 million, if national housing prices were to decline by 37% to 39% peak-to-trough, compared to management's expectation of 36% described above. This sensitivity estimate is based on a number of factors, including, but not limited to, the level of housing prices and the timing of defaults. To the extent that such factors differ substantially from management's current expectations, resulting loss estimates may differ materially from those stated. Excluding the securities for which other-than-temporary impairment was recorded during the first nine months of 2011, management considers the aggregate decline in fair value of the remaining securities and the resulting net unrealized losses as of September 30, 2011 to be temporary and not the result of any material changes in the credit characteristics of the securities. Additional information about our assessment of impairment is provided in note 3 to the consolidated financial statements included in this Form 10-Q.

In late 2010, several major U.S. financial institutions participated in a mortgage foreclosure moratorium with respect to residential mortgages. While the moratorium has been lifted, the residential mortgage servicing environment remains challenging, and the timeline to liquidate distressed loans continues to extend. The rate at

**Table of Contents**

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

which distressed residential mortgages are liquidated may affect, among other things, our investment securities portfolio. Such effects could include the timing of cash flows or the credit quality associated with the mortgages collateralizing certain of our residential mortgage-backed securities, which, accordingly, could result in the recognition of additional other-than-temporary impairment in future periods.

**Loans and Leases**

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

(In millions)	September 30, 2011	December 31, 2010
Institutional:		
U.S.	\$ 8,165	\$ 7,001
Non-U.S.	2,972	4,192
Commercial real estate:		
U.S.	603	764
Total loans and leases	\$ 11,740	\$ 11,957
Allowance for loan losses	(22)	(100)
Loans and leases, net of allowance for loan losses	\$ 11,718	\$ 11,857

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

The increase in the U.S. portion of the institutional segment from December 31, 2010 to September 30, 2011 was generally the result of a higher level of short-duration advances to clients. These advances, which we provide in support of clients' investment activities associated with securities settlement, fluctuate based on the volume of securities transactions, and are largely short-term in nature. Aggregate short-duration advances to our clients included in the institutional segment were \$3.81 billion and \$2.63 billion at September 30, 2011 and December 31, 2010, respectively. The decrease in the non-U.S. portion of the institutional segment from December 31, 2010 to September 30, 2011 mainly resulted from a decline in purchased receivables associated with maturities and paydowns, as well as a decline in leases related to early terminations.

The decline in CRE loans in the same comparison was mainly associated with charge-offs of acquired credit-impaired loans associated with deterioration in the value of the underlying collateral and a foreclosure, as well as a partial charge-off of an acquired property development loan during the third quarter of 2011 related to a deed-in-lieu-of-foreclosure agreement executed in October 2011. These loans were part of the portfolio acquired in 2008 pursuant to indemnified repurchase agreements with an affiliate of Lehman as a result of the Lehman Brothers bankruptcy. The charge-offs are more fully described in note 4 to the consolidated financial statements included in this Form 10-Q.

As of September 30, 2011 and December 31, 2010, we held an aggregate of approximately \$260 million and \$307 million, respectively, of CRE loans which were modified in troubled debt restructurings. No impairment loss was recognized upon restructuring the loans, as the discounted cash flows of the modified loans exceeded the carrying amount of the original loans as of the modification date. During the first nine months of 2011, no loans were modified in troubled debt restructurings.

**Table of Contents**

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

As of September 30, 2011 and December 31, 2010, approximately \$57 million and \$158 million, respectively, of the aforementioned CRE loans had been placed by management on non-accrual status, as the yield associated with these loans, determined when the loans were acquired, was deemed to be non-accretable. This determination was based on management's expectations of the future collection of principal and interest from the loans. Non-accrual loans as of September 30, 2011 included the \$52 million property development loan acquired as a result of the Lehman Brothers bankruptcy with respect to which we entered into a deed-in-lieu-of-foreclosure agreement in October 2011. Non-accrual loans as of December 31, 2010 included a \$42 million credit-impaired property development loan, also acquired as a result of the Lehman Brothers bankruptcy, on which we foreclosed in March 2011.

Future changes in expectations with respect to collection of principal and interest on these loans could result in additional non-accrual loans and provisions for loan losses.

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

(In millions)	Nine Months Ended September 30,	
	2011	2010
<b>Allowance for loan losses:</b>		
Beginning balance	\$ 100	\$ 79
Charge-offs	(79)	(4)
Provisions	1	26
<b>Ending balance</b>	<b>\$ 22</b>	<b>\$ 101</b>

The charge-offs recorded in 2011 were mainly related to acquired credit-impaired CRE loans, one loan whose underlying collateral had deteriorated in value and one loan on which we foreclosed, as well as a partial charge-off of a CRE property development loan with respect to which we entered into a deed-in-lieu-of-foreclosure agreement in October 2011. Additional information is provided in note 4 to the consolidated financial statements included in this Form 10-Q. The majority of the provision for loan losses recorded in 2010 resulted from a revaluation of the collateral supporting a CRE loan.

Loans and leases are reviewed on a regular basis, and any provisions for loan losses that are recorded reflect management's estimate of the amount necessary to maintain the allowance for loan losses at a level considered appropriate to absorb estimated probable credit losses inherent in the loan and lease portfolio. With respect to CRE loans, management considers its expectations with respect to future cash flows from those loans and the value of available collateral. These expectations are based, among other things, on an assessment of economic conditions, including conditions in the commercial real estate market and other factors.

**Table of Contents**

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

**Cross-Border Outstandings**

Information with respect to the nature of our cross-border outstandings is provided under "Financial Condition - Cross-Border Outstandings" in Management's Discussion and Analysis included in our 2010 Form 10-K. Cross-border outstandings to countries in which we do business, and which amounted to at least 1% of our consolidated total assets, are presented in the following table as of the dates indicated. The aggregate cross-border outstandings presented in the table represented 17% of our consolidated total assets as of both September 30, 2011 and December 31, 2010.

(In millions)	September 30, 2011	December 31, 2010
United Kingdom	\$ 11,966	\$ 8,781
Germany	7,939	6,936
Australia	5,800	5,559
Switzerland	5,577	165
Netherlands	2,604	2,574
Canada	2,543	2,478

Aggregate cross-border outstandings to countries which amounted to between 0.75% and 1% of our consolidated total assets as of September 30, 2011 totaled approximately \$1.71 billion, all to Japan. There were no aggregate cross-border outstandings to countries which totaled between 0.75% and 1% of our consolidated total assets as of December 31, 2010.

With respect to the ongoing uncertainty in the bond markets of several European countries, we have heightened the monitoring of our cross-border exposures, particularly our exposures to Portugal, Ireland, Italy, Greece and Spain. While we had no sovereign debt exposure, we had aggregate exposure of approximately \$2.44 billion to Portugal, Ireland, Italy, Greece and Spain as of September 30, 2011. As of that date, none of these country exposures was individually greater than .75% of our consolidated total assets. Approximately 56%, or \$1.36 billion, of this aggregate exposure consisted of securities carried in our investment portfolio, substantially all of which are mortgage- or asset-backed. The remaining amount consisted primarily of exposures to counterparties in those countries related to foreign exchange and interest-rate contracts, cash and interest-bearing deposits, loans and short-duration advances and securities finance. We had not recorded any other-than-temporary impairment or provisions for loan losses with respect to any of these positions as of September 30, 2011.

**Capital**

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

**Regulatory Capital**

Our objective with respect to regulatory capital management is to maintain a strong capital base in order to provide financial flexibility for our business needs, including funding corporate growth and supporting clients' cash management needs, and to provide protection against loss to depositors and creditors. We strive to maintain an appropriate level of capital, commensurate with our risk profile, on which an attractive return to shareholders is expected to be realized over both the short and long term, while protecting our obligations to depositors and creditors and satisfying regulatory capital adequacy requirements. Additional information about our capital management process is provided under "Financial Condition - Capital" in Management's Discussion and Analysis included in our 2010 Form 10-K.



**Table of Contents**

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

As of September 30, 2011, State Street and State Street Bank met all capital adequacy requirements to which they were subject. Regulatory capital amounts and ratios are presented in the table below.

(Dollars in millions)	Regulatory Guidelines <sup>(1)</sup>		State Street		State Street Bank	
	Minimum	Well Capitalized	September 30, 2011	December 31, 2010	September 30, 2011	December 31, 2010
Tier 1 risk-based capital ratio	4%	6%	17.9%	20.5%	16.5%	18.1%
Total risk-based capital ratio	8	10	19.5	22.0	18.4	19.9
Tier 1 leverage ratio	4	5	7.8	8.2	7.1	7.1
Tier 1 risk-based capital			\$ 13,520	\$ 12,325	\$ 12,065	\$ 10,489
Total risk-based capital			14,762	13,231	13,488	11,565
Adjusted risk-weighted assets and market-risk equivalents:						
Balance sheet risk-weighted assets			\$ 53,060	\$ 46,209	\$ 50,751	\$ 44,103
Off-balance sheet equivalent risk-weighted assets			21,765	13,177	21,765	13,177
Market risk equivalent assets			821	791	776	750
Total			\$ 75,646	\$ 60,177	\$ 73,292	\$ 58,030
Adjusted quarterly average assets			\$ 172,538	\$ 150,770	\$ 169,577	\$ 147,908

<sup>(1)</sup> State Street Bank must meet the regulatory designation of "well capitalized" in order to maintain the parent company's status as a financial holding company, including a minimum tier 1 risk-based capital ratio of 6%, a minimum total risk-based capital ratio of 10% and a tier 1 leverage ratio of 5%. In addition, State Street must meet Federal Reserve guidelines for "well capitalized" for a bank holding company to be eligible for a streamlined review process for acquisition proposals. These guidelines require a minimum tier 1 risk-based capital ratio of 6% and a minimum total risk-based capital ratio of 10%.

As of September 30, 2011, State Street's and State Street Bank's tier 1 and total risk-based capital ratios declined compared to December 31, 2010. Higher capital associated with net income and the remarketing of subordinated debt, reduced by purchases of our common stock and declarations of common stock dividends, was more than offset by increases in total risk-weighted assets. The increases in risk-weighted assets were primarily related to balance sheet growth mainly associated with higher levels of investment securities, as well as an increase in off-balance sheet exposure associated with higher levels of foreign exchange derivative contracts.

The decline in State Street's tier 1 leverage ratio generally resulted from an increase in adjusted quarterly average assets, the result of the above-mentioned balance sheet growth, partly offset by the above-described increase in capital. The increase in average assets was also driven by an increase in average interest-bearing deposits with banks that resulted from significantly higher levels of client deposits. These incremental client deposits were invested with central banks, including the Federal Reserve. As of September 30, 2011, regulatory capital ratios for State Street and State Street Bank exceeded the regulatory minimum and "well-capitalized" thresholds.

During the first nine months of 2011, we declared aggregate quarterly common stock dividends of \$.54 per share, or approximately \$270 million. These dividends compare to aggregate dividends of \$0.04 per share, or

---

**Table of Contents**

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

\$20 million, for all of 2010, and represented the first increase in our quarterly common stock dividend since we announced a reduction of such dividends in the first quarter of 2009 in connection with our plan to strengthen our tangible common equity. We also purchased approximately 10.7 million shares of our common stock during the period April 1, 2011 through September 30, 2011 under the program approved by the Board of Directors, under which we are authorized to purchase up to \$675 million of our common stock during 2011. The shares were purchased at an average per-share and aggregate cost of \$42.06 and approximately \$450 million, respectively. We had remaining authority to purchase approximately \$225 million of our common stock under the program as of September 30, 2011.

***Other***

The current minimum regulatory capital requirements enforced by the U.S. banking regulators are based on a 1988 international accord, commonly referred to as Basel I, which was developed by the Basel Committee on Banking Supervision. In 2004, the Basel Committee released the final version of its new capital adequacy framework, referred to as Basel II. Basel II governs the capital adequacy of large, internationally active banking organizations, such as State Street, that generally rely on sophisticated risk management and measurement systems, and requires these organizations to enhance their measurement and management of the risks underlying their business activities and to better align regulatory capital requirements with those risks.

Basel II adopts a three-pillar framework for addressing capital adequacy: minimum capital requirements, which incorporate the measurement of credit risk, market risk and operational risk; supervisory review, which addresses the need for a banking organization to assess its capital adequacy position relative to its overall risk, rather than only with respect to its minimum capital requirement; and market discipline, which imposes public disclosure requirements on a banking organization intended to allow the assessment of key information about the organization's risk profile and its associated level of regulatory capital.

In December 2007, U.S. banking regulators jointly issued final rules to implement the Basel II framework in the U.S. The framework does not supersede or change the existing prompt corrective action and leverage capital requirements applicable to banking organizations in the U.S., and explicitly reserves the regulators' authority to require organizations to hold additional capital where appropriate.

Prior to full implementation of the Basel II framework, State Street is required to complete a defined qualification period, during which it must demonstrate that it complies with the related regulatory requirements to the satisfaction of the Federal Reserve, State Street's and State Street Bank's primary U.S. banking regulator. State Street is currently in the qualification period for Basel II.

In addition, in response to the recent financial crisis and ongoing global financial market dynamics, the Basel Committee has proposed new guidelines, referred to as Basel III. Basel III would establish more stringent capital and liquidity requirements, including higher minimum regulatory capital ratios, new capital buffers, higher risk-weighted asset calibrations, more restrictive definitions of qualifying capital, a liquidity coverage ratio and a net stable funding ratio. These requirements, as well as related provisions of the Dodd-Frank Act and other international regulatory initiatives, could have a material impact on our businesses and our profitability. U.S. banking regulators will be required to enact new rules specific to the U.S. banking industry to implement the final Basel III accord. Consequently, determining with certainty at this time the alignment of our regulatory capital and our operations with the regulatory capital requirements of Basel III, or when we will be expected to be compliant with the Basel regulatory capital requirements, is not possible.

---

**Table of Contents**

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

We believe, however, that we will be able to comply with the relevant Basel II and Basel III regulatory capital requirements when and as applied to us.

**Economic Capital**

We define economic capital as the capital required to protect holders of our senior debt, and obligations higher in priority, against unexpected economic losses over a one-year period at a level consistent with the solvency of a firm with our target AA senior debt rating. Economic capital requirements are one of several important measures used by management and the Board of Directors to assess the adequacy of our capital levels in relation to State Street's risk profile. Due to the evolving nature of quantification techniques, we expect to periodically refine the methodologies, assumptions, and data used to estimate our economic capital requirements, which could result in a different amount of capital needed to support our business activities.

We quantify capital requirements for the risks inherent in our business activities and group them into one of the following broadly-defined categories:

Market risk: the risk of adverse financial impact due to fluctuations in market prices, primarily as they relate to our trading activities;

Interest-rate risk: the risk of loss in non-trading asset and liability management positions, primarily the impact of adverse movements in interest rates on the repricing mismatches that exist between the assets and liabilities carried in our consolidated statement of condition;

Credit risk: the risk of loss that may result from the default or downgrade of a borrower or counterparty;

Operational risk: the risk of loss from inadequate or failed internal processes, people and systems, or from external events, which is consistent with the Basel II definition; and

Business risk: the risk of negative earnings resulting from adverse changes in business factors, including changes in the competitive environment, changes in the operational economics of our business activities, and the effect of strategic and reputation risks.

Economic capital for each of these five categories is estimated on a stand-alone basis using scenario analysis and statistical modeling techniques applied to internally-generated and, in some cases, external data. These individual results are then aggregated at the State Street consolidated level.

**Liquidity**

The objective of liquidity management is to ensure that we have the ability to meet our financial obligations in a timely and cost-effective manner, and that we maintain sufficient flexibility to fund strategic corporate initiatives as they arise. Effective management of liquidity involves assessing the potential mismatch between the future cash needs of our clients and our available sources of cash under normal and adverse economic and business conditions. Significant uses of liquidity, described more fully below, consist primarily of funding deposit withdrawals and outstanding commitments to extend credit or commitments to purchase securities as they are drawn upon. Liquidity is provided by the maintenance of broad access to the global capital markets and by the asset structure in our consolidated statement of condition. Additional information about our liquidity is provided under Financial Condition Liquidity in Management's Discussion and Analysis included in our 2010 Form 10-K.



---

**Table of Contents**

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

We generally manage our liquidity on a global basis at the State Street consolidated level. We also manage parent company liquidity, and in certain cases branch liquidity, separately. State Street Bank generally has broader access to funding products and markets limited to banks, specifically the federal funds market and the Federal Reserve's discount window. The parent company is managed to a more conservative liquidity profile, reflecting narrower market access. The parent company typically holds enough cash, primarily in the form of interest-bearing deposits with its banking subsidiaries, to meet current debt maturities and cash needs, as well as those projected over the next one-year period.

Our sources of liquidity come from two primary areas: access to the global capital markets and liquid assets carried in our consolidated statement of condition. Our ability to source incremental funding at reasonable rates of interest from wholesale investors in the capital markets is the first source of liquidity we would access to accommodate the uses of liquidity described below. 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. Each of these sources of liquidity is used in our management of daily cash needs and is available in a crisis scenario should we need to accommodate potential large, unexpected demand for funds.

Our uses of liquidity generally result from the following: withdrawals of unsecured 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. Client deposits are generated largely from our investment servicing activities, and are invested in a combination of investment securities and short-term money market instruments whose mix is determined by the characteristics of the deposits. Most of the client deposits are payable on demand or are short-term in nature, which means that withdrawals can potentially occur quickly and in large amounts. Similarly, clients can request disbursement of funds under commitments to extend credit, or can overdraw their deposit accounts rapidly and in large volumes. In addition, a large volume of unanticipated funding requirements, such as large draw-downs of existing lines of credit, could require additional liquidity.

Material risks to sources of short-term liquidity could include, among other things, adverse changes in the perception in the financial markets of our financial condition or liquidity needs, and downgrades by major independent credit rating agencies of our deposits and our debt securities, which would restrict our ability to access the capital markets and could lead to withdrawals of unsecured deposits by our clients.

In managing our liquidity, we have issued term wholesale certificates of deposit, or CDs, and invested those funds in short-term money market instruments which are carried in our consolidated statement of condition and which would be available to meet cash needs. As of September 30, 2011, this wholesale CD portfolio totaled \$7.56 billion, compared to \$6.82 billion at December 31, 2010. As of September 30, 2011, we had no conduit-issued asset-backed commercial paper outstanding to third parties, compared to \$1.92 billion at December 31, 2010.

While maintenance of our high investment-grade credit rating is of primary importance to our liquidity management program, on-balance sheet liquid assets represent significant liquidity that we can directly control, and provide a source of cash in the form of principal maturities and the ability to borrow from the capital markets using our securities as collateral. Our net liquid assets consist primarily of cash balances at central banks in excess of regulatory requirements and other short-term liquid assets, such as interest-bearing deposits with banks, which are multi-currency instruments invested with major multi-national banks; and high-quality, marketable investment securities not already pledged, which generally are more liquid than other types of assets and can be sold or borrowed against to generate cash quickly.

---

**Table of Contents**

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

As of September 30, 2011, the value of our consolidated net liquid assets, as defined, totaled \$115.20 billion, compared to \$83.41 billion at December 31, 2010. For the quarter and nine months ended September 30, 2011, consolidated average net liquid assets were \$105.07 billion and \$91.66 billion, respectively, compared to \$73.38 billion and \$73.11 billion, respectively, for the corresponding periods in 2010. Due to the unusual size and volatile nature of client deposits as of quarter-end, we maintained excess balances of approximately \$33.62 billion at central banks as of September 30, 2011, compared to \$16.61 billion as of December 31, 2010. As of September 30, 2011, the value of the parent company's net liquid assets totaled \$5.71 billion, compared with \$5.06 billion as of December 31, 2010. The parent company's liquid assets consisted primarily of overnight placements with its banking subsidiaries.

Aggregate investment securities carried at \$45.02 billion as of September 30, 2011, compared to \$44.81 billion as of December 31, 2010, were designated as pledged for public and trust deposits, borrowed funds and for other purposes as provided by law, and are excluded from the liquid assets calculation, unless pledged internally between State Street affiliates. Liquid assets included securities pledged to the Federal Reserve Bank of Boston to secure State Street Bank's ability to borrow from their discount window should the need arise. This access to primary credit is an important source of back-up liquidity for State Street Bank. As of September 30, 2011, State Street Bank had no outstanding primary credit borrowings from the discount window.

Based on our level of consolidated liquid assets and our ability to access the capital markets for additional funding when necessary, including our ability to issue debt and equity securities under our current universal shelf registration, management considers State Street's overall liquidity as of September 30, 2011 to be sufficient to meet its current commitments and business needs, including accommodating the transaction and cash management needs of its clients.

We maintain 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. Additional information about debt and equity securities issued pursuant to this shelf registration is provided in notes 7 and 10 to the consolidated financial statements included in this Form 10-Q.

In the future, we may issue additional securities pursuant to our shelf registration. The issuance of debt or equity securities will depend on future market conditions, funding needs and other factors.

We currently maintain a corporate commercial paper program, unrelated to the conduit asset-backed commercial paper program, under which we can issue up to \$3 billion with original maturities of up to 270 days from the date of issue. At September 30, 2011, we had \$2.36 billion of commercial paper outstanding, compared to \$2.80 billion at December 31, 2010.

State Street Bank currently has Board authority to issue bank notes up to an aggregate of \$5 billion, and up to \$1 billion of subordinated bank notes. In September 2011, \$1.45 billion of our unsecured senior floating-rate notes matured, and therefore there was no balance outstanding under this Board authority as of September 30, 2011.

State Street Bank currently maintains a line of credit with a financial institution of CAD \$800 million, or approximately \$766 million, as of September 30, 2011, 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, 2011, no balance was outstanding on this line of credit.

**Table of Contents**

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

**Risk Management**

The global scope of our business activities requires that we balance what we perceive to be the primary risks in our businesses with a comprehensive and well-integrated risk management function. The identification, measurement, monitoring and mitigation of risks are essential to the financial performance and successful management of our businesses. These risks, if not effectively managed, can result in current losses to State Street as well as erosion of our capital and damage to our reputation. Our systematic approach allows for an assessment of risks within a framework for evaluating opportunities for the prudent use of capital that appropriately balance risk and return. Additional information about our process for managing market risk for both our trading and asset-and-liability management activities, as well as credit risk, operational risk and business risk, can be found under "Financial Condition Risk Management" in Management's Discussion and Analysis included in our 2010 Form 10-K.

While we believe that our risk management program is effective in managing the risks in our businesses, external factors may create risks that cannot always be identified or anticipated.

***Market Risk***

Market risk is defined as the risk of adverse financial impact due to fluctuations in interest rates, foreign exchange rates and other market-driven factors and prices. State Street is exposed to market risk in both its trading and non-trading, or asset and liability management, activities. The market risk management processes related to these activities, discussed in further detail below, apply to both on- and off-balance sheet exposures.

We engage in trading and investment activities primarily to serve our clients' needs and to contribute to our overall corporate earnings and liquidity. In the conduct of these activities, we are subject to, and assume, market risk. The level of market risk that we assume is a function of our overall risk appetite, objectives and liquidity needs, our clients' requirements and market volatility. Interest-rate risk, a component of market risk, is more thoroughly discussed in the "Asset and Liability Management" portion of this "Market Risk" section.

***Trading Activities***

Market risk associated with our foreign exchange and other trading activities is managed through corporate guidelines, including established limits on aggregate and net open positions, sensitivity to changes in interest rates, and concentrations, which are supplemented by stop-loss thresholds. We use a variety of risk management tools and methodologies, including value-at-risk, or VaR, described later in this section, to measure, monitor and manage market risk.

We enter into a variety of derivative financial instruments to support our clients' needs, conduct trading activities and manage our interest-rate and currency risk. These activities are generally intended to generate trading revenue or to hedge potential earnings volatility. In addition, we provide services related to derivatives in our role as both a manager and a servicer of financial assets. Our clients use derivatives to manage the financial risks associated with their investment goals and business activities. With the growth of cross-border investing, our clients have an increasing need for foreign exchange forward contracts to convert currency for international investments and to manage the currency risk in their international investment portfolios. As an active participant in the foreign exchange markets, we provide foreign exchange forward contracts and options in support of these client needs.

**Table of Contents**

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

As part of our trading activities, we assume positions in the foreign exchange and interest-rate markets by buying and selling cash instruments and using derivatives, 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, 2011, the aggregate notional amount of these derivatives was \$1.45 trillion, of which \$1.10 trillion was composed of foreign exchange forward, swap and spot contracts. In the aggregate, positions are matched closely to minimize currency and interest-rate risk. All foreign exchange contracts are valued daily at current market rates. Additional information about our trading derivatives is provided in note 12 to the consolidated financial statements included in this Form 10-Q.

As noted above, 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 estimate VaR daily. We have adopted standards for estimating VaR, and we maintain regulatory capital for market risk in accordance with applicable bank regulatory market risk guidelines. VaR is estimated for a 99% one-tail confidence interval and an assumed one-day holding period using a historical observation period of two years. A 99% one-tail confidence interval implies that daily trading losses should not exceed the estimated VaR more than 1% of the time, or less than three business days out of a year. The methodology uses a simulation approach based on historically observed changes in foreign exchange rates, U.S. and non-U.S. interest rates and implied volatilities, and incorporates the resulting diversification benefits provided from the mix of our trading positions.

Like all quantitative risk measures, our historical simulation VaR methodology is subject to inherent limitations and assumptions. Our methodology gives equal weight to all market-rate observations regardless of how recently the market rates were observed. The estimate is calculated using static portfolios consisting of trading positions held at the end of each business day. Therefore, implicit in the VaR estimate is the assumption that no intra-day actions are taken by management during adverse market movements. As a result, the methodology does not incorporate risk associated with intra-day changes in positions or intra-day price volatility.

In addition to daily VaR measurement, we regularly perform stress tests. These stress tests consider historical events, such as the Asian financial crisis or the most recent crisis in the financial markets, as well as hypothetical scenarios defined by us, such as parallel and non-parallel changes in yield curves. Our VaR model incorporates exposures to more than 8,000 factors, composed of foreign exchange spot rates, interest-rate base and spread curves and implied volatility levels and skews.

The following table presents VaR associated with our trading activities, for trading positions held during the periods indicated, as measured by our VaR methodology. The generally lower total VaR amounts compared to component VaR amounts primarily relate to diversification benefits across risk types.

**VALUE-AT-RISK**

(In millions)	Nine Months Ended September 30,					
	2011			2010		
	Average	Maximum	Minimum	Average	Maximum	Minimum
Foreign exchange rates	\$ 2.4	\$ 6.0	\$ 0.4	\$ 3.2	\$ 9.4	\$ 0.6
Interest rates	5.5	11.1	1.9	3.0	4.9	1.6
Total VaR for trading assets	\$ 6.0	\$ 11.1	\$ 2.4	\$ 4.5	\$ 10.2	\$ 1.8

Our historical simulation VaR methodology recognizes diversification benefits by fully revaluing our portfolio using historical market information. As a result, this historical simulation better captures risk by



**Table of Contents**

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

incorporating, by construction, any diversification benefits or concentration risks in our portfolio related to market factors which have historically moved in correlated or independent directions and amounts.

Consistent with current bank regulatory market risk guidelines, our VaR measurement includes certain positions held outside of our regular sales and trading activities, but carried in trading account assets in our consolidated statement of condition and covered by those guidelines. We do not have a historical simulation VaR model that covers positions outside of our regular sales and trading activities. Consequently, we compute the VaR associated with those assets using a separate model, which we then add to the VaR associated with our sales and trading activities to derive State Street's total regulatory VaR. Although this simple addition does not give full recognition to the benefits of diversification of our business, we believe that this approach is both conservative and consistent with the way in which we manage those businesses.

We perform ongoing integrity testing of our VAR models to validate that the model forecasts are reasonable when compared to actual results. Our actual daily trading profit and loss, or P&L, is generally greater than hypothetical daily trading P&L due to our ability to manage our positions through intra-day trading and other pricing considerations. As such, while we have not seen any back-testing exceptions to the VaR model in comparison to actual daily trading P&L, we do from time to time see back-testing exceptions on a hypothetical basis, assuming that all positions are held constant. These exceptions are generally infrequent, as one would expect from the nature and definition of a VaR computation.

We evaluate our VaR methodology on an ongoing basis. Any revisions to our VaR methodology are implemented only after thorough review and approval internally and by the Federal Reserve, our primary U.S. banking regulator. We implemented one such revision in August 2011, to better capture the risks associated with our exposures to certain interest-rate spreads.

The following table presents the VaR associated with our trading activities, presented in the foregoing table, and the VaR associated with positions outside of these trading activities, which VaR is described as VaR for non-trading assets. Total regulatory VaR is calculated as the sum of the VaR associated with trading assets and the VaR for non-trading assets, with no additional diversification benefits recognized. The average, maximum and minimum amounts are calculated for each line item separately.

**Total Regulatory VALUE-AT-RISK**

(In millions)	Nine Months Ended September 30,					
	Average	2011		2010		Minimum
		Maximum	Minimum	Average	Maximum	
VaR for trading assets	<b>\$ 6.0</b>	<b>\$ 11.1</b>	<b>\$ 2.4</b>	\$ 4.5	\$ 10.2	\$ 1.8
VaR for non-trading assets	<b>1.6</b>	<b>1.9</b>	<b>1.4</b>	3.1	6.7	2.3
Total regulatory VaR	<b>\$ 7.7</b>	<b>\$ 12.9</b>	<b>\$ 4.1</b>	\$ 7.6	\$ 13.1	\$ 4.7

*Asset and Liability Management Activities*

The primary objective of asset and liability management is to provide sustainable and growing net interest revenue, or NIR, under varying economic environments, while protecting the economic values of the assets and liabilities carried in our consolidated statement of condition from the adverse effects of changes in interest rates. Most of our NIR is earned from the investment of client deposits generated by our Investment Servicing and Investment Management businesses. We structure our balance sheet assets to generally conform to the characteristics of our balance sheet liabilities, but we manage our overall interest-rate risk position in the context of current and anticipated market conditions and within internally-approved risk guidelines. Non-U.S. dollar

**Table of Contents**

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

denominated client liabilities are a significant portion of our consolidated statement of condition. This exposure and the resulting changes in the shape and level of non-U.S. dollar yield curves are included in our consolidated interest-rate risk management process.

Our investment activities and our use of derivative financial instruments are the primary tools used in managing interest-rate risk. We invest in financial instruments with currency, repricing, and maturity characteristics we consider appropriate to manage our overall interest-rate risk position. In addition to on-balance sheet assets, we use certain derivative instruments, primarily interest-rate swaps, to alter the interest-rate characteristics of specific balance sheet assets or liabilities. Our use of derivatives is subject to guidelines approved by our Asset, Liability and Capital Committee. Additional information about our use of derivatives is provided in note 12 to the consolidated financial statements included in this Form 10-Q.

To measure, monitor, and report on our interest-rate risk position, we use NIR simulation, or NIR-at-risk, which measures the impact on NIR over the next twelve months to immediate, or rate shock, and gradual, or rate ramp, changes in market interest rates and economic value of equity, or EVE, which measures the impact on the present value of all NIR-related principal and interest cash flows of an immediate change in interest rates. NIR-at-risk is designed to measure the potential impact of changes in market interest rates on NIR in the short term. EVE, on the other hand, is a long-term view of interest-rate risk, but with a view toward liquidation of State Street.

Key assumptions used in the models described above include the timing of cash flows; the maturity and repricing of balance sheet assets and liabilities, especially option-embedded financial instruments like mortgage-backed securities; changes in market conditions; and interest-rate sensitivities of our client liabilities with respect to the interest rates paid and the level of balances. These assumptions are inherently uncertain and, as a result, the models cannot precisely predict future NIR or predict the impact of changes in interest rates on NIR and economic value. Actual results could differ from simulated results due to the timing, magnitude and frequency of changes in interest rates and market conditions, changes in spreads and management strategies, among other factors. Projections of potential future streams of NIR are assessed as part of our forecasting process.

The following table presents the estimated exposure of NIR for the next twelve months, calculated as of the dates indicated, due to an immediate  $\pm 100$ -basis-point shift in then-current interest rates. Estimated incremental exposures presented below are dependent on management's assumptions about asset and liability sensitivities under various interest-rate scenarios, such as those previously discussed, and do not reflect any additional actions management may undertake in order to mitigate some of the adverse effects of interest-rate changes on State Street's financial performance.

**NIR-AT-RISK**

(In millions)	Estimated Exposure to Net Interest Revenue	
	September 30, 2011	December 31, 2010
Rate change:		
+100 bps shock	\$ 187	\$ 121
-100 bps shock	(333)	(231)
+100 bps ramp	60	42
-100 bps ramp	(150)	(117)

**Table of Contents**

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

As of September 30, 2011, NIR sensitivity to an upward-100-basis-point shock in market rates increased compared to December 31, 2010. A larger projected balance sheet funded mainly with client deposit inflows is expected to increase the benefit of rising rates to NIR. The benefit to NIR is less significant for an upward-100-basis-point ramp, since market rates are assumed to increase gradually.

NIR is expected to be more sensitive to a downward-100-basis-point shock in market rates as of September 30, 2011 compared to December 31, 2010. Due to the exceptionally low-interest-rate environment, deposit rates quickly reach their implicit floors and provide little funding relief on the liability side, while assets reset into the lower-rate environment, placing downward pressure on NIR.

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

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

**ECONOMIC VALUE OF EQUITY**

(In millions)	Estimated Exposure to Economic Value of Equity	
	September 30, 2011	December 31, 2010
Rate change:		
+200 bps shock	\$ (1,054)	\$ (2,058)
- 200 bps shock	(236)	949

The decrease in the exposure to EVE for an upward-200-basis-point shock as of September 30, 2011 compared to December 31, 2010 was attributable to the issuance of long-term debt and the sale of long-dated investment securities, as well as decreases in the level of U.S. interest rates over the past nine months. These same factors accounted for the decreased benefit to EVE for a downward-200-basis-point shock as of September 30, 2011 compared to December 31, 2010.

**Credit Risk**

Credit and counterparty risk is defined as the risk of financial loss if a borrower or counterparty is either unable or unwilling to repay borrowings or settle a transaction in accordance with underlying contractual terms. We assume credit and counterparty risk for both our on- and off-balance sheet exposures. The extension of credit and the acceptance of counterparty risk by State Street are governed by corporate guidelines based on each counterparty's risk profile, the markets served, counterparty and country concentrations, and regulatory compliance. Our focus on large institutional investors and their businesses requires that we assume concentrated credit risk for a variety of products and durations. We maintain comprehensive guidelines and procedures to monitor and manage all aspects of credit and counterparty risk that we undertake.

An internal rating system is used to assess potential risk of loss. State Street's risk-rating process incorporates the use of risk-rating tools in conjunction with management judgment. Qualitative and quantitative inputs are captured in a transparent and replicable manner, and following a formal review and approval process, an internal credit rating based on State Street's credit scale is assigned. We evaluate the credit of our counterparties on an ongoing basis, but at a minimum annually. Significant exposures are reviewed daily by State

---

**Table of Contents**

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

Street's Risk Management group. Processes for credit approval and monitoring are in place for all extensions of credit. As part of the approval and renewal process, due diligence is conducted based on the size and term of the exposure, as well as the creditworthiness of the counterparty. At any point in time, having one or more counterparties to which our exposure exceeds 10% of our consolidated total shareholders' equity, exclusive of unrealized gains or losses, is not unusual.

We provide, on a selective basis, traditional loan products and services to key clients in a manner that is intended to enhance client relationships, increase profitability and manage risk. We employ a relationship model in which credit decisions are based on credit quality and the overall institutional relationship.

An allowance for loan losses is maintained to absorb estimated probable credit losses inherent in our loan and lease portfolio as of the balance sheet date; this allowance is reviewed on a regular basis by management. The provision for loan losses is a charge to current earnings to maintain the overall allowance for loan losses at a level considered appropriate relative to the level of estimated probable credit losses inherent in the loan and lease portfolio. Information about provisions for loan losses is included under "Provision for Loan Losses" in this Management's Discussion and Analysis.

We also assume other types of credit exposure with our clients and counterparties. We purchase securities under reverse repurchase agreements, which are agreements to resell. Most repurchase agreements are short-term, with maturities of less than 90 days. Risk is managed through a variety of processes, including establishing the acceptability of counterparties; limiting purchases primarily to low-risk U.S. government securities; taking possession or control of pledged assets; monitoring levels of underlying collateral; and limiting the duration of the agreements. Securities are revalued daily to determine if additional collateral is required from the borrower.

We also provide clients with off-balance sheet liquidity and credit enhancement facilities in the form of letters and lines of credit and standby bond-purchase agreements. These exposures are subject to an initial credit analysis, with detailed approval and review processes. These facilities are also actively monitored and reviewed annually. We maintain a separate reserve for probable credit losses related to certain of these off-balance sheet activities, which is recorded in accrued expenses and other liabilities in our consolidated statement of condition. Management reviews the adequacy of this reserve on a regular basis.

On behalf of clients enrolled in our lending program, we lend securities to banks, broker/dealers and other institutions. In most circumstances, we indemnify our clients for the fair market value of those securities against a failure of the borrower to return such securities. Though these transactions are collateralized, the substantial volume of these activities necessitates detailed credit-based underwriting and monitoring processes. The aggregate amount of indemnified securities on loan totaled \$357.49 billion as of September 30, 2011, compared to \$334.24 billion as of December 31, 2010. We require the borrowers to provide collateral in an amount equal to or in excess of 100% of the fair market value of the securities borrowed. State Street holds the collateral received in connection with its securities lending services as agent, and these holdings are not recorded in our consolidated statement of condition. The securities on loan and the collateral are revalued daily to determine if additional collateral is necessary. We held, as agent, cash and securities totaling \$370.99 billion and \$343.41 billion as collateral for indemnified securities on loan as of September 30, 2011 and December 31, 2010, respectively.

The collateral held by us is invested on behalf of our clients. In certain cases, the collateral is invested in third-party repurchase agreements, for which we indemnify the client against loss of the principal invested. We require the repurchase agreement counterparty to provide collateral in an amount equal to or in excess of 100% of the amount of the repurchase agreement. The indemnified repurchase agreements and the related collateral are not recorded in our consolidated statement of condition. Of the collateral of \$370.99 billion as of September 30, 2011 and \$343.41 billion as of December 31, 2010 referenced above, \$111.68 billion as of September 30, 2011

---

**Table of Contents**

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

and \$89.07 billion as of December 31, 2010 was invested in indemnified repurchase agreements. We held, as agent, \$116.93 billion and \$93.29 billion as collateral for indemnified investments in repurchase agreements as of September 30, 2011 and December 31, 2010, respectively.

Investments in debt and equity securities, including investments in affiliates, are monitored regularly by Corporate Finance and Risk Management. Procedures are in place for assessing impaired securities, as described in note 3 to the consolidated financial statements included in this Form 10-Q.

**OFF-BALANCE SHEET ARRANGEMENTS**

Information about off-balance sheet arrangements is provided in notes 8, 9 and 12 to the consolidated financial statements included in this Form 10-Q.

**NEW ACCOUNTING STANDARDS**

Information with respect to new accounting standards is provided in note 1 to the consolidated financial statements included in this Form 10-Q.

**QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Information with respect to quantitative and qualitative disclosures about market risk is provided under Financial Condition Risk Management Market Risk in Management's Discussion and Analysis included in this Form 10-Q.

**CONTROLS AND PROCEDURES**

State Street has established and maintains disclosure controls and procedures that are designed to ensure that material information related to State Street and its subsidiaries on a consolidated basis, which is required to be disclosed in its reports filed or submitted under the Securities Exchange Act of 1934, is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to State Street's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. For the quarter ended September 30, 2011, State Street's management carried out an evaluation, with the participation of its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of State Street's disclosure controls and procedures. Based on the evaluation of these disclosure controls and procedures, the Chief Executive Officer and Chief Financial Officer concluded that State Street's disclosure controls and procedures were effective as of September 30, 2011.

State Street has also established and maintains internal control over financial reporting as a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with GAAP. In the ordinary course of business, State Street routinely enhances its internal controls and procedures for financial reporting by either upgrading its current systems or implementing new systems. Changes have been made and may be made to State Street's internal controls and procedures for financial reporting as a result of these efforts. During the quarter ended September 30, 2011, no change occurred in State Street's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, State Street's internal control over financial reporting.

**Table of Contents**

**STATE STREET CORPORATION**  
**CONSOLIDATED STATEMENT OF INCOME**  
**(UNAUDITED)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
<b>(Dollars in millions, except per share amounts)</b>				
<b>Fee revenue:</b>				
Servicing fees	\$ 1,106	\$ 1,006	\$ 3,325	\$ 2,874
Management fees	229	196	715	608
Trading services	334	228	947	796
Securities finance	85	68	288	249
Processing fees and other	90	71	252	278
<b>Total fee revenue</b>	<b>1,844</b>	<b>1,569</b>	<b>5,527</b>	<b>4,805</b>
<b>Net interest revenue:</b>				
Interest revenue	728	904	2,181	2,628
Interest expense	150	180	454	585
<b>Net interest revenue</b>	<b>578</b>	<b>724</b>	<b>1,727</b>	<b>2,043</b>
<b>Gains (Losses) related to investment securities, net:</b>				
Net gains from sales of available-for-sale securities	15	91	81	286
Losses from other-than-temporary impairment	(25)	(132)	(104)	(612)
Losses not related to credit	15	58	48	388
<b>Gains related to investment securities, net</b>	<b>5</b>	<b>17</b>	<b>25</b>	<b>62</b>
<b>Total revenue</b>	<b>2,427</b>	<b>2,310</b>	<b>7,279</b>	<b>6,910</b>
Provision for loan losses		1	1	26
<b>Expenses:</b>				
Salaries and employee benefits	965	857	2,948	2,589
Information systems and communications	191	181	581	522
Transaction processing services	180	165	553	482
Occupancy	119	112	339	346
Securities lending charge				414
Acquisition and restructuring costs	85	23	121	77
Professional services	83	58	249	224
Amortization of other intangible assets	50	52	149	132
Other	125	79	334	264
<b>Total expenses</b>	<b>1,798</b>	<b>1,527</b>	<b>5,274</b>	<b>5,050</b>
Income before income tax expense	629	782	2,004	1,834
Income tax expense	74	236	465	361
<b>Net income</b>	<b>\$ 555</b>	<b>\$ 546</b>	<b>\$ 1,539</b>	<b>\$ 1,473</b>
<b>Net income available to common shareholders</b>	<b>\$ 543</b>	<b>\$ 540</b>	<b>\$ 1,511</b>	<b>\$ 1,459</b>

Edgar Filing: STATE STREET CORP - Form 10-Q

**Earnings per common share:**

Basic	\$ 1.11	\$ 1.09	\$ 3.05	\$ 2.94
Diluted	1.10	1.08	3.03	2.93

**Average common shares outstanding (in thousands):**

Basic	490,840	495,729	495,015	495,312
Diluted	494,780	498,159	498,417	497,715

<b>Cash dividends declared per common share</b>	\$ .18	\$ .01	\$ .54	\$ .03
---	--------	--------	--------	--------

The accompanying condensed notes are an integral part of these consolidated financial statements.

**Table of Contents**

**STATE STREET CORPORATION**  
**CONSOLIDATED STATEMENT OF CONDITION**

(Dollars in millions, except per share amounts)	September 30, 2011 (Unaudited)	December 31, 2010
<b>Assets</b>		
Cash and due from banks	\$ 9,487	\$ 3,311
Interest-bearing deposits with banks	36,484	22,234
Securities purchased under resale agreements	6,058	2,928
Trading account assets	1,936	479
Investment securities available for sale	96,595	81,881
Investment securities held to maturity (fair value of \$10,102 and \$12,576)	10,018	12,249
Loans and leases (less allowance for losses of \$22 and \$100)	11,718	11,857
Premises and equipment (net of accumulated depreciation of \$3,629 and \$3,425)	1,738	1,802
Accrued income receivable	1,932	1,733
Goodwill	5,639	5,597
Other intangible assets	2,486	2,593
Other assets	24,704	13,841
<b>Total assets</b>	<b>\$ 208,795</b>	<b>\$ 160,505</b>
<b>Liabilities</b>		
Deposits:		
Noninterest-bearing	\$ 36,435	\$ 17,464
Interest-bearing U.S.	7,994	6,957
Interest-bearing Non-U.S.	90,569	73,924
Total deposits	134,998	98,345
Securities sold under repurchase agreements	9,521	7,599
Federal funds purchased	6,956	7,748
Other short-term borrowings	9,170	8,694
Accrued expenses and other liabilities	20,387	11,782
Long-term debt	8,112	8,550
<b>Total liabilities</b>	<b>189,144</b>	<b>142,718</b>
Commitments and contingencies (note 8)		
<b>Shareholders' equity</b>		
Preferred stock, no par: 3,500,000 shares authorized; 5,001 shares issued and outstanding	500	
Common stock, \$1 par: 750,000,000 shares authorized; 504,000,556 and 502,064,454 shares issued	504	502
Surplus	9,528	9,356
Retained earnings	9,889	8,634
Accumulated other comprehensive (loss) income	(315)	(689)
Treasury stock, at cost (10,918,592 and 420,016 shares)	(455)	(16)
<b>Total shareholders' equity</b>	<b>19,651</b>	<b>17,787</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 208,795</b>	<b>\$ 160,505</b>

The accompanying condensed notes are an integral part of these consolidated financial statements.





Table of Contents

**STATE STREET CORPORATION**  
**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
**(UNAUDITED)**

(Dollars in millions, except per share amounts, shares in thousands)	Common Stock			Accumulated Other Comprehensive (Loss) Income		Treasury Stock			
	Preferred Stock	Shares	Amount	Surplus	Retained Earnings	Income	Shares	Amount	Total
<b>Balance at December 31, 2009</b>		495,366	\$ 495	\$ 9,180	\$ 7,071	\$ (2,238)	432	\$ (17)	\$ 14,491
Adjustment for effect of application of provisions of new accounting standard					27	(27)			
Adjusted balance at January 1, 2010		495,366	495	9,180	7,098	(2,265)	432	(17)	14,491
Comprehensive income:									
Net income					1,473				1,473
Change in net unrealized loss on available-for-sale securities, net of reclassification adjustment and net of related taxes of \$1,059						1,653			1,653
Change in net unrealized loss on available-for-sale securities designated in fair value hedges, net of related taxes of \$(56)						(80)			(80)
Expected losses from other-than-temporary impairment of held-to-maturity securities related to factors other than credit, net of related taxes of \$(24)						(31)			(31)
Foreign currency translation, net of related taxes of \$153						(61)			(61)
Change in net unrealized loss on cash flow hedges, net of related taxes						6			6
Change in minimum pension liability, net of related taxes of \$(2)						(4)			(4)
Total comprehensive income					1,473	1,483			2,956
Cash dividends declared \$0.03 per common share					(15)				(15)
Common stock awards and options exercised, including related taxes of \$(11)		6,663	7	130					137
Other							6		
<b>Balance at September 30, 2010</b>		502,029	\$ 502	\$ 9,310	\$ 8,556	\$ (782)	438	\$ (17)	\$ 17,569
<b>Balance at December 31, 2010</b>		502,064	\$ 502	\$ 9,356	\$ 8,634	\$ (689)	420	\$ (16)	\$ 17,787
Comprehensive income:									
Net income					1,539				1,539
Change in net unrealized loss on available-for-sale securities, net of reclassification adjustment and net of related taxes of \$318						449			449
Change in net unrealized loss on available-for-sale securities designated in fair value hedges, net of related taxes of \$(63)						(96)			(96)
Expected losses from other-than-temporary impairment of held-to-maturity securities related to factors other than credit, net of related taxes of \$8						13			13
Foreign currency translation, net of related taxes of \$(7)						10			10
Change in net unrealized loss on cash flow hedges, net of related taxes of \$2						6			6

Edgar Filing: STATE STREET CORP - Form 10-Q

Change in minimum pension liability, net of related taxes of \$23							(8)		(8)	
Total comprehensive income							1,539	374	1,913	
Preferred stock issued	\$ 500								500	
Cash dividends declared:										
Common stock \$.54 per share							(271)		(271)	
Preferred stock							(13)		(13)	
Common stock acquired								10,700	(450)	
Common stock awards and options exercised, including related taxes of \$(13)		1,937	2	183			(197)	10	195	
Other							(11)	(4)	(10)	
<b>Balance at September 30, 2011</b>	<b>\$ 500</b>	<b>504,001</b>	<b>\$ 504</b>	<b>\$ 9,528</b>	<b>\$ 9,889</b>	<b>\$</b>	<b>(315)</b>	<b>10,919</b>	<b>\$ (455)</b>	<b>\$ 19,651</b>

The accompanying condensed notes are an integral part of these consolidated financial statements.

**Table of Contents**

**STATE STREET CORPORATION**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**(UNAUDITED)**

	Nine Months Ended September 30,	
	2011	2010
<b>(In millions)</b>		
<b>Operating Activities:</b>		
Net income	\$ 1,539	\$ 1,473
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred income tax expense (benefit)	(96)	209
Amortization of other intangible assets	149	132
Other non-cash adjustments for depreciation, amortization and accretion	116	(360)
Gains related to investment securities, net	(25)	(62)
Change in trading account assets, net	(1,297)	(1,337)
Change in accrued income receivable	(199)	(270)
Change in collateral deposits, net	(1,919)	879
Change in trading liabilities, net	785	139
Other, net	(1,166)	189
<b>Net cash (used in) provided by operating activities</b>	<b>(2,113)</b>	<b>992</b>
<b>Investing Activities:</b>		
Net (increase) decrease in interest-bearing deposits with banks	(14,250)	2,072
Net increase in securities purchased under resale agreements	(3,130)	(1,554)
Proceeds from sales of available-for-sale securities	11,056	17,634
Proceeds from maturities of available-for-sale securities	33,705	26,781
Purchases of available-for-sale securities	(58,901)	(49,443)
Proceeds from maturities of held-to-maturity securities	2,779	4,223
Purchases of held-to-maturity securities	(455)	(426)
Net increase in loans	(52)	(3,117)
Business acquisitions, net of cash acquired	(77)	(2,246)
Purchases of equity investments and other long-term assets	(69)	(95)
Purchases of premises and equipment	(209)	(157)
Other, net	280	326
<b>Net cash used in investing activities</b>	<b>(29,323)</b>	<b>(6,002)</b>
<b>Financing Activities:</b>		
Net increase in time deposits	566	3,286
Net increase in all other deposits	36,087	11,686
Net increase (decrease) in short-term borrowings	1,606	(7,638)
Proceeds from issuance of long-term debt, net of issuance costs	1,986	
Payments for long-term debt and obligations under capital leases	(2,474)	(335)
Proceeds from issuance of preferred stock	500	
Proceeds from exercises of common stock options	40	8
Purchases of common stock	(450)	
Repurchases of common stock for employee tax withholding	(60)	(40)
Proceeds from issuance of treasury stock for stock awards and options exercised	10	
Payments for cash dividends	(199)	(15)
<b>Net cash provided by financing activities</b>	<b>37,612</b>	<b>6,952</b>

Edgar Filing: STATE STREET CORP - Form 10-Q

<b>Net increase</b>	<b>6,176</b>	1,942
Cash and due from banks at beginning of period	<b>3,311</b>	2,641
<b>Cash and due from banks at end of period</b>	<b>\$ 9,487</b>	\$ 4,583

The accompanying condensed notes are an integral part of these consolidated financial statements.

**Table of Contents**

**STATE STREET CORPORATION**

**Table of Contents**

**Condensed Notes to Consolidated Financial Statements (Unaudited)**

<u>Note 1. Basis of Presentation</u>	54
<u>Note 2. Acquisitions</u>	55
<u>Note 3. Investment Securities</u>	57
<u>Note 4. Loans and Leases</u>	66
<u>Note 5. Goodwill and Other Intangible Assets</u>	70
<u>Note 6. Other Assets</u>	71
<u>Note 7. Long-Term Debt</u>	72
<u>Note 8. Commitments and Contingencies</u>	72
<u>Note 9. Variable Interest Entities</u>	77
<u>Note 10. Shareholders' Equity</u>	78
<u>Note 11. Fair Value</u>	80
<u>Note 12. Derivative Financial Instruments</u>	92
<u>Note 13. Net Interest Revenue</u>	101
<u>Note 14. Acquisition and Restructuring Costs</u>	101
<u>Note 15. Income Taxes</u>	102
<u>Note 16. Earnings Per Common Share</u>	103
<u>Note 17. Line of Business Information</u>	103
<u>Note 18. Non-U.S. Activities</u>	106

---

**Table of Contents**

**STATE STREET CORPORATION**

**Condensed Notes to Consolidated Financial Statements (Unaudited)**

**Note 1. Basis of Presentation**

The accounting and financial reporting policies of State Street Corporation conform to U.S. generally accepted accounting principles, referred to as GAAP. State Street Corporation, the parent company, is a financial holding company headquartered in Boston, Massachusetts. Unless otherwise indicated or unless the context requires otherwise, all references in these condensed notes to consolidated financial statements to State Street, we, us, our or similar references mean State Street Corporation and its subsidiaries on a consolidated basis. Our principal banking subsidiary, State Street Bank and Trust Company, is referred to as State Street Bank.

The consolidated financial statements accompanying these condensed notes are unaudited. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, which are necessary for a fair statement of the consolidated results of operations in these financial statements, have been made. Certain previously reported amounts have been reclassified to conform to current period classifications as presented in this Form 10-Q. Events occurring subsequent to the date of our consolidated statement of condition were evaluated for potential recognition or disclosure in our consolidated financial statements through the date we filed this Form 10-Q with the SEC.

The preparation of consolidated financial statements requires management to make estimates and assumptions in the application of certain of our accounting policies that may materially affect the reported amounts of assets, liabilities, revenue and expenses. As a result of unanticipated events or circumstances, actual results could differ from those estimates. Amounts dependent on subjective or complex judgments in the application of accounting policies considered by management to be relatively more significant in this regard are those associated with our accounting for fair value measurements; interest revenue recognition and other-than-temporary impairment; and impairment of goodwill and other intangible assets. Among other effects, unanticipated events or circumstances could result in future impairment of investment securities, goodwill or other intangible assets, and the recognition of varying amounts of interest revenue from discount accretion related to certain investment securities.

Our consolidated statement of condition at December 31, 2010 included in the accompanying consolidated financial statements was derived from the audited financial statements at that date, but does not include all footnotes required by GAAP for a complete set of financial statements. The accompanying consolidated financial statements and these condensed notes should be read in conjunction with the financial and risk factors information included in our 2010 Form 10-K, which we previously filed with the SEC.

In September 2011, the FASB issued an amendment to GAAP that modifies existing guidance with respect to impairment of goodwill. The amendment provides companies with an option to perform a qualitative assessment to determine whether further impairment testing is necessary. The amendment is effective, for State Street, for interim and annual periods beginning on January 1, 2012. Adoption of the amendment is not expected to have a material effect on our consolidated financial statements.

In June 2011, the FASB issued an amendment to GAAP that eliminates the option to report other comprehensive income and its components in the statement of changes in shareholders' equity. Instead, an entity can elect to present the components of net income and other comprehensive income in either one continuous statement, referred to as the statement of comprehensive income, or in two separate, but consecutive statements. The amendment does not change which items are reported in other comprehensive income or the requirement to report reclassifications of items from other comprehensive income to net income. The amendment is effective, for State Street, for interim and annual periods beginning on January 1, 2012, and is required to be applied retrospectively. We are currently evaluating the options for presentation of other comprehensive income permitted by the amendment.

**Table of Contents**

**STATE STREET CORPORATION**

**Condensed Notes to Consolidated Financial Statements (Continued)**

**(Unaudited)**

**Note 1. Basis of Presentation (Continued)**

In May 2011, the FASB issued an amendment to GAAP associated with fair value measurement and related disclosures. While the amendment is not expected to significantly affect current practice, it clarifies the FASB's intent about the application of existing fair value measurement requirements, and requires the disclosure of additional quantitative information about fair value measurements. The amendment includes guidance about, among other things, how a principal market is determined and the measurement of fair value of instruments with offsetting market or counterparty credit risks. The amendment is effective, for State Street, for interim and annual periods beginning on January 1, 2012, and is required to be applied prospectively. Adoption of the amendment is not expected to have a material effect on our consolidated financial statements from a fair value measurement perspective. However, adoption is expected to result in additional disclosures in our consolidated financial statements.

In April 2011, the FASB issued an amendment to GAAP that eliminates the requirement to consider collateral maintenance when determining whether a transfer of assets subject to a repurchase arrangement is accounted for as a sale or as a secured borrowing. The amendment is effective prospectively, for State Street, for new transactions and modifications of existing transactions that occur on or after January 1, 2012. Adoption of the amendment is not expected to have a material effect on our consolidated financial statements, since we currently account for repurchase agreements as secured borrowings.

In April 2011, the FASB issued an amendment to GAAP related to the identification and disclosure of troubled debt restructurings. The amendment clarifies that the inability of a borrower to access funds at a market rate for debt with characteristics similar to the restructured debt may be an indicator of a concession being granted. The amendment also clarifies that when evaluating whether a borrower is experiencing financial difficulty, a creditor must consider whether a borrower's default on any of its debt is probable in the foreseeable future, rather than wait for an actual default to occur. The amendment is effective, for State Street, as of July 1, 2011, and applies retroactively to restructurings occurring on or after January 1, 2011. The disclosures required by the amendment are provided in note 4.

**Note 2. Acquisitions**

On January 10, 2011, we completed our acquisition of Bank of Ireland's asset management business, or BIAM, in a cash acquisition financed through available capital. We acquired BIAM to expand our overall presence in Ireland, where we already provide services to institutional clients, to provide a range of investment management products. In connection with our acquisition of BIAM, we recorded \$31 million of goodwill and \$27 million of other intangible assets in our consolidated statement of condition, and added approximately \$23 billion to our assets under management as of March 31, 2011. The assets under management are not recorded in our consolidated financial statements. Results of operations of the acquired BIAM business are included in our consolidated financial statements beginning on January 10, 2011.

In May 2010, we completed our acquisition of Intesa Sanpaolo's securities services business in a cash acquisition financed through available capital. Results of operations of the acquired Intesa business have been included in our consolidated financial statements from the date the acquisition was completed. In connection with the acquisition, the assets acquired, liabilities assumed and consideration paid were recorded in our consolidated statement of condition at their estimated fair values on the acquisition date. These assets included \$932 million of goodwill and \$848 million of intangible assets, including assets related to client relationships and core deposits.



**Table of Contents**

**STATE STREET CORPORATION**

**Condensed Notes to Consolidated Financial Statements (Continued)**

**(Unaudited)**

**Note 2. Acquisitions (Continued)**

The goodwill, substantially all of which is not expected to be tax deductible, represents the expected long-term value of cost savings, growth opportunities and business efficiencies created by the integration of the acquired Intesa business.

With respect to the acquired Intesa business, we may be entitled to adjust the purchase price, to allow for a return of a portion of the purchase price, should we lose the business of certain key clients during a defined period subsequent to the closing of the transaction. This contingent asset, which was approximately \$55 million as of September 30, 2011, compared to approximately \$72 million as of December 31, 2010, will be re-measured to fair value at each reporting date through the end of the defined purchase price adjustment period, with any changes in its fair value recorded in our consolidated statement of income.

During the fourth quarter of 2010, Italian tax authorities issued an assessment for taxes, penalties and interest of approximately 130 million to an Italian banking subsidiary acquired by us in connection with the acquisition. The assessment relates to a pre-acquisition tax year (2005). State Street is indemnified for this liability under the acquisition agreement, which further requires the indemnity obligation to be collateralized in the event of a tax assessment and provides that the seller has the right to control the defense of indemnified claims. The seller has posted AAA -rated marketable securities as collateral to cover its indemnity obligation. In the second quarter of 2011, the Italian banking subsidiary filed a petition with the Italian tax court disputing the assessment for the 2005 tax year. We have not accrued for the assessment as of September 30, 2011. The Italian banking subsidiary is also currently under audit by the Italian tax authorities for the 2006 tax year.

**Table of Contents****STATE STREET CORPORATION****Condensed Notes to Consolidated Financial Statements (Continued)****(Unaudited)****Note 3. Investment Securities**

The following table presents the amortized cost and fair value, and associated unrealized gains and losses, of investment securities as of the dates indicated:

(In millions)	September 30, 2011			December 31, 2010				
	Amortized Cost	Gross Unrealized Gains	Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Losses	Fair Value
<b>Available for sale:</b>								
U.S. Treasury and federal agencies:								
Direct obligations	\$ 5,287	\$ 80	\$ 2	\$ 5,365	\$ 7,505	\$ 74	\$ 2	\$ 7,577
Mortgage-backed securities	27,373	660	7	28,026	23,398	325	83	23,640
Asset-backed securities:								
Student loans <sup>(1)</sup>	17,111	80	658	16,533	14,975	92	652	14,415
Credit cards	10,450	60	15	10,495	7,578	56	31	7,603
Sub-prime	1,931	2	447	1,486	2,161	3	346	1,818
Other	3,288	172	122	3,338	2,550	175	156	2,569
Total asset-backed securities	32,780	314	1,242	31,852	27,264	326	1,185	26,405
Non-U.S. debt securities:								
Mortgage-backed securities	9,363	99	70	9,392	6,258	82	46	6,294
Asset-backed securities	3,790	2	11	3,781	1,790	13	17	1,786
Government securities	3,014			3,014	2,915			2,915
Other	1,066	42	9	1,099	990	34	2	1,022
Total non-U.S. debt securities	17,233	143	90	17,286	11,953	129	65	12,017
State and political subdivisions	6,853	198	155	6,896	6,706	102	204	6,604
Collateralized mortgage obligations	3,105	46	59	3,092	1,828	49	16	1,861
Other U.S. debt securities	3,127	148	14	3,261	2,438	116	18	2,536
U.S. equity securities	606	2		608	1,115			1,115
Non-U.S. equity securities	209	1	1	209	122	5	1	126
Total	\$ 96,573	\$ 1,592	\$ 1,570	\$ 96,595	\$ 82,329	\$ 1,126	\$ 1,574	\$ 81,881
<b>Held to maturity:</b>								
U.S. Treasury and federal agencies:								
Mortgage-backed securities	\$ 299	\$ 21		\$ 320	\$ 413	\$ 26		\$ 439
Asset-backed securities	38		\$ 4	34	64		\$ 5	59
Non-U.S. debt securities:								
Mortgage-backed securities	5,174	112	215	5,071	6,332	166	160	6,338
Asset-backed securities	574	16	3	587	646	18	3	661
Government securities	3			3				
Other	193		16	177	208		2	206

Edgar Filing: STATE STREET CORP - Form 10-Q

Total non-U.S. debt securities	<b>5,944</b>	<b>128</b>	<b>234</b>	<b>5,838</b>	7,186	184	165	7,205
State and political subdivisions	<b>113</b>	<b>3</b>		<b>116</b>	134	3		137
Collateralized mortgage obligations	<b>3,624</b>	<b>227</b>	<b>57</b>	<b>3,794</b>	4,452	328	44	4,736
<b>Total</b>	<b>\$ 10,018</b>	<b>\$ 379</b>	<b>\$ 295</b>	<b>\$ 10,102</b>	\$ 12,249	\$ 541	\$ 214	\$ 12,576

<sup>(1)</sup> Substantially composed of securities guaranteed by the federal government with respect to the payment of principal and interest.

**Table of Contents****STATE STREET CORPORATION****Condensed Notes to Consolidated Financial Statements (Continued)****(Unaudited)****Note 3. Investment Securities (Continued)**

Aggregate investment securities carried at \$45.02 billion and \$44.81 billion at September 30, 2011 and December 31, 2010, respectively, were designated as pledged for public and trust deposits, short-term borrowings and for other purposes as provided by law.

The following table presents contractual maturities of debt investment securities as of September 30, 2011:

(In millions)	Under 1 Year	1 to 5 Years	6 to 10 Years	Over 10 Years
<b>Available for sale:</b>				
U.S. Treasury and federal agencies:				
Direct obligations	\$ 1,966	\$ 1,095	\$ 1,589	\$ 715
Mortgage-backed securities	3	1,672	10,407	15,944
Asset-backed securities:				
Student loans	134	4,715	7,883	3,801
Credit cards	1,961	6,294	2,240	
Sub-prime	781	153	10	542
Other	133	1,730	1,118	357
Total asset-backed securities	3,009	12,892	11,251	4,700
Non-U.S. debt securities:				
Mortgage-backed securities	293	1,957	266	6,876
Asset-backed securities	53	949	2,320	459
Government securities	3,014			
Other	38	942	118	1
Total non-U.S. debt securities	3,398	3,848	2,704	7,336
State and political subdivisions				
Collateralized mortgage obligations	467	2,742	2,743	944
Other U.S. debt securities	68	1,419	562	1,043
	242	2,156	824	39
Total	\$ 9,153	\$ 25,824	\$ 30,080	\$ 30,721
<b>Held to maturity:</b>				
U.S. Treasury and federal agencies:				
Mortgage-backed securities		\$ 67	\$ 73	\$ 159
Asset-backed securities				38
Non-U.S. debt securities:				
Mortgage-backed securities	\$ 1,245	558	44	3,327
Asset-backed securities	47	292	235	
Government securities	3			

Edgar Filing: STATE STREET CORP - Form 10-Q

Other		<b>176</b>		<b>17</b>
Total non-U.S. debt securities	<b>1,295</b>	<b>1,026</b>	<b>279</b>	<b>3,344</b>
State and political subdivisions	<b>57</b>	<b>56</b>		
Collateralized mortgage obligations	<b>358</b>	<b>1,789</b>	<b>347</b>	<b>1,130</b>
Total	<b>\$ 1,710</b>	<b>\$ 2,938</b>	<b>\$ 699</b>	<b>\$ 4,671</b>

**Table of Contents**

**STATE STREET CORPORATION**

**Condensed Notes to Consolidated Financial Statements (Continued)**

**(Unaudited)**

**Note 3. Investment Securities (Continued)**

The maturities of asset-backed securities, mortgage-backed securities and collateralized mortgage obligations are based on expected principal payments.

***Impairment***

We conduct periodic reviews of individual securities to assess whether other-than-temporary impairment exists. Impairment exists when the current fair value of an individual security is below its amortized cost basis. Where the decline in the security's fair value is deemed to be other than temporary, the loss is recorded in our consolidated statement of income. For debt securities available for sale and held to maturity, other-than-temporary impairment is recorded 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).

Our review of impaired securities generally includes:

the identification and evaluation of securities that have indications of possible other-than-temporary impairment, such as issuer-specific concerns, including deteriorating financial condition or bankruptcy;

the analysis of expected future cash flows of securities, based on quantitative and qualitative factors;

the analysis of the collectability of those future cash flows, including information about past events, current conditions and reasonable and supportable forecasts;

the analysis of individual impaired securities, including consideration of the length of time the security has been in an unrealized loss position, the anticipated recovery period, and the magnitude of the overall price decline;

discussion and evaluation of factors or triggers that could cause individual securities to be deemed other-than-temporarily impaired and those that would not support other-than-temporary impairment; and

documentation of the results of these analyses.

Factors considered in determining whether impairment is other than temporary include:

the length of time the security has been impaired;

the severity of the impairment;

the cause of the impairment and the financial condition and near-term prospects of the issuer;

activity in the market of the issuer which may indicate adverse credit conditions; and

our intention not to sell, and the likelihood that we will not be required to sell, the security for a period of time sufficient to allow for recovery in value.

The substantial majority of our investment securities portfolio is composed of debt securities. A critical component of the evaluation for other-than-temporary impairment of our debt securities is the identification of credit-impaired securities for which management does not expect to receive cash flows sufficient to recover the entire amortized cost basis of the security.

**Table of Contents****STATE STREET CORPORATION****Condensed Notes to Consolidated Financial Statements (Continued)****(Unaudited)****Note 3. Investment Securities (Continued)**

Debt securities that are not deemed to be credit-impaired are subject to additional management analysis to assess whether management intends to sell, or, more likely than not, would not be required to sell, the security before the expected recovery to its amortized cost basis.

The following describes our process for identifying credit impairment in security types with the most significant unrealized losses as of September 30, 2011.

*Mortgage- and Asset-Backed Securities*

For recent vintages of U.S. mortgage-backed securities (in particular, sub-prime first-lien mortgages, Alt-A mortgages and home equity lines of credit (2006 and 2007 originations) that have significant unrealized losses as a percentage of their amortized cost), other-than-temporary impairment related to credit is assessed using cash flow models, tailored for each security, that estimate the future cash flows from the underlying mortgages, using the security-specific collateral and transaction structure. Estimates of future cash flows are subject to management judgment. The future cash flows and performance of our portfolio of U.S. mortgage-backed securities are a function of a number of factors, including, but not limited to, the condition of the U.S. economy, the condition of the U.S. residential mortgage markets, and the level of loan defaults, prepayments and loss severities. Management's estimates of future losses for each security also consider the underwriting and historical performance of our specific securities, the underlying collateral type, vintage, borrower profile, third-party guarantees, current levels of subordination, geography and other factors.

During the second quarter of 2011, management refined its methodology to evaluate impairment in order to incorporate more detailed information with respect to loan-level performance. Accordingly, the range of estimates pertaining to each collateral type reflects the unique characteristics of the underlying loans, such as payment options and collateral geography, among other factors. The parameters used in the evaluation of 2006-and 2007-vintage U.S. residential mortgage-backed securities in the third quarter of 2011 were as follows:

	<b>Sub-Prime ARM</b>	<b>Alt-A</b>	<b>Non-Agency Prime</b>
<b>September 30, 2011:</b>			
Prepayment rate	<b>1-3%</b>	<b>3-5%</b>	<b>6-8%</b>
Cumulative loss estimates	<b>46-54</b>	<b>26-39</b>	<b>10-19</b>
Loss severity <sup>(1)</sup>	<b>70-72</b>	<b>59-61</b>	<b>52-54</b>
Peak-to-trough housing price decline <sup>(2)</sup>	<b>36</b>	<b>36</b>	<b>36</b>

Under the old methodology, similar parameters were used to evaluate 2006- and 2007-vintage U.S. residential mortgage-backed securities. Such parameters were as follows:

	<b>Sub-Prime ARM</b>	<b>Alt-A</b>	<b>Non-Agency Prime</b>
<b>December 31, 2010:</b>			
Prepayment rate	<b>2-3%</b>	<b>7%</b>	<b>7-10%</b>
Cumulative loss estimates	<b>33</b>	<b>21</b>	<b>13</b>
Loss severity <sup>(1)</sup>	<b>67</b>	<b>49</b>	<b>49</b>



Peak-to-trough housing price decline <sup>(2)</sup>	35-40	35-40	35-40
---	-------	-------	-------

- (1) Loss severity rates consider the initial loan-to-value ratio, lien position, geography, expected collateral value and other factors.
- (2) Management's expectation of the Case-Shiller National Home Price Index.

**Table of Contents****STATE STREET CORPORATION****Condensed Notes to Consolidated Financial Statements (Continued)****(Unaudited)****Note 3. Investment Securities (Continued)**

For securities that relate to these vintages, other-than-temporary impairment has been recorded on certain assets when both fair value was below carrying value and a credit loss existed. During the three and nine months ended September 30, 2011, we recorded credit-related other-than-temporary impairment on securities in these vintages of \$1 million and \$9 million, respectively. For the three months ended September 30, 2011, none of this impairment related to sub-prime first-lien mortgages or to Alt-A mortgages, while \$2 million and \$3 million related to sub-prime first-lien mortgages and Alt-A mortgages, respectively, for the first nine months of 2011. For the same three- and nine-month periods, \$1 million and \$4 million, respectively, related to non-agency prime mortgages. During the three and nine months ended September 30, 2010, we recorded credit-related other-than-temporary impairment on securities in these vintages of \$59 million and \$158 million, respectively, with \$6 million and \$26 million, respectively, related to sub-prime first-lien mortgages, \$19 million and \$43 million, respectively, related to Alt-A mortgages and \$34 million and \$89 million, respectively, related to non-agency prime mortgages.

Asset-backed securities collateralized by student loans are primarily composed of securities collateralized by Federal Family Education Loan Program, or FFELP, loans. FFELP loans benefit from a federal government guarantee of at least 97% of principal, with additional credit support provided in the form of overcollateralization, subordination and excess spread, which collectively total in excess of 100% of principal and interest. Accordingly, FFELP loan-backed securities are not exposed to traditional consumer credit risk. Other risk factors are considered in our evaluation of other-than-temporary impairment.

Non-U.S. mortgage-backed securities are composed primarily of U.K., Dutch and Australian securities collateralized by residential mortgages. Our evaluation of impairment considers the location of the underlying collateral, collateral enhancement and structural features, expected credit losses under stressed conditions and the outlook with respect to housing prices for the country in which the collateral resides. Where appropriate, any potential loss after consideration of the above-referenced factors is further evaluated to determine whether any other-than-temporary impairment exists.

In assessing other-than-temporary impairment, we may from time to time place reliance on support from third-party financial guarantors for certain asset-backed and municipal (state and political subdivisions) securities. Factors taken into consideration when determining the level of support include the guarantor's credit rating and management's assessment of the guarantor's financial condition. For those guarantors that management deems to be under financial duress, we assume an immediate default by those guarantors, with a modest recovery of claimed amounts (up to 20%). In addition, for various forms of collateralized securities, management considers the liquidation value of the underlying collateral based on expected housing prices and other relevant factors.

The assumptions presented above are used by management to identify those securities which are subject to further analysis of potential credit losses. Additional analyses are performed using more severe assumptions to further evaluate sensitivity of losses relative to the above factors. However, since the assumptions are based on the unique characteristics of each security, management uses a range of point estimates for prepayment speeds and housing prices that reflect the collateral profile of the securities within each asset class. In addition, in measuring expected credit losses, the individual characteristics of each security are examined to determine whether any additional factors would increase or mitigate the expected loss. Once losses are determined, the

**Table of Contents**

**STATE STREET CORPORATION**

**Condensed Notes to Consolidated Financial Statements (Continued)**

**(Unaudited)**

**Note 3. Investment Securities (Continued)**

timing of the loss will also affect the ultimate other-than-temporary impairment, since the loss is ultimately subject to a discount commensurate with the purchase yield of the security. Primarily as a result of rising delinquencies and management's continued expectation of declining housing prices, we recorded credit-related other-than-temporary impairment of \$10 million and \$56 million during the three and nine months ended September 30, 2011, respectively.

After a review of the investment portfolio, taking into consideration current economic conditions, adverse situations that might affect our ability to fully collect principal and interest, the timing of future payments, the credit quality and performance of the collateral underlying asset-backed securities and other relevant factors, and excluding the securities for which other-than-temporary impairment was recorded during the nine months ended September 30, 2011, management considers the aggregate decline in fair value of the remaining securities and the resulting gross pre-tax unrealized losses of \$1.87 billion related to 1,773 securities as of September 30, 2011 to be temporary and not the result of any material changes in the credit characteristics of the securities.

**Table of Contents****STATE STREET CORPORATION****Condensed Notes to Consolidated Financial Statements (Continued)****(Unaudited)****Note 3. Investment Securities (Continued)**

The following tables present the aggregate fair values of investment securities with a continuous unrealized loss position for less than 12 months and those that have been in a continuous unrealized loss position for longer than 12 months, as of the dates indicated:

September 30, 2011	Less than 12 months		12 months or longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
<b>(In millions)</b>						
<b>Available for sale:</b>						
U.S. Treasury and federal agencies:						
Direct obligations	\$ 1,873	\$ 1	\$ 75	\$ 1	\$ 1,948	\$ 2
Mortgage-backed securities	1,716	5	388	2	2,104	7
Asset-backed securities:						
Student loans	2,258	14	10,360	644	12,618	658
Credit cards	2,336	7	1,530	8	3,866	15
Sub-prime	17	2	1,440	445	1,457	447
Other	939	16	1,146	106	2,085	122
Total asset-backed securities	5,550	39	14,476	1,203	20,026	1,242
Non-U.S. debt securities:						
Mortgage-backed securities	4,769	38	1,050	32	5,819	70
Asset-backed securities	2,118	5	47	6	2,165	11
Other	243	9			243	9
Total non-U.S. debt securities	7,130	52	1,097	38	8,227	90
State and political subdivisions	463	6	1,524	149	1,987	155
Collateralized mortgage obligations	1,670	53	32	6	1,702	59
Other U.S. debt securities	331	4	61	10	392	14
Non-U.S. equity securities	5	1			5	1
Total	\$ 18,738	\$ 161	\$ 17,653	\$ 1,409	\$ 36,391	\$ 1,570
<b>Held to maturity:</b>						
Asset-backed securities			\$ 34	\$ 4	\$ 34	\$ 4
Non-U.S. debt securities:						
Mortgage-backed securities	\$ 245	\$ 14	1,319	201	1,564	215
Asset-backed securities			65	3	65	3
Other			145	16	145	16
Total non-U.S. debt securities	245	14	1,529	220	1,774	234

Edgar Filing: STATE STREET CORP - Form 10-Q

Collateralized mortgage obligations	770	38	234	19	1,004	57
Total	\$ 1,015	\$ 52	\$ 1,797	\$ 243	\$ 2,812	\$ 295

**Table of Contents****STATE STREET CORPORATION****Condensed Notes to Consolidated Financial Statements (Continued)****(Unaudited)****Note 3. Investment Securities (Continued)**

December 31, 2010 (In millions)	Less than 12 months		12 months or longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
<b>Available for sale:</b>						
U.S. Treasury and federal agencies:						
Direct obligations			\$ 153	\$ 2	\$ 153	\$ 2
Mortgage-backed securities	\$ 6,639	\$ 81	431	2	7,070	83
Asset-backed securities:						
Student loans	1,980	25	8,457	627	10,437	652
Credit cards	1,268	5	2,396	26	3,664	31
Sub-prime			1,769	346	1,769	346
Other	269	3	1,122	153	1,391	156
Total asset-backed securities	3,517	33	13,744	1,152	17,261	1,185
Non-U.S. debt securities:						
Mortgage-backed securities	2,621	22	370	24	2,991	46
Asset-backed securities			54	17	54	17
Other	348	2			348	2
Total non-U.S. debt securities	2,969	24	424	41	3,393	65
State and political subdivisions	1,097	19	1,967	185	3,064	204
Collateralized mortgage obligations	494	5	109	11	603	16
Other U.S. debt securities	330	7	61	11	391	18
Non-U.S. equity securities	8	1			8	1
Total	\$ 15,054	\$ 170	\$ 16,889	\$ 1,404	\$ 31,943	\$ 1,574
<b>Held to maturity:</b>						
Asset-backed securities			\$ 53	\$ 5	\$ 53	\$ 5
Non-U.S. debt securities:						
Mortgage-backed securities	\$ 1,445	\$ 72	862	88	2,307	160
Asset-backed securities			68	3	68	3
Other	206	2			206	2
Total non-U.S. debt securities	1,651	74	930	91	2,581	165
Collateralized mortgage obligations	125	2	575	42	700	44
Total	\$ 1,776	\$ 76	\$ 1,558	\$ 138	\$ 3,334	\$ 214



**Table of Contents****STATE STREET CORPORATION****Condensed Notes to Consolidated Financial Statements (Continued)****(Unaudited)****Note 3. Investment Securities (Continued)**

The following table presents realized gains and losses related to investment securities for the periods indicated:

<b>(In millions)</b>	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Gross realized gains from sales of available-for-sale securities	<b>\$ 24</b>	<b>\$ 110</b>	<b>\$ 93</b>	<b>\$ 313</b>
Gross realized losses from sales of available-for-sale securities	<b>(9)</b>	<b>(19)</b>	<b>(12)</b>	<b>(27)</b>
Gross losses from other-than-temporary impairment	<b>(25)</b>	<b>(132)</b>	<b>(104)</b>	<b>(612)</b>
Losses not related to credit	<b>15</b>	<b>58</b>	<b>48</b>	<b>388</b>
<b>Net impairment losses</b>	<b>(10)</b>	<b>(74)</b>	<b>(56)</b>	<b>(224)</b>
Gains related to investment securities, net	<b>\$ 5</b>	<b>\$ 17</b>	<b>\$ 25</b>	<b>\$ 62</b>
Impairment associated with expected credit losses	<b>\$ (7)</b>	<b>\$ (71)</b>	<b>\$ (36)</b>	<b>\$ (201)</b>
Impairment associated with management's intent to sell the impaired securities prior to their recovery in value		<b>(1)</b>	<b>(8)</b>	<b>(1)</b>
Impairment associated with adverse changes in timing of expected future cash flows	<b>(3)</b>	<b>(2)</b>	<b>(12)</b>	<b>(22)</b>
<b>Net impairment losses</b>	<b>\$ (10)</b>	<b>\$ (74)</b>	<b>\$ (56)</b>	<b>\$ (224)</b>

The following table presents activity with respect to credit-related losses recognized in our consolidated statement of income associated with securities considered other-than-temporarily impaired during the nine months ended September 30:

<b>(In millions)</b>	<b>2011</b>	<b>2010</b>
Beginning balance	<b>\$ 63</b>	<b>\$ 175</b>
Plus expected credit-related losses for which other-than-temporary impairment was not previously recognized	<b>9</b>	<b>87</b>
Plus expected credit-related losses for which other-than-temporary impairment was previously recognized	<b>39</b>	<b>136</b>
Less losses realized for securities sold	<b>(13)</b>	<b>(8)</b>
Less losses related to securities intended or required to be sold	<b>(2)</b>	<b>(1)</b>
Ending balance	<b>\$ 96</b>	<b>\$ 389</b>

The impairment losses were largely related to non-agency securities collateralized by mortgages, which management concluded had experienced credit losses based on the present value of the securities' expected future cash flows.





**Table of Contents****STATE STREET CORPORATION****Condensed Notes to Consolidated Financial Statements (Continued)****(Unaudited)****Note 4. Loans and Leases**

The following table presents our recorded investment in loans and leases, by segment and class, as of the dates indicated:

(In millions)	September 30, 2011	December 31, 2010
Institutional:		
Investment funds:		
U.S.	\$ 6,456	\$ 5,316
Non-U.S.	1,505	1,478
Commercial and financial:		
U.S.	637	540
Non-U.S.	207	190
Purchased receivables:		
U.S.	673	728
Non-U.S.	403	1,471
Lease financing:		
U.S.	399	417
Non-U.S.	857	1,053
Total institutional	11,137	11,193
Commercial real estate:		
U.S.	603	764
Total loans and leases	11,740	11,957
Allowance for loan losses	(22)	(100)
Loans and leases, net of allowance for loan losses	\$ 11,718	\$ 11,857

The institutional segment included aggregate short-duration advances to our clients of \$3.81 billion and \$2.63 billion as of September 30, 2011 and December 31, 2010, respectively. These advances, which we provide in support of clients' investment activities associated with securities settlement, fluctuate based on the volume of securities transactions, and are largely short-term in nature.

The following tables present our recorded investment in each class of loans and leases by credit quality indicator as of the dates indicated:

September 30, 2011	Institutional				Commercial Real Estate			Total Loans and Leases
	Investment Funds	Commercial and Financial	Purchased Receivables	Lease Financing	Property Development	Other Acquired Credit- Impaired	Other	
(In millions)								
Investment grade	\$ 7,843	\$ 714	\$ 1,076	\$ 1,197	\$ 1	\$ 3	\$ 37	\$ 10,871
Speculative	118	129		59	379	31	95	811
Special mention		1						1
Doubtful					52	5		57

Edgar Filing: STATE STREET CORP - Form 10-Q

Total	\$ 7,961	\$ 844	\$ 1,076	\$ 1,256	\$ 432	\$ 39	\$ 132	\$ 11,740
-------	----------	--------	----------	----------	--------	-------	--------	-----------

**Table of Contents****STATE STREET CORPORATION****Condensed Notes to Consolidated Financial Statements (Continued)****(Unaudited)****Note 4. Loans and Leases (Continued)**

December 31, 2010 (In millions)	Institutional				Commercial Real Estate Property				Total Loans and Leases
	Investment Funds	Commercial and Financial	Purchased Receivables	Lease Financing	Property Development	Acquired- Credit Impaired	Other Acquired Credit- Impaired	Other	
Investment grade	\$ 6,674	\$ 579	\$ 2,199	\$ 1,279	\$ 3		\$ 3	\$ 49	\$ 10,786
Speculative	120	101		191	362		47	108	929
Substandard		50							50
Doubtful					86	\$ 42	49	15	192
<b>Total</b>	<b>\$ 6,794</b>	<b>\$ 730</b>	<b>\$ 2,199</b>	<b>\$ 1,470</b>	<b>\$ 451</b>	<b>\$ 42</b>	<b>\$ 99</b>	<b>\$ 172</b>	<b>\$ 11,957</b>

Loans and leases are grouped in the tables presented above into the rating categories that align with our internal risk-rating framework. Management considers the ratings to be current as of September 30, 2011. We use an internal risk-rating system to assess the risk of credit loss for each loan or lease. This risk-rating process incorporates the use of risk-rating tools in conjunction with management judgment. Qualitative and quantitative inputs are captured in a systematic manner, and following a formal review and approval process, an internal credit rating based on our credit scale is assigned. In assessing the risk rating assigned to each individual loan or lease, among the factors considered are the borrower's debt capacity, collateral coverage, payment history and delinquency experience, financial flexibility and earnings strength, the expected amounts and sources of repayment, the level and nature of contingencies, if any, and the industry and geography in which the borrower operates. These factors are based on an evaluation of historical and current information, and involve subjective assessment and interpretation. Credit counterparties are evaluated and risk-rated on an individual basis at least annually.

In October 2011, we completed a deed-in-lieu-of-foreclosure agreement with respect to an acquired commercial real estate, or CRE, property development loan with a recorded investment of \$52 million as of September 30, 2011, and took title to the underlying property. The loan was part of the portfolio acquired in 2008 pursuant to indemnified repurchase agreements with an affiliate of Lehman as a result of the Lehman Brothers bankruptcy. In connection with the agreement, in October 2011, the property was recorded in other assets as other real estate owned in our consolidated statement of condition at its fair value of \$52 million and we charged off our recorded investment in the loan. The fair value of the property is net of estimated costs to sell it. During the three months ended September 30, 2011, we charged off the related allowance for loan losses of \$24 million. This transaction had no impact on our consolidated statement of income.

In March 2011, we completed foreclosure on an acquired CRE loan with a recorded investment of \$42 million, and took possession of the underlying collateral, which consisted of undeveloped land. The loan was part of the portfolio acquired in 2008 pursuant to indemnified repurchase agreements with an affiliate of Lehman as a result of the Lehman Brothers bankruptcy. The property is recorded in other assets as other real estate owned in our consolidated statement of condition at its fair value of \$22 million. The fair value of the property is net of estimated costs to sell it. When we took possession of the collateral, we charged off our recorded investment in the loan and the related allowance for loan losses of \$19 million, and as a result this foreclosure had no impact on our consolidated statement of income.

**Table of Contents****STATE STREET CORPORATION****Condensed Notes to Consolidated Financial Statements (Continued)****(Unaudited)****Note 4. Loans and Leases (Continued)**

The following table presents our recorded investment in loans and leases and the related allowance for loan losses, disaggregated based on our impairment methodology, as of the dates indicated:

	Institutional		Commercial Real Estate		Total Loans and Leases	
	September 30, 2011	December 31, 2010	September 30, 2011	December 31, 2010	September 30, 2011	December 31, 2010
<b>(In millions)</b>						
<b>Loans and leases:</b>						
Individually evaluated for impairment	\$ 93	\$ 112	\$ 564	\$ 623	\$ 657	\$ 735
Collectively evaluated for impairment	11,044	11,081			11,044	11,081
Loans acquired with deteriorated credit quality			39	141	39	141
<b>Total</b>	<b>\$ 11,137</b>	<b>\$ 11,193</b>	<b>\$ 603</b>	<b>\$ 764</b>	<b>\$ 11,740</b>	<b>\$ 11,957</b>
<b>Allowance for loan losses:</b>						
Individually evaluated for impairment				\$ 24		\$ 24
Collectively evaluated for impairment	\$ 22	\$ 31			\$ 22	\$ 31
Loans acquired with deteriorated credit quality				45		45
<b>Total</b>	<b>\$ 22</b>	<b>\$ 31</b>		<b>\$ 69</b>	<b>\$ 22</b>	<b>\$ 100</b>

The following table presents our recorded investment in impaired loans and leases for the dates or periods indicated:

	As of September 30, 2011		Three Months Ended September 30, 2011		Nine Months Ended September 30, 2011		As of December 31, 2010	
	Recorded Investment	Unpaid Principal Balance	Recorded Investment	Average Interest Revenue Recognized	Recorded Investment	Average Interest Revenue Recognized	Recorded Investment	Unpaid Principal Balance
<b>(In millions)</b>								
<b>With no related allowance recorded:</b>								
CRE property development	\$ 251	\$ 347	\$ 274	\$ 4	\$ 280	\$ 12	\$ 209	\$ 240
CRE property development acquired credit-impaired		34			6			34
CRE other acquired credit-impaired	8	69	23		46		16	47
CRE other	2	3	3		7	1	27	29
<b>With an allowance recorded:</b>								
CRE property development							79	113
CRE property development acquired credit-impaired							42	47
CRE other acquired credit impaired	31	37	31		31	1	83	100

Edgar Filing: STATE STREET CORP - Form 10-Q

CRE other	7	9	7	7	7	9			
<b>Total CRE</b>	<b>\$ 299</b>	<b>\$ 499</b>	<b>\$ 338</b>	<b>\$ 4</b>	<b>\$ 377</b>	<b>\$ 14</b>	<b>\$ 463</b>	<b>\$ 619</b>	<b>\$ 69</b>

<sup>(1)</sup> As of September 30, 2011 and December 31, 2010, we maintained allowances for loan losses of \$22 million and \$31 million, respectively, associated with loans and leases that were not impaired.

**Table of Contents****STATE STREET CORPORATION****Condensed Notes to Consolidated Financial Statements (Continued)****(Unaudited)****Note 4. Loans and Leases (Continued)**

As of September 30, 2011, we held an aggregate of approximately \$260 million of CRE loans which were modified in troubled debt restructurings, or TDRs, compared to \$307 million as of December 31, 2010. No impairment loss was recognized upon restructuring of the loans, as the discounted cash flows of the modified loans exceeded the carrying amount of the original loans as of the modification date. During the nine months ended September 30, 2011, no loans were modified in troubled debt restructurings.

No institutional loans or leases were 90 days or more contractually past-due as of September 30, 2011 or December 31, 2010. Although a portion of the CRE loans was 90 days or more contractually past-due as of September 30, 2011 and December 31, 2010, we do not report them as past-due loans pursuant to GAAP that governs the accounting for acquired credit-impaired loans.

The following table presents the components of our recorded investment in loans and leases on non-accrual status as of the dates indicated:

(In millions)	September 30, 2011	December 31, 2010
<b>Commercial Real Estate:</b>		
Property development	\$ 52	\$ 79
Property development acquired credit-impaired		42
Other acquired credit-impaired	5	22
Other		15
<b>Total</b>	<b>\$ 57</b>	<b>\$ 158</b>

The loans presented in the table above were placed on non-accrual status by management because the yield associated with those loans was deemed to be non-accretable, based on the expected future collection of principal and interest from the loans. The property development loan of \$52 million presented in the table was transferred to other real estate owned in October 2011 in connection with the previously-described deed-in-lieu-of-foreclosure agreement. The acquired credit-impaired property development loan of \$42 million presented in the table was foreclosed upon and transferred to other real estate owned in March 2011, as described previously in this note.

The following tables present activity in the allowance for loan losses during the periods indicated:

(In millions)	Three Months Ended September 30, 2011			2010
	Institutional	Commercial Real Estate	Total Loans and Leases	Total Loans and Leases
<b>Allowance for loan losses:</b>				
Beginning balance	\$ 22	\$ 32	\$ 54	\$ 102
Charge-offs		(32)	(32)	(1)
Provisions				1
Other				(1)

Edgar Filing: STATE STREET CORP - Form 10-Q

Ending balance	\$ 22	\$	\$ 22	\$ 101
----------------	-------	----	-------	--------

69



**Table of Contents****STATE STREET CORPORATION****Condensed Notes to Consolidated Financial Statements (Continued)****(Unaudited)****Note 4. Loans and Leases (Continued)**

(In millions)	Institutional	Nine Months Ended September 30,		2010 Total Loans and Leases
		2011 Commercial Real Estate	Total Loans and Leases	
<b>Allowance for loan losses:</b>				
Beginning balance	\$ 31	\$ 69	\$ 100	\$ 79
Charge-offs		(79)	(79)	(4)
Provisions	(9)	10	1	26
Ending balance	\$ 22	\$	\$ 22	\$ 101

The charge-offs recorded in 2011 were mainly related to the previously described deed-in-lieu-of-foreclosure agreement and acquired credit-impaired loan foreclosure, as well as an acquired credit-impaired loan whose underlying collateral had deteriorated in value. The majority of the provision for loan losses recorded in 2010 resulted from a revaluation of the collateral supporting a CRE loan.

Loans and leases are reviewed on a regular basis, and any provisions for loan losses that are recorded reflect management's estimate of the amount necessary to maintain the allowance for loan losses at a level considered appropriate to absorb estimated probable credit losses inherent in the loan and lease portfolio. With respect to CRE loans, management also considers its expectations with respect to future cash flows from those loans and the value of available collateral. These expectations are based, among other things, on an assessment of economic conditions, including conditions in the commercial real estate market and other factors.

**Note 5. Goodwill and Other Intangible Assets**

The following table presents changes in the carrying amount of goodwill during the nine months ended September 30:

(In millions)	2011			2010		
	Investment Servicing	Investment Management	Total	Investment Servicing	Investment Management	Total
Beginning balance	\$ 5,591	\$ 6	\$ 5,597	\$ 4,544	\$ 6	\$ 4,550
Acquisitions	1	32	33	991		991
Foreign currency translation, net	11	(2)	9	(20)		(20)
Ending balance	\$ 5,603	\$ 36	\$ 5,639	\$ 5,515	\$ 6	\$ 5,521

**Table of Contents****STATE STREET CORPORATION****Condensed Notes to Consolidated Financial Statements (Continued)****(Unaudited)****Note 5. Goodwill and Other Intangible Assets (Continued)**

The following table presents changes in the net carrying amount of other intangible assets during the nine months ended September 30:

(In millions)	2011			2010		
	Investment Servicing	Investment Management	Total	Investment Servicing	Investment Management	Total
Beginning balance	\$ 2,559	\$ 34	\$ 2,593	\$ 1,760	\$ 50	\$ 1,810
Acquisitions		28	28	1,139		1,139
Amortization	(142)	(7)	(149)	(124)	(8)	(132)
Foreign currency translation, net	14	(2)	12	(5)	(1)	(6)
Other		2	2	4	(3)	1
Ending balance	\$ 2,431	\$ 55	\$ 2,486	\$ 2,774	\$ 38	\$ 2,812

The following table presents the gross carrying amount, accumulated amortization and net carrying amount of other intangible assets as of September 30, 2011, and the net carrying amount as of December 31, 2010:

(In millions)	September 30, 2011			December 31, 2010
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Net Carrying Amount
Client relationships	\$ 2,375	\$ (627)	\$ 1,748	\$ 1,821
Core deposits	712	(110)	602	627
Other	218	(82)	136	145
Total	\$ 3,305	\$ (819)	\$ 2,486	\$ 2,593

**Note 6. Other Assets**

The following table presents the components of other assets as of the dates indicated:

(In millions)	September 30, 2011	December 31, 2010
Unrealized gains on derivative financial instruments	\$ 11,363	\$ 5,255
Collateral deposits	7,507	3,251
Receivable for securities sold	372	122
Accounts receivable	746	290
Deferred tax assets, net of valuation allowance	1,619	1,786

Edgar Filing: STATE STREET CORP - Form 10-Q

Investments in joint ventures and other unconsolidated entities	<b>1,002</b>	927
Income taxes receivable	<b>560</b>	530
Prepaid expenses	<b>389</b>	382
Other	<b>1,146</b>	1,298
Total	<b>\$ 24,704</b>	<b>\$ 13,841</b>

**Table of Contents**

**STATE STREET CORPORATION**

**Condensed Notes to Consolidated Financial Statements (Continued)**

**(Unaudited)**

**Note 7. Long-Term Debt**

In March 2011, we issued an aggregate of \$2 billion of senior notes, composed of \$1 billion of 2.875% notes due March 7, 2016, \$750 million of 4.375% notes due March 7, 2021 and \$250 million of floating-rate notes due March 7, 2014. Interest on the 2.875% notes and the 4.375% notes is payable semi-annually in arrears on March 7 and September 7 of each year, beginning on September 7, 2011. Interest on the floating-rate notes is payable quarterly in arrears on March 7, June 7, September 7 and December 7 of each year, beginning on June 7, 2011.

In February 2011, we issued approximately \$500 million of 4.956% junior subordinated debentures due March 15, 2018, in a remarketing of the 6.001% junior subordinated debentures due 2042 originally issued to State Street Capital Trust III in 2008. The original debentures were issued to Capital Trust III in connection with our concurrent offering of the trust's 8.25% fixed-to-floating rate normal automatic preferred enhanced capital securities, referred to as normal APEX.

The net proceeds from the sale of the remarketed 4.956% junior subordinated debentures were invested in U.S. Treasury securities, and in March 2011, the proceeds from the maturity of these securities were used by Capital Trust III to make a final distribution to the holders of the normal APEX with respect to the original 6.001% junior subordinated debentures and to satisfy the obligation of Capital Trust III to purchase \$500 million of our non-cumulative perpetual preferred stock, series A, \$100,000 liquidation preference per share. The preferred stock constitutes the principal asset of the trust. Additional information about the preferred stock is provided in note 10.

As a result of the above-described transactions, as of September 30, 2011, we had outstanding the above-referenced \$500 million of 4.956% junior subordinated debentures due March 15, 2018 and \$500 million of non-cumulative perpetual preferred stock. The 4.956% debentures qualify for inclusion in tier 2 regulatory capital, and the perpetual preferred stock qualifies for inclusion in tier 1 regulatory capital, both under federal regulatory capital guidelines. The original 6.001% junior subordinated debentures, which qualified for inclusion in tier 1 regulatory capital as trust preferred securities, were cancelled as a result of the remarketing transaction.

Interest on the 4.956% junior subordinated debentures is payable semi-annually in arrears on March 15 and September 15 of each year, beginning on March 15, 2011. Simultaneous with the issuance of the subordinated debentures, we entered into an interest-rate swap to convert the fixed rate on the debentures to a floating rate; this interest-rate swap is accounted for as a fair value hedge. The debentures mature on March 15, 2018, and we do not have the right to redeem the debentures prior to maturity other than upon the occurrence of specified events. Redemption of the debentures is subject to federal regulatory approval. Dividends on the perpetual preferred stock are non-cumulative, and are accrued when declared.

**Note 8. Commitments and Contingencies**

***Off-Balance Sheet Commitments and Contingencies***

On behalf of our clients, we lend their securities to brokers and other institutions. In most circumstances, we indemnify our clients for the fair market value of those securities against a failure of the borrower to return such securities. We require the borrowers to maintain collateral in an amount equal to or in excess of 100% of the fair market value of the securities borrowed. Information about these and other activities related to securities financing is provided in note 11 to the consolidated financial statements included in our 2010 Form 10-K.

**Table of Contents****STATE STREET CORPORATION****Condensed Notes to Consolidated Financial Statements (Continued)****(Unaudited)****Note 8. Commitments and Contingencies (Continued)**

The following table summarizes the fair values of indemnified securities financing and related collateral, as well as collateral invested in indemnified repurchase agreements, as of the dates indicated:

(In millions)	September 30, 2011	December 31, 2010
Aggregate fair value of indemnified securities financing	\$ 357,485	\$ 334,235
Aggregate fair value of cash and securities held as collateral for indemnified securities financing	370,985	343,410
Aggregate fair value of collateral for indemnified securities financing invested in indemnified repurchase agreements <sup>(1)</sup>	111,680	89,069
Aggregate fair value of cash and securities held as collateral for indemnified repurchase agreements	116,931	93,294

<sup>(1)</sup> We require the counterparty to the indemnified repurchase agreement to provide collateral in an amount equal to or in excess of 100% of the amount of the repurchase obligation.

**Legal Proceedings**

In the ordinary course of business, we and our subsidiaries are involved in disputes, litigation and regulatory inquiries and investigations, both pending and threatened. These matters, if resolved adversely against us, may result in monetary damages, fines and penalties or require changes in our business practices. The resolution of these proceedings is inherently difficult to predict. However, we do not believe that the amount of any judgment, settlement or other action arising from any pending proceeding will have a material adverse effect on our consolidated financial condition, although the outcome of certain of the matters described below may have a material adverse effect on our consolidated results of operations for the period in which such matter is resolved or a reserve is determined to be required. To the extent that we have established reserves in our consolidated statement of condition for probable loss contingencies, such reserves may not be sufficient to cover our ultimate financial exposure associated with any settlements or judgments. We may be subject to proceedings in the future that, if adversely resolved, would have a material adverse effect on our businesses or on our future consolidated results of operations or financial condition. Except where otherwise noted below, we have not recorded a reserve with respect to the claims discussed and do not believe that potential exposure, if any, as to any matter discussed can be reasonably estimated.

The SEC has requested information regarding registered mutual funds managed by SSgA that invested in sub-prime securities. As of June 30, 2007, these funds had net assets of less than \$300 million, and the net asset value per share of the funds experienced an average decline of approximately 7.23% during the third quarter of 2007. Average returns for industry peer funds were positive during the same period. During the course of our responding to such inquiry, certain potential compliance issues have been identified and are in the process of being resolved with the SEC staff. These funds were not covered by our regulatory settlement with the SEC, the Massachusetts Attorney General and the Massachusetts Securities Division of the Office of the Secretary of State announced in the first quarter of 2010, which concerned certain unregistered SSgA-managed funds that pursued active fixed-income strategies. Four lawsuits by individual investors in those active fixed-income strategies remain pending. The U.S. Attorney's office in Boston and the Financial Industry Regulatory Authority have also requested information in connection with our active-fixed income strategies.

**Table of Contents**

**STATE STREET CORPORATION**

**Condensed Notes to Consolidated Financial Statements (Continued)**

**(Unaudited)**

**Note 8. Commitments and Contingencies (Continued)**

We are currently defending a putative ERISA class action by investors in unregistered SSgA-managed funds which challenges the division of our securities lending-related revenue between the SSgA lending funds and State Street in its role as lending agent.

Two related participants in our agency securities lending program have brought suit against us challenging actions taken by us in response to their withdrawal from the program. We believe that certain withdrawals by these participants were inconsistent with the redemption policy applicable to the agency lending collateral pools and, consequently, redeemed their remaining interests through an in-kind distribution that reflected the assets these participants would have received had they acted in accordance with the collateral pools' redemption policy. The participants have asserted damages of \$120 million, an amount that plaintiffs have stated was the difference between the amortized cost and market value of the assets that State Street proposed to distribute to the plans in-kind in or about August 2009. While management does not believe that such difference is an appropriate measure of damages, as of September 30, 2010, the last date on which State Street acted as custodian for the participants, the difference between the amortized cost and market value of the in-kind distribution was approximately \$49 million, and if such securities were still held by the participants on such date, would have been approximately \$32 million as of September 30, 2011. In taking these actions, we believe that we acted in the best interests of all participants in the collateral pools. We have not established a reserve with respect to this litigation.

As previously reported, we instituted redemption restrictions with respect to our agency lending collateral pools in 2008 during the disruption in the financial markets, and in 2010 established a \$75 million reserve to address potential inconsistencies in connection with our implementation of those redemption restrictions. In May 2011, we distributed substantially all of the reserve to net providers of liquidity in such pools, equal to the estimated excess liquidity used by net consumers of liquidity in those pools.

We continue to cooperate with the SEC in its investigation with respect to the SSgA lending funds and the agency lending program. Neither the civil proceedings described above nor the SEC investigation have been terminated as a result of our one-time \$330 million cash contribution to the cash collateral pools and liquidating trusts underlying the SSgA lending funds in 2010 or the above-described distribution from the \$75 million reserve, and the outcome of those matters cannot be assured.

We offer our custody clients and their investment managers the option to route foreign exchange transactions to our foreign exchange desk through our asset servicing operation. We record as revenue an amount approximately equal to the difference between the rates we set for those trades and indicative interbank market rates at the time of execution of the trade. For example, for the nine months ended September 30, 2011, our indirect foreign exchange revenue was estimated to be approximately \$259 million. As discussed more fully below, claims have been asserted on behalf of certain current and former custody clients, and future claims may be asserted, alleging that our indirect foreign exchange rates (including the differences between those rates and indicative interbank market rates) were not adequately disclosed or were otherwise improper, and seeking to recover, among other things, the full amount of the revenue we earned from our indirect foreign exchange trading with them.

In October 2009, the Attorney General of the State of California commenced an action under the California False Claims Act and California Business and Professional Code related to services State Street provides to California state pension plans. The California Attorney General asserts that the pricing of certain foreign exchange transactions for these pension plans was governed by the custody contracts for these plans and that our

---

**Table of Contents**

**STATE STREET CORPORATION**

**Condensed Notes to Consolidated Financial Statements (Continued)**

**(Unaudited)**

**Note 8. Commitments and Contingencies (Continued)**

pricing was not consistent with the terms of those contracts and related disclosures to the plans, and that, as a result, State Street made false claims and engaged in unfair competition. The Attorney General asserted actual damages of \$56 million for periods from 2001 to 2009 and seeks additional penalties.

During the third quarter of 2010, we entered into a \$12 million settlement with the State of Washington. This settlement resolves a contract dispute related to the manner in which we priced some foreign exchange transactions during our ten-year relationship with the State of Washington that ended in 2007. Our contractual obligations to the State of Washington were significantly different from those presented in our ongoing litigation in California.

We provide indirect and direct foreign exchange services to government pension plans in other jurisdictions, and attorneys general from many of these other jurisdictions, as well as U.S. Attorney's offices, the SEC and other regulators, have made inquiries or issued subpoenas concerning our foreign exchange pricing. We continue to respond to such inquiries and subpoenas.

In February 2011, a putative class action was filed in federal court in Boston seeking unspecified damages, including treble damages, on behalf of all custodial clients that executed certain foreign exchange transactions with State Street from 1998 to 2009. The putative class action alleges, among other things, that the rates at which State Street executed foreign currency trades constituted an unfair and deceptive practice and a breach of the duty of loyalty. In October 2011, a second putative class action was filed in federal court in Baltimore alleging various violations of ERISA on behalf of all ERISA plans custodied with us that executed indirect foreign exchange transactions with State Street between 2005 and 2009.

Three shareholder-related class action complaints are currently pending in federal court in Boston. One complaint purports to be brought on behalf of State Street shareholders. The two other complaints purport to be brought on behalf of participants and beneficiaries in the State Street Salary Savings Program who invested in the program's State Street common stock investment option. The complaints variously allege violations of the federal securities laws and ERISA in connection with our foreign exchange trading business, our investment securities portfolio and our asset-backed commercial paper conduit program.

As previously reported, we managed, through SSgA, four common trust funds for which, in our capacity as manager and trustee, we appointed various Lehman entities as prime broker. As of September 15, 2008 (the date two of the Lehman entities involved entered insolvency proceedings), these funds had cash and securities held by Lehman with net asset values of approximately \$312 million. Some clients who invested in the funds managed by us brought litigation against us seeking compensation and additional damages, including double or treble damages, for their alleged losses in connection with our prime brokerage arrangements with Lehman's entities. A total of seven clients were invested in such funds, of which four currently have suits pending against us. Three cases are pending in federal court in Boston and the fourth is pending in Nova Scotia. We have entered into settlements with two clients, one of which was entered into after the client obtained a \$42 million judgment from a Dutch court. As of September 15, 2008, the five clients with whom we have not entered into settlement agreements had approximately \$170 million invested in the funds at issue.

We have claims against Lehman entities, referred to as Lehman, in bankruptcy proceedings in the U.S. and the U.K. We also have amounts that we owe, or return obligations, to Lehman. The various claims and amounts

**Table of Contents**

**STATE STREET CORPORATION**

**Condensed Notes to Consolidated Financial Statements (Continued)**

**(Unaudited)**

**Note 8. Commitments and Contingencies (Continued)**

owed have arisen from transactions that existed at the time Lehman entered bankruptcy, including foreign exchange transactions, securities lending arrangements and repurchase agreements. During the third quarter of 2011, we reached agreement with certain Lehman bankruptcy estates in the U.S. to resolve the value of deficiency claims arising out of indemnified repurchase transactions in the U.S., and the bankruptcy court has allowed those claims in the amount of \$400 million. We are in discussions with other Lehman bankruptcy administrators and would expect over time to resolve or obtain greater clarity on the other outstanding claims. We continue to believe that our allowed and/or realizable claims against Lehman exceed our potential return obligations, but the ultimate outcomes of these matters cannot be predicted with certainty. In addition, given the complexity of these matters, it remains likely that the resolution of these matters could occur in different periods.

***Tax Contingencies***

In the normal course of our business, we are subject to challenges from U.S. and non-U.S. income tax authorities regarding the amount of taxes due. These challenges may result in adjustments to the timing or amount of taxable income or deductions or the allocation of taxable income among tax jurisdictions.

The IRS completed its review of our U.S. income tax returns for the tax years 2000–2006. In the course of that review, the IRS had challenged our treatment of leveraged leases known as sale-in, lease-out, or SILO, transactions. We reached an agreement with the IRS concerning our treatment of SILO transactions for all tax years, and closed the audit of the tax years 2000–2003 during the three months ended March 31, 2011. We expect to reach an agreement to close the IRS audit of the tax years 2004–2006 in 2011, and do not expect our ultimate exposure related to SILO transactions to differ materially from the amount accrued as of September 30, 2011.

Unrecognized tax benefits as of September 30, 2011 totaled approximately \$235 million, compared to approximately \$419 million as of December 31, 2010. Substantially all of the change was associated with the impact of our agreement with the IRS concerning our treatment of SILO transactions and the related closing of the IRS audit of tax years 2000–2003. We expect that unrecognized tax benefits will further decrease by up to \$158 million during the fourth quarter as a result of the closing of the IRS audit of tax years 2004–2006 and related state filings.

The majority of the tax contingencies released as part of the SILO settlement related to tax years 2000–2003 were temporary items that did not affect our effective tax rate. Management believes that we have sufficiently accrued liabilities as of September 30, 2011 for tax exposures, including, but not limited to, exposures related to the IRS audit of the tax years 2004–2006, and related interest expense. Refer to note 2 for information with respect to tax assessments associated with the acquired Intesa business.

***Other Contingencies***

In the normal course of our business, we offer products that provide book-value protection primarily to plan participants in stable value funds managed by non-affiliated investment managers of postretirement defined contribution benefit plans, particularly 401(k) plans. Information about these products and the related contingencies is provided in note 11 to the consolidated financial statements included in our 2010 Form 10-K.



---

**Table of Contents****STATE STREET CORPORATION****Condensed Notes to Consolidated Financial Statements (Continued)****(Unaudited)****Note 8. Commitments and Contingencies (Continued)**

As of September 30, 2011 and December 31, 2010, the aggregate notional amount of the contingencies associated with these products, which are individually accounted for as derivative financial instruments, totaled \$41.99 billion and \$46.76 billion, respectively. The notional amounts of these contingencies are presented as derivatives not designated as hedging instruments in the table of aggregate notional amounts of derivative financial instruments provided in note 12. As of September 30, 2011, we have not made a payment under these contingencies that we consider material to our consolidated financial condition, and management believes that the probability of payment under these contingencies in the future that we would consider material to our consolidated financial condition is remote.

**Note 9. Variable Interest Entities**

We are involved with various types of variable interest entities, or VIEs, as defined by GAAP, some of which are recorded in our consolidated financial statements and all of which are described below. We also invest in various forms of asset-backed securities, which we carry in our investment securities portfolio. These asset-backed securities meet the GAAP definition of asset securitization entities, which entities are considered to be VIEs. We are not considered to be the primary beneficiary of these VIEs, as defined by GAAP, since we do not have control over their activities. Additional information about our asset-backed securities is provided in note 3.

***Tax-Exempt Investment Program***

In the normal course of our business, we structure and sell certificated interests in pools of tax-exempt investment-grade assets, principally to our mutual fund clients. We structure these pools as partnership trusts, and the assets and liabilities of the trusts are recorded in our consolidated statement of condition as investment securities available for sale and other short-term borrowings. We may also provide liquidity and re-marketing services to the trusts. As of both September 30, 2011 and December 31, 2010, we carried investment securities available for sale, composed of securities related to state and political subdivisions, with a fair value of \$2.85 billion, and as of the same dates we carried other short-term borrowings of \$2.38 billion and \$2.50 billion, respectively, in our consolidated statement of condition in connection with these trusts.

We transfer assets to the trusts from our investment securities portfolio at adjusted book value, and the trusts finance the acquisition of these assets by selling certificated interests issued by the trusts to third-party investors and to State Street as residual holder. These transfers do not meet the de-recognition criteria defined by GAAP, and therefore are recorded in our consolidated financial statements. The trusts had a weighted-average life of approximately 7.4 years at September 30, 2011, compared to approximately 7.7 years at December 31, 2010.

Under separate legal agreements, we provide standby bond-purchase agreements to these trusts, which obligate State Street to acquire the certificated interests at par value in the event that the re-marketing agent is unable to place the certificated interests with investors. Our obligations as provider of the standby bond-purchase agreements terminate in the event of the following credit events: payment default, bankruptcy of the issuer and the credit enhancer, if any, the imposition of taxability, or the downgrade of an asset held by the trust below investment grade. Our commitments to the trusts under these standby bond-purchase agreements totaled \$2.42 billion at September 30, 2011, none of which was utilized at period-end. In the event that our obligations under these agreements are triggered, no material impact to our consolidated results of operations or financial condition is expected to occur, because the securities are already recorded at fair value in our consolidated statement of condition.

---

**Table of Contents****STATE STREET CORPORATION****Condensed Notes to Consolidated Financial Statements (Continued)****(Unaudited)****Note 9. Variable Interest Entities (Continued)*****Asset-Backed Commercial Paper Program***

We sponsor and administer multi-seller asset-backed commercial paper programs, or conduits, which are recorded in our consolidated financial statements. These conduits were originally designed to satisfy the demand of our institutional clients, particularly mutual fund clients, for commercial paper. The conduits purchase financial assets with various asset classifications from a variety of independent third parties, and we consider the activities of the conduits in our liquidity management process. The conduits hold diversified investments, which are primarily asset-backed securities purchased from independent third parties, collateralized by student loans, automobile and equipment loans and credit card receivables, among other asset types. As of September 30, 2011 and December 31, 2010, we carried investment securities, composed primarily of asset-backed securities, with an aggregate carrying value of \$294 million and \$5.01 billion, respectively, and loans, composed of purchased receivables, with a recorded investment of \$1.08 billion and \$2.20 billion, respectively, in our consolidated statement of condition in connection with the conduits. In addition, as of December 31, 2010 we carried aggregate short-term borrowings, composed of commercial paper, of \$1.92 billion in connection with the conduits. There was no commercial paper outstanding to third parties as of September 30, 2011 associated with the conduits.

***Collateralized Debt Obligations***

We serve as collateral manager for a series of collateralized debt obligations, referred to as CDOs. A CDO is a structured investment vehicle which purchases a portfolio of assets funded through the issuance of several classes of debt and equity, the repayment of and return on which are linked to the performance of the underlying assets. We have determined that we are not the primary beneficiary of these VIEs, and do not record them in our consolidated financial statements. At both September 30, 2011 and December 31, 2010, the aggregate notional amount of these CDOs was \$1.0 billion. At September 30, 2011 and December 31, 2010, the carrying amount of the underlying collateral was \$275 million and \$323 million, respectively. We have not acquired or transferred any investment securities to a CDO since 2005.

**Note 10. Shareholders Equity**

In March 2011, we issued 5,001 shares, or \$500 million, of our non-cumulative perpetual preferred stock, series A, \$100,000 liquidation preference per share, in connection with the remarketing of our 6.001% junior subordinated debentures due 2042 originally issued to State Street Capital Trust III in 2008. The preferred stock was purchased by State Street Capital Trust III using the ultimate proceeds from the remarketing transaction, and now constitutes the principal asset of the trust. The preferred stock qualifies for inclusion in tier 1 regulatory capital under federal regulatory capital guidelines. Additional information about the remarketing transaction is provided in note 7 in this Form 10-Q and in note 10 to the consolidated financial statements included in our 2010 Form 10-K. Dividends on the perpetual preferred stock are non-cumulative, and are accrued when declared.

In March 2011, our Board of Directors approved a new program authorizing the purchase by us of up to \$675 million of our common stock in 2011. This new program superseded the Board's prior authorization under which 13.25 million common shares were available for purchase as of December 31, 2010. During the period from April 1, 2011 through September 30, 2011, we purchased and recorded as treasury stock a total of approximately 10.7 million shares of our common stock, at an average cost per share of approximately \$42.06

**Table of Contents****STATE STREET CORPORATION****Condensed Notes to Consolidated Financial Statements (Continued)****(Unaudited)****Note 10. Shareholders Equity (Continued)**

and an aggregate cost of approximately \$450 million. As of September 30, 2011, approximately \$225 million of purchase authorization remained. We may employ third-party broker/dealers to acquire shares on the open market in connection with our common stock purchase programs.

The following table presents the after-tax components of accumulated other comprehensive (loss) income as of the dates indicated:

(In millions)	September 30, 2011	December 31, 2010
Foreign currency translation	\$ 226	\$ 216
Net unrealized loss on hedges of net investments in non-U.S. subsidiaries	(14)	(14)
Net unrealized gain (loss) on available-for-sale securities portfolio	253	(90)
Net unrealized loss related to reclassified available-for-sale securities	(215)	(317)
Net unrealized gain (loss) on available-for-sale securities	38	(407)
Net unrealized loss on available-for-sale securities designated in fair value hedges	(231)	(135)
Expected losses from other-than-temporary impairment on available-for-sale securities related to factors other than credit	(13)	(17)
Expected losses from other-than-temporary impairment on held-to-maturity securities related to factors other than credit	(98)	(111)
Net unrealized loss on cash flow hedges	(5)	(11)
Minimum pension liability	(218)	(210)
<b>Total</b>	<b>\$ (315)</b>	<b>\$ (689)</b>

For the nine months ended September 30, 2011, we realized net gains of \$81 million from sales of available-for-sale securities. Unrealized pre-tax gains of \$65 million were included in other comprehensive income, or OCI, at December 31, 2010, net of deferred taxes of \$26 million, related to these sales. For the nine months ended September 30, 2010, we realized net gains of \$286 million from sales of available-for-sale securities. Unrealized pre-tax gains of \$102 million were included in OCI at December 31, 2009, net of deferred taxes of \$41 million, related to these sales.

The following table presents total comprehensive income for the periods indicated:

(In millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net income	\$ 555	\$ 546	\$ 1,539	\$ 1,473
Other comprehensive (loss) income	(475)	925	374	1,483

Total comprehensive income	\$ 80	\$ 1,471	\$ 1,913	\$ 2,956
----------------------------	-------	----------	----------	----------

---

**Table of Contents****STATE STREET CORPORATION****Condensed Notes to Consolidated Financial Statements (Continued)****(Unaudited)****Note 11. Fair Value*****Fair Value Measurements***

We carry trading account assets, investment securities available for sale and various types of derivative financial instruments at fair value in our consolidated statement of condition on a recurring basis. Changes in the fair values of these financial assets and liabilities are recorded either as components of our consolidated statement of income or as components of OCI within shareholders' equity in our consolidated statement of condition.

We measure fair value for the above-described financial assets and liabilities in accordance with GAAP that governs the measurement of the fair value of financial instruments. Management believes that its valuation techniques and underlying assumptions used to measure fair value conform to the provisions of GAAP. We categorize the financial assets and liabilities that we carry at fair value based upon a prescribed three-level valuation hierarchy. The hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to valuation methods using significant unobservable inputs (level 3). If the inputs used to measure a financial asset or liability cross different levels of the hierarchy, categorization is based on the lowest-level input that is significant to the fair value measurement. Management's assessment of the significance of a particular input to the overall fair value measurement of a financial asset or liability requires judgment, and considers factors specific to that asset or liability. The three levels are described below.

*Level 1. Financial assets and liabilities with values based on unadjusted quoted prices for identical assets or liabilities in an active market.* Fair value is measured using unadjusted quoted prices in active markets for identical securities. Our level 1 financial assets and liabilities primarily included long and short positions in U.S. government securities and highly liquid U.S. and non-U.S. government fixed-income securities. We carry U.S. government securities in our available-for-sale portfolio in connection with our asset and liability management activities. We carry the long and short positions in highly liquid fixed-income securities in trading account assets and accrued expenses and other liabilities in connection with our trading activities. We assume these long and short positions in our role as a financial intermediary, which includes accommodating our clients' investment and risk management needs. Our level 1 financial assets also included active exchange-traded equity securities.

*Level 2. Financial assets and liabilities with values based on quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.* Level 2 inputs include the following:

- a) Quoted prices for similar assets or liabilities in active markets;
- b) Quoted prices for identical or similar assets or liabilities in non-active markets;
- c) Pricing models whose inputs are observable for substantially the full term of the asset or liability; and
- d) Pricing models whose inputs are derived principally from, or corroborated by, observable market information through correlation or other means for substantially the full term of the asset or liability.

The fair value of the investment securities categorized in level 2 is measured primarily using information obtained from independent third parties. This third-party information is subject to review by management as part of a validation process, which includes obtaining an understanding of the underlying assumptions and the level of market participant information used to support those assumptions. In addition,

management compares significant

**Table of Contents**

**STATE STREET CORPORATION**

**Condensed Notes to Consolidated Financial Statements (Continued)**

**(Unaudited)**

**Note 11. Fair Value (Continued)**

assumptions used by third parties to available market information. Such information may include known trades or, to the extent that trading activity is limited, comparisons to market research information pertaining to credit expectations, execution prices and the timing of cash flows.

The fair value of the derivative instruments categorized in level 2 predominantly represents foreign exchange contracts used in our trading activities, for which fair value is measured using discounted cash flow techniques, with inputs consisting of observable spot and forward points, as well as observable interest rate curves. With respect to derivative instruments, we evaluated the impact on valuation of the credit risk of our counterparties and our own credit risk. We considered factors such as the likelihood of default by us and our counterparties, our current and potential future net exposures and remaining maturities in determining the appropriate measurements of fair value. Valuation adjustments associated with these factors were not significant for the three or nine months ended September 30, 2011 or 2010.

Our level 2 financial assets and liabilities primarily included various types of interest-rate and foreign exchange derivative instruments, as well as trading account assets and fixed-income investment securities.

*Level 3. Financial assets and liabilities with values based on prices or valuation techniques that require inputs that are both unobservable in the market and significant to the overall fair value measurement.* These inputs reflect management's judgment about the assumptions that a market participant would use in pricing the asset or liability, and are based on the best available information, some of which is internally developed. The following provides a more detailed discussion of our financial assets and liabilities that we may categorize in level 3 and the related valuation methodology.

For certain investment securities available for sale, fair value was measured using information obtained from third-party sources or through the use of pricing models. Management evaluated its methodologies used to determine fair value, but considered the level of observable market information to be insufficient to categorize the securities in level 2.

Foreign exchange contracts carried in other assets and accrued expenses and other liabilities were primarily composed of forward contracts and options. The fair value of foreign exchange forward contracts was measured using discounted cash flow techniques. However, in certain circumstances, extrapolation was required to develop certain forward points which were not observable. The fair value of foreign exchange options was measured using an option pricing model. Because of a limited number of observable transactions, certain model inputs were unobservable, such as volatilities, and were based on historical experience.

The fair value of certain interest-rate caps with long-dated maturities, also carried in other assets and accrued expenses and other liabilities, was measured using a matrix pricing approach. Observable market prices were not available for these derivatives, so extrapolation was necessary to value these instruments, since they had a strike and/or maturity outside of the matrix.

**Table of Contents****STATE STREET CORPORATION****Condensed Notes to Consolidated Financial Statements (Continued)****(Unaudited)****Note 11. Fair Value (Continued)**

The following tables present information with respect to our financial assets and liabilities carried at fair value in our consolidated statement of condition as of the dates indicated. No significant transfers of financial assets or liabilities between levels 1 and 2 occurred during the nine months ended September 30, 2011.

(In millions)	Fair Value Measurements on a Recurring Basis as of September 30, 2011				Total Net Carrying Value in Consolidated Statement of Condition
	Quoted Market Prices in Active Markets (Level 1)	Pricing Methods with Significant Observable Market Inputs (Level 2)	Pricing Methods with Significant Unobservable Market Inputs (Level 3)	Impact of Netting <sup>(1)</sup>	
<b>Assets:</b>					
Trading account assets:					
U.S. government securities	\$ 171				\$ 171
Non-U.S. government securities	1,582				1,582
Other	45	\$ 138			183
Investment securities available for sale:					
U.S. Treasury and federal agencies:					
Direct obligations	4,141	1,202	\$ 22		5,365
Mortgage-backed securities		26,527	1,499		28,026
Asset-backed securities:					
Student loans		15,584	949		16,533
Credit cards		10,184	311		10,495
Sub-prime		1,486			1,486
Other		605	2,733		3,338
Total asset-backed securities		27,859	3,993		31,852
Non-U.S. debt securities		14,944	2,342		17,286
State and political subdivisions		6,845	51		6,896
Collateralized mortgage obligations		2,742	350		3,092
Other U.S. debt securities		3,259	2		3,261
U.S. equity securities		608			608
Non-U.S. equity securities	8	201			209
Total investment securities available for sale	4,149	84,187	8,259		96,595
Other assets:					
Derivative instruments:					
Foreign exchange contracts		20,339	311		
Interest-rate contracts		1,443	11		
Other		2			
Total derivative instruments		21,784	322	\$ (10,743)	11,363
Other	148				148



Edgar Filing: STATE STREET CORP - Form 10-Q

Total assets carried at fair value	\$ 6,095	\$ 106,109	\$ 8,581	\$ (10,743)	\$ 110,042
<b>Liabilities:</b>					
Accrued expenses and other liabilities:					
Trading account liabilities:					
U.S. government securities	\$ 35				\$ 35
Non-U.S. government securities	1,661				1,661
Derivative instruments:					
Foreign exchange contracts		\$ 20,878	\$ 298		
Interest-rate contracts		1,692	23		
Other		1			
Total derivative instruments		22,571	321	\$ (10,743)	12,149
Other	148	1	11		160
Total liabilities carried at fair value	\$ 1,844	\$ 22,572	\$ 332	\$ (10,743)	\$ 14,005

(1) Represents counterparty netting against level 2 financial assets and liabilities, where a legally enforceable master netting agreement exists between State Street and the counterparty. This netting cannot be disaggregated by type of derivative instrument.

**Table of Contents****STATE STREET CORPORATION****Condensed Notes to Consolidated Financial Statements (Continued)****(Unaudited)****Note 11. Fair Value (Continued)****Fair Value Measurements on a Recurring Basis  
as of December 31, 2010**

(In millions)	Quoted Market Prices in Active Markets (Level 1)	Pricing Methods with Significant Observable Market Inputs (Level 2)	Pricing Methods with Significant Unobservable Market Inputs (Level 3)	Impact of Netting <sup>(1)</sup>	Total Net Carrying Value in Consolidated Statement of Condition
<b>Assets:</b>					
Trading account assets:					
U.S. government securities	\$ 20				\$ 20
Non-U.S. government securities	297				297
Other	40	\$ 122			162
Investment securities available for sale:					
U.S. Treasury and federal agencies:					
Direct obligations	6,529	1,048			7,577
Mortgage-backed securities		22,967	\$ 673		23,640
Asset-backed securities:					
Student loans		13,181	1,234		14,415
Credit cards		7,560	43		7,603
Sub-prime		1,818			1,818
Other		569	2,000		2,569
<b>Total asset-backed securities</b>		<b>23,128</b>	<b>3,277</b>		<b>26,405</b>
Non-U.S. debt securities		10,872	1,145		12,017
State and political subdivisions		6,554	50		6,604
Collateralized mortgage obligations		1,502	359		1,861
Other U.S. debt securities		2,533	3		2,536
U.S. equity securities		1,115			1,115
Non-U.S. equity securities	7	119			126
<b>Total investment securities available for sale</b>	<b>6,536</b>	<b>69,838</b>	<b>5,507</b>		<b>81,881</b>
Other assets:					
Derivatives instruments:					
Foreign exchange contracts		7,804	254		
Interest-rate contracts		165			
Other		2			
<b>Total derivative instruments</b>		<b>7,971</b>	<b>254</b>	<b>\$ (2,970)</b>	<b>5,255</b>
Other	168				168
<b>Total assets carried at fair value</b>	<b>\$ 7,061</b>	<b>\$ 77,931</b>	<b>\$ 5,761</b>	<b>\$ (2,970)</b>	<b>\$ 87,783</b>
<b>Liabilities:</b>					
Accrued expenses and other liabilities:					
Trading account liabilities:					
U.S. government securities	\$ 210				\$ 210

Edgar Filing: STATE STREET CORP - Form 10-Q

Non-U.S. government securities	345				345
Derivative instruments:					
Foreign exchange contracts		\$ 8,195	\$ 260		
Interest-rate contracts	1	358	9		
Other		1			
Total derivative instruments	1	8,554	269	\$ (2,970)	5,854
Other	168	3			171
Total liabilities carried at fair value	\$ 724	\$ 8,557	\$ 269	\$ (2,970)	\$ 6,580

- (1) Represents counterparty netting against level 2 financial assets and liabilities, where a legally enforceable master netting agreement exists between State Street and the counterparty. This netting cannot be disaggregated by type of derivative instrument.

**Table of Contents****STATE STREET CORPORATION****Condensed Notes to Consolidated Financial Statements (Continued)****(Unaudited)****Note 11. Fair Value (Continued)**

The following tables present activity related to our financial assets and liabilities categorized in level 3 of the valuation hierarchy during the three and nine months ended September 30, 2011 and 2010. Transfers into and out of level 3 are reported as of the beginning of the period. During the three and nine months ended September 30, 2011 and 2010, transfers out of level 3 were substantially related to certain mortgage- or asset-backed securities and non-U.S. debt securities, for which fair value was measured using prices for which observable market information became available.

(In millions)	Fair Value Measurements Using Significant Unobservable Inputs Three Months Ended September 30, 2011								Change in Unrealized Gains (Losses) Related to Financial Instruments Held at September 30, 2011
	Fair Value at June 30, 2011	Transfers into Level 3	Transfers out of Level 3	Recorded in Comprehensive Revenue	Recorded in Other Income	Purchases	Issuances	Sales Settlements	
<b>Assets:</b>									
Investment securities available for sale:									
U.S. Treasury and federal agencies:									
Direct obligations	\$ 17		\$ (17)			\$ 22			\$ 22
Mortgage-backed securities	932				\$ 2	590		\$ (25)	1,499
Asset-backed securities:									
Student loans	1,289		(379)	\$ (1)	(6)			46	949
Credit cards	79		(20)	2		250			311
Other	2,530			5	(34)	267	\$ (37)	2	2,733
Total asset-backed securities	3,898		(399)	6	(40)	517	(37)	48	3,993
Non-U.S. debt securities	2,116		(609)		(4)	894	(3)	(52)	2,342
State and political subdivisions	54		(2)		(1)				51
Collateralized mortgage obligations	173		(31)	31	(1)	216		(38)	350
Other U.S. debt securities	2								2
Total investment securities available for sale	7,192		(1,058)	37	(44)	2,239	(40)	(67)	8,259
Other assets:									
Derivative instruments:									
Foreign exchange contracts	201			54		173		(117)	311 \$ 59
Interest-rate contracts	8					4	(1)		11 2
Total derivative instruments	209			54		177	(1)	(117)	322 61

Edgar Filing: STATE STREET CORP - Form 10-Q

Total assets carried at fair value	\$ 7,401	\$ (1,058)	\$ 91	\$ (44)	\$ 2,416	\$ (41)	\$ (184)	\$ 8,581	\$ 61
------------------------------------	----------	------------	-------	---------	----------	---------	----------	----------	-------

**Table of Contents****STATE STREET CORPORATION****Condensed Notes to Consolidated Financial Statements (Continued)****(Unaudited)****Note 11. Fair Value (Continued)**

**Fair Value Measurements Using Significant Unobservable Inputs**  
**Three Months Ended September 30, 2011**  
**Total Realized and**  
**Unrealized (Gains) Losses**

(In millions)	Fair Value at June 30, 2011	Transfers		Recorded in Revenue	Recorded in Other Comprehensive Income	Purchases	Issuances	Sales	Settlements	Fair Value at September 30, 2011	Change in Unrealized (Gains) Losses Related to Financial Instruments Held at September 30, 2011
		into Level 3	out of Level 3								
<b>Liabilities:</b>											
Accrued expenses and other liabilities:											
Derivative instruments:											
Foreign exchange contracts	\$ 203			\$ 42		\$ 170		\$ (117)		\$ 298	\$ 51
Interest-rate contracts	25					\$ (1)	15	\$ (16)		23	10
Total derivative instruments	228			42		(1)	185	(16)	(117)	321	61
Other	11									11	
Total liabilities carried at fair value	\$ 239			\$ 42		\$ (1)	\$ 185	\$ (16)	\$ (117)	\$ 332	\$ 61

**Table of Contents****STATE STREET CORPORATION****Condensed Notes to Consolidated Financial Statements (Continued)****(Unaudited)****Note 11. Fair Value (Continued)**

**Fair Value Measurements Using Significant Unobservable Inputs  
Nine Months Ended September 30, 2011  
Total Realized and  
Unrealized Gains (Losses)**

(in millions)	Fair Value at December 31, 2010	Transfers into Level 3	Transfers out of Level 3	Recorded in Revenue	Recorded in Other Comprehensive Income	Purchases	Issuances	Sales	Settlements	Fair Value at September 30, 2011	Change in Unrealized Gains (Losses) Related to Financial Instruments Held at September 30, 2011
<b>Assets:</b>											
Investment securities available for sale:											
U.S. Treasury and federal agencies:											
Direct obligations			\$ (17)			\$ 39				\$ 22	
Mortgage-backed securities	\$ 673		(404)		\$ 3	1,289			\$ (62)	1,499	
Asset-backed securities:											
Student loans	1,234		(720)	\$ 2	(6)	421			18	949	
Credit cards	43		(35)	3	(2)	301			1	311	
Other	2,000	\$ 114	(135)	22	14	837		\$ (37)	(82)	2,733	
<b>Total asset-backed securities</b>	<b>3,277</b>	<b>114</b>	<b>(890)</b>	<b>27</b>	<b>6</b>	<b>1,559</b>		<b>(37)</b>	<b>(63)</b>	<b>3,993</b>	
Non-U.S. debt securities	1,145		(1,432)	1	8	2,799		(3)	(176)	2,342	
State and political subdivisions	50	1	(3)			3				51	
Collateralized mortgage obligations	359		(359)	363	(2)	381			(392)	350	
Other U.S. debt securities	3								(1)	2	
<b>Total investment securities available for sale</b>	<b>5,507</b>	<b>115</b>	<b>(3,105)</b>	<b>391</b>	<b>15</b>	<b>6,070</b>		<b>(40)</b>	<b>(694)</b>	<b>8,259</b>	
<b>Other assets:</b>											
Derivative instruments:											
Foreign exchange contracts	254			(15)		256			(184)	311	\$ 40
Interest-rate contracts				5		10		(4)		11	9
<b>Total derivative instruments</b>	<b>254</b>			<b>(10)</b>		<b>266</b>		<b>(4)</b>	<b>(184)</b>	<b>322</b>	<b>49</b>
<b>Total assets carried at fair value</b>	<b>\$ 5,761</b>	<b>\$ 115</b>	<b>\$ (3,105)</b>	<b>\$ 381</b>	<b>\$ 15</b>	<b>\$ 6,336</b>		<b>\$ (44)</b>	<b>\$ (878)</b>	<b>\$ 8,581</b>	<b>\$ 49</b>





**Table of Contents****STATE STREET CORPORATION****Condensed Notes to Consolidated Financial Statements (Continued)****(Unaudited)****Note 11. Fair Value (Continued)****Fair Value Measurements Using Significant Unobservable Inputs  
Nine Months Ended September 30, 2011****Total Realized and  
Unrealized (Gains) Losses**

(In millions)	Fair Value at December 31, 2010	Transfers into Level 3	Transfers out of Level 3	Recorded in Revenue	Recorded in Other Comprehensive Income	Purchases	Issuances	Sales	Settlements	Fair Value at September 30, 2011	Change in Unrealized (Gains) Losses Related to Financial Instruments Held at September 30, 2011
<b>Liabilities:</b>											
Accrued expenses and other liabilities:											
Derivative instruments:											
Foreign exchange contracts											
	\$ 260			\$ (21)			\$ 247		\$ (188)	\$ 298	\$ 32
Interest-rate contracts											
	9			10		\$ (5)	29	\$ (20)		23	10
Total derivative instruments											
	269			(11)		(5)	276	(20)	(188)	321	42
Other											
							11			11	
Total liabilities carried at fair value											
	\$ 269			\$ (11)		\$ (5)	\$ 287	\$ (20)	\$ (188)	\$ 332	\$ 42

**Table of Contents****STATE STREET CORPORATION****Condensed Notes to Consolidated Financial Statements (Continued)****(Unaudited)****Note 11. Fair Value (Continued)**

**Fair Value Measurements Using Significant Unobservable Inputs  
Three Months Ended September 30, 2010**

**Total Realized and  
Unrealized Gains (Losses)**

(In millions)	Fair Value at June 30, 2010	Recorded in Revenue	Recorded in Other Comprehensive Income	Purchases, Issuances and Settlements, Net	Transfers Into and/or Out of Level 3	Fair Value at September 30, 2010	Change in Unrealized Gains (Losses) Related to Financial Instruments Held at September 30, 2010
<b>Assets:</b>							
Investment securities available for sale:							
U.S. Treasury and federal agencies:							
Mortgage-backed securities	\$ 43				\$ (42)	\$ 1	
Asset-backed securities:							
Student loans	2,229	\$ 3	\$ 5	\$ 17	(659)	1,595	
Credit cards	91	1		(52)		40	
Sub-prime	4				(4)		
Other	1,069	(2)	2	(56)	(141)	872	
Total asset-backed securities	3,393	2	7	(91)	(804)	2,507	
Non-U.S. debt securities	2,659	28	(10)	1,175	(459)	3,393	
State and political subdivisions	3				1	4	
Collateralized mortgage obligations	424		2	80		506	
Other U.S. debt securities	3					3	
Total investment securities available for sale	6,525	30	(1)	1,164	(1,304)	6,414	
Other assets:							
Derivative instruments - foreign exchange contracts	307	(55)		127		379	\$ (13)
Total assets	\$ 6,832	\$ (25)	\$ (1)	\$ 1,291	\$ (1,304)	\$ 6,793	\$ (13)

**Fair Value Measurements Using Significant Unobservable Inputs  
Three Months Ended September 30, 2010**

(In millions)	Fair Value at June 30, 2010	Total Realized and Unrealized (Gains) Losses Recorded in Revenue	Recorded in Other Comprehensive Income	Purchases, Issuances and Settlements, Net	Transfers Into and/ or Out of Level 3	Fair Value at September 30, 2010	Change in Unrealized (Gains) Losses Related to Financial Instruments Held at September

30,  
2010

<b>Liabilities:</b>					
Accrued expenses and other liabilities:					
Derivative instruments:					
Foreign exchange contracts	\$ 275	\$ (51)	\$ 129	\$ 353	\$ (22)
Interest-rate contracts	9			9	
Total derivative instruments	284	(51)	129	362	(22)
Total liabilities carried at fair value	\$ 284	\$ (51)	\$ 129	\$ 362	\$ (22)

**Table of Contents****STATE STREET CORPORATION****Condensed Notes to Consolidated Financial Statements (Continued)****(Unaudited)****Note 11. Fair Value (Continued)****Fair Value Measurements Using Significant Unobservable Inputs  
Nine Months Ended September 30, 2010**

(In millions)	Total Realized and Unrealized Gains (Losses)						Change in Unrealized Gains (Losses) Related to Financial Instruments Held at September 30, 2010
	Fair Value at December 31, 2009	Recorded in Revenue	Recorded in Other Comprehensive Income	Purchases, Issuances and Settlements, Net	Transfers Into and/or Out of Level 3	Fair Value at September 30, 2010	
<b>Assets:</b>							
Investment securities available for sale:							
U.S. Treasury and federal agencies:							
Mortgage-backed securities	\$ 58	\$ (1)	\$ (1)	\$ (13)	\$ (42)	\$ 1	
Asset-backed securities:							
Student loans	3,111	8	76	(19)	(1,581)	1,595	
Credit cards	312	15	(15)	(33)	(239)	40	
Sub-prime	3	1			(4)		
Other	1,134	37	45	(102)	(242)	872	
Total asset-backed securities	4,560	61	106	(154)	(2,066)	2,507	
Non-U.S. debt securities	2,606	103	138	1,122	(576)	3,393	
State and political subdivisions	2				2	4	
Collateralized mortgage obligations	199	(208)	5	510		506	
Other U.S. debt securities	3					3	
Total investment securities available for sale	7,428	(45)	248	1,465	(2,682)	6,414	
Other assets:							
Derivative instruments-foreign exchange contracts	128	(19)		270		379	\$ (17)
Total assets	\$ 7,556	\$ (64)	\$ 248	\$ 1,735	\$ (2,682)	\$ 6,793	\$ (17)

**Fair Value Measurements Using Significant Unobservable Inputs  
Nine Months Ended September 30, 2010**

(In millions)	Total Realized and Unrealized (Gains) Losses						Change in Unrealized (Gains) Losses Related to Financial Instruments Held at
	Fair Value at December 31, 2009	Recorded in Revenue	Recorded in Other Comprehensive Income	Purchases, Issuances and Settlements, Net	Transfers Into and/or Out of Level 3	Fair Value at September 30, 2010	

September  
30,  
2010**Liabilities:**

Accrued expenses and other liabilities:

Derivative instruments:

Foreign exchange contracts	\$ 138	\$ (55)	\$ 270	\$ 353	\$ (35)
Interest-rate contracts	9			9	
Total derivative instruments	147	(55)	270	362	(35)
Total liabilities carried at fair value	\$ 147	\$ (55)	\$ 270	\$ 362	\$ (35)

**Table of Contents****STATE STREET CORPORATION****Condensed Notes to Consolidated Financial Statements (Continued)****(Unaudited)****Note 11. Fair Value (Continued)**

For our financial assets and liabilities categorized in level 3, total realized and unrealized gains and losses recorded during the periods indicated were recorded in revenue as follows:

	Three Months Ended September 30, 2011		Nine Months Ended September 30, 2011	
	Total Realized and Unrealized Gains (Losses) Recorded in Revenue	Change in Unrealized Gains (Losses) Related to Financial Instruments Held at September 30, 2011	Total Realized and Unrealized Gains (Losses) Recorded in Revenue	Change in Unrealized Gains (Losses) Related to Financial Instruments Held at September 30, 2011
<b>(In millions)</b>				
Fee revenue:				
Trading services	\$ 12		\$ 1	\$ 7
Total fee revenue	12		1	7
Net interest revenue	37		391	
Total revenue	\$ 49		\$ 392	\$ 7

	Three Months Ended September 30, 2010		Nine Months Ended September 30, 2010	
	Total Realized and Unrealized Gains (Losses) Recorded in Revenue	Change in Unrealized Gains (Losses) Related to Financial Instruments Held at September 30, 2010	Total Realized and Unrealized Gains (Losses) Recorded in Revenue	Change in Unrealized Gains (Losses) Related to Financial Instruments Held at September 30, 2010
<b>(In millions)</b>				
Fee revenue:				
Trading services	\$ (4)	\$ 9	\$ 36	\$ 18
Total fee revenue	(4)	9	36	18
Net interest revenue	30		(45)	
Total revenue	\$ 26	\$ 9	\$ (9)	\$ 18

*Fair Values of Financial Instruments*

## Edgar Filing: STATE STREET CORP - Form 10-Q

Estimates of fair value for financial instruments not carried at fair value on a recurring basis in our consolidated statement of condition, as defined by GAAP, are generally subjective in nature, and are made as of a specific point in time based on the characteristics of the financial instruments and relevant market information. Disclosure of fair value estimates is not required by GAAP for certain items, such as lease financing, equity method investments, obligations for pension and other post-retirement plans, premises and equipment, other intangible assets and income tax assets and liabilities. Accordingly, aggregate fair value estimates presented do not purport to represent, and should not be considered representative of, our underlying market or franchise value. In addition, because of potential differences in methodologies and assumptions used to estimate fair values, our estimates of fair value should not be compared to those of other financial institutions.

We use the following methods to estimate the fair values of our financial instruments:

For financial instruments that have quoted market prices, those quoted prices are used to estimate fair value.

**Table of Contents****STATE STREET CORPORATION****Condensed Notes to Consolidated Financial Statements (Continued)****(Unaudited)****Note 11. Fair Value (Continued)**

Financial instruments that have no defined maturity, have a remaining maturity of 180 days or less, or reprice frequently to a market rate are assumed to have a fair value that approximates their reported value, after taking into consideration any applicable credit risk.

For financial instruments for which no quoted market prices are available, fair value is estimated using information obtained from independent third parties, or by discounting the expected cash flows using an estimated current market interest rate for the financial instrument.

The generally short duration of certain of our assets and liabilities results in a significant number of financial instruments for which fair value equals or closely approximates the amount reported in our consolidated statement of condition. These financial instruments are reported in the following captions in our consolidated statement of condition: cash and due from banks; interest-bearing deposits with banks; securities purchased under resale agreements; accrued income receivable; deposits; securities sold under repurchase agreements; federal funds purchased; and other short-term borrowings. In addition, due to the relatively short duration of certain of our net loans (excluding leases), we consider fair value for these loans to approximate their reported value. The fair value of other types of loans, such as purchased receivables and CRE loans, is estimated by discounting expected future cash flows using current rates at which similar loans would be made to borrowers with similar credit ratings for the same remaining maturities. Loan commitments have no reported value because terms are at prevailing market rates.

The following table presents the reported amounts and estimated fair values of the financial instruments defined by GAAP, excluding the aforementioned short-term financial instruments and financial assets and liabilities carried at fair value on a recurring basis, as of the dates indicated:

<b>(In millions)</b>	<b>Reported Amount</b>	<b>Fair Value</b>
<b>September 30, 2011:</b>		
Financial Assets:		
Investment securities held to maturity	<b>\$ 10,018</b>	<b>\$ 10,102</b>
Net loans (excluding leases)	<b>10,462</b>	<b>10,429</b>
Financial Liabilities:		
Long-term debt	<b>8,112</b>	<b>8,207</b>
<b>December 31, 2010:</b>		
Financial Assets:		
Investment securities held to maturity	<b>\$ 12,249</b>	<b>\$ 12,576</b>
Net loans (excluding leases)	<b>10,387</b>	<b>10,242</b>
Financial Liabilities:		
Long-term debt	<b>8,550</b>	<b>8,498</b>



---

**Table of Contents**

**STATE STREET CORPORATION**

**Condensed Notes to Consolidated Financial Statements (Continued)**

**(Unaudited)**

**Note 12. Derivative Financial Instruments**

We use derivative financial instruments to support our clients' needs, conduct our trading activities, and manage our interest-rate and currency risk.

As part of our trading activities, we assume positions in both the foreign exchange and interest-rate markets by buying and selling cash instruments and using derivative financial instruments, including foreign exchange forward contracts, foreign exchange and interest-rate options and interest-rate swaps, interest-rate forward contracts, and interest-rate futures.

Interest-rate contracts involve an agreement with a counterparty to exchange cash flows based on the movement of an underlying interest-rate index. An interest-rate swap agreement involves the exchange of a series of interest payments, either at a fixed or variable rate, based on the notional amount without the exchange of the underlying principal amount. An interest-rate option contract provides the purchaser, for a premium, the right, but not the obligation, to receive an interest rate based upon a predetermined notional amount during a specified period. An interest-rate futures contract is a commitment to buy or sell, at a future date, a financial instrument at a contracted price; it may be settled in cash or through the delivery of the contracted instrument.

Foreign exchange contracts involve an agreement to exchange one currency for another currency at an agreed-upon rate and settlement date. Foreign exchange contracts generally consist of foreign exchange forward and spot contracts, option contracts and cross-currency swaps.

Derivative financial instruments involve the management of interest-rate and foreign currency risk, and involve, to varying degrees, market risk and credit and counterparty risk (risk related to repayment). Market risk is defined as the risk of adverse financial impact due to fluctuations in interest rates, foreign exchange rates and other market-driven factors and prices. We use a variety of risk management tools and methodologies to measure, monitor and manage the market risk associated with our trading activities. One such risk-management measure is value-at-risk, or VaR. VaR is an estimate of potential loss for a given period within a stated statistical confidence interval. We use a risk-measurement system to estimate VaR daily. We have adopted standards for estimating VaR, and we maintain regulatory capital for market risk in accordance with federal regulatory capital guidelines.

Derivative financial instruments are also subject to credit and counterparty risk, which is defined as the risk of financial loss if a borrower or counterparty is either unable or unwilling to repay borrowings or settle a transaction in accordance with the underlying contractual terms. We manage credit and counterparty risk by performing credit reviews, maintaining individual counterparty limits, entering into netting arrangements and requiring the receipt of collateral. Collateral requirements are determined after a comprehensive review of the creditworthiness of each counterparty, and the requirements are monitored and adjusted daily. Collateral is generally held in the form of cash or highly liquid U.S. government securities. We may be required to provide collateral to the counterparty in connection with our entry into derivative financial instruments. Future cash requirements, if any, related to foreign exchange contracts are represented by the gross amount of currencies to be exchanged under each contract unless we and the counterparty have agreed to pay or to receive the net contractual settlement amount on the settlement date.

We enter into master netting agreements with many of our derivative counterparties. Certain of these agreements contain credit risk-related contingent features in which the counterparty has the option to declare State Street in default and accelerate cash settlement of our net derivative liabilities with the counterparty in the event our credit rating falls below specified levels. The aggregate fair value of all derivative instruments with credit risk-related contingent features that were in a net liability position as of September 30, 2011 totaled

---

**Table of Contents**

**STATE STREET CORPORATION**

**Condensed Notes to Consolidated Financial Statements (Continued)**

**(Unaudited)**

**Note 12. Derivative Financial Instruments (Continued)**

approximately \$1.87 billion, against which we had posted aggregate collateral of approximately \$720 million. If State Street's credit rating was downgraded below levels specified in the agreements, the maximum additional amount of payments related to termination events that could have been required pursuant to these contingent features as of September 30, 2011 was approximately \$1.15 billion. Such accelerated settlement would not affect our consolidated results of operations.

***Derivatives Not Designated as Hedging Instruments***

In connection with our trading activities, we use derivative financial instruments in our role as a financial intermediary and as both a manager and servicer of financial assets, in order to accommodate our clients' investment and risk management needs. In addition, we use derivative financial instruments for risk management purposes as economic hedges, which are not formally designated as accounting hedges, in order to contribute to our overall corporate earnings and liquidity. These activities are designed to generate trading revenue and to hedge volatility in our net interest revenue. The level of market risk that we assume is a function of our overall objectives and liquidity needs, our clients' requirements and market volatility.

Our clients use derivative financial instruments to manage the financial risks associated with their investment goals and business activities. With respect to cross-border investing, clients have a need for foreign exchange forward contracts to convert currency for international investment and to manage the currency risk in their investment portfolios. As an active participant in the foreign exchange markets, we provide foreign exchange forward contracts and options in support of these client needs. We also participate in the interest-rate markets, and provide interest-rate swaps, interest-rate forward contracts, interest-rate futures and other interest-rate contracts to our clients to enable them to mitigate or modify their interest-rate risk. As part of our trading activities, we may assume positions in both the foreign exchange and interest-rate markets by buying and selling cash instruments and using derivative financial instruments, including foreign exchange forward contracts, foreign exchange and interest-rate options and interest-rate swaps, interest-rate forward contracts, and interest-rate futures. In the aggregate, positions are matched closely to minimize currency and interest-rate risk. Gains or losses in the fair values of trading derivatives are recorded in trading services revenue in our consolidated statement of income.

We offer products that provide book-value protection primarily to plan participants in stable value funds managed by non-affiliated investment managers of post-retirement defined contribution benefit plans, particularly 401(k) plans. We account for the associated contingencies, more fully described in note 8, individually as derivatives not designated as hedging instruments. These contracts are valued quarterly and unrealized losses, if any, are recorded in other expenses in our consolidated statement of income.

***Derivatives Designated as Hedging Instruments***

In connection with our asset and liability management activities, we use derivative financial instruments to manage interest-rate risk. Interest-rate risk, defined as the sensitivity of income or financial condition to variations in interest rates, is a significant non-trading market risk to which our assets and liabilities are exposed. These hedging relationships are formally designated, and qualify for hedge accounting, as fair value or cash flow hedges. We manage interest-rate risk by identifying, quantifying and hedging our exposures, using fixed-rate portfolio securities and a variety of derivative financial instruments, most frequently interest-rate swaps and

---

**Table of Contents**

**STATE STREET CORPORATION**

**Condensed Notes to Consolidated Financial Statements (Continued)**

**(Unaudited)**

**Note 12. Derivative Financial Instruments (Continued)**

options (e.g., interest rate caps and floors). Interest-rate swap agreements alter the interest-rate characteristics of specific balance sheet assets or liabilities. When appropriate, forward rate agreements, options on swaps, and exchange-traded futures and options are also used.

*Fair value hedges*

Derivatives designated as fair value hedges are utilized to mitigate the risk of changes in fair value of recognized assets and liabilities. Gains and losses on fair value hedges are recorded in processing fees and other revenue in our consolidated statement of income along with the gain or loss on the asset or liability attributable to the hedged risk. Differences between the gains and losses on fair value hedges and the gains and losses on the asset or liability attributable to the hedged risk represent hedge ineffectiveness, which is recorded in net interest revenue or in processing fees and other revenue. We use interest-rate or foreign exchange contracts in this manner to manage our exposure to changes in the fair value of hedged items caused by changes in interest rates or foreign exchange rates.

We have entered into interest rate contracts to hedge fair value changes for certain available-for-sale securities. Under one strategy, we have entered into interest-rate swap agreements to modify our interest revenue from certain available-for-sale securities from a fixed rate to a floating rate. The securities hedged have a weighted-average life of approximately 7.4 years as of September 30, 2011, compared to 7.7 years as of December 31, 2010. These securities are hedged with interest-rate swap contracts of similar maturity, repricing and fixed-rate coupons. The interest-rate swap contracts convert the interest revenue from a fixed rate to a floating rate indexed to LIBOR, thereby mitigating our exposure to fluctuations in the fair value of the securities attributable to changes in the benchmark interest rate. Under a second strategy, we have entered into U.S. Treasury note futures contracts to hedge the risk of changes in fair value for certain fixed-rate available-for-sale U.S. Treasury securities. Those U.S. Treasury securities have terms ranging from two to five years, and are hedged with U.S. Treasury note futures contracts with similar terms.

We have entered into interest-rate swap agreements to modify our interest expense on two subordinated notes from fixed rates to floating rates. The subordinated notes mature in 2018; one pays fixed interest at a 4.956% annual rate and the other pays fixed interest at a 5.25% annual rate. The subordinated notes are hedged with interest-rate swap contracts with notional amounts, maturities and fixed-rate coupon terms that align with the hedged subordinated notes. The interest-rate swap contracts convert the fixed-rate coupons to floating rates indexed to LIBOR, thereby mitigating our exposure to fluctuations in the fair values of the subordinated notes stemming from changes in the benchmark interest rates.

We have entered into forward foreign exchange contracts to hedge the change in fair value attributable to foreign-exchange movements in the funding of non-functional currency denominated investment securities. These forward contracts convert the foreign currency risk to U.S. dollars, thereby mitigating our exposure to fluctuations in the fair value of the securities attributable to changes in foreign exchange rates. Generally, no ineffectiveness is recorded in earnings, since the notional amount of the hedging instruments is aligned with the carrying value of the hedged securities. The forward points on the hedging instruments are considered to be a hedging cost, and accordingly are excluded from the evaluation of hedge effectiveness and are recorded in net interest revenue.

**Table of Contents****STATE STREET CORPORATION****Condensed Notes to Consolidated Financial Statements (Continued)****(Unaudited)****Note 12. Derivative Financial Instruments (Continued)***Cash flow hedges*

Derivatives categorized as cash flow hedges are utilized to offset the variability of cash flows to be received from or paid on a floating-rate asset or liability. Gains and losses on cash flow hedges that are considered highly effective are recorded in accumulated OCI in our consolidated statement of condition until earnings are affected by the hedged item. When gains or losses are reclassified from accumulated OCI into earnings, they are recorded in net interest revenue in our consolidated statement of income. The ineffectiveness of cash flow hedges, defined as the extent to which the changes in fair value of the derivative exceeded the variability of cash flows of the forecasted transaction, is recorded in processing fees and other revenue.

We have entered into interest-rate swap agreements to modify our interest revenue from certain available-for-sale securities from a floating rate to a fixed rate. The securities hedged have a weighted-average life of approximately 3.0 years as of September 30, 2011, compared to 3.8 years as of December 31, 2010. These securities are hedged with interest-rate swap contracts of similar maturities, repricing and other characteristics. The interest-rate swap contracts convert the interest revenue from a floating rate to a fixed rate, thereby mitigating our exposure to fluctuations in the cash flows of the securities attributable to changes in the benchmark interest rate.

The following table presents the aggregate contractual, or notional, amounts of derivative financial instruments entered into in connection with trading and asset and liability management activities as of the dates indicated:

<b>(In millions)</b>	<b>September 30, 2011</b>	<b>December 31, 2010</b>
<b>Derivatives not designated as hedging instruments:</b>		
Interest-rate contracts:		
Swap agreements and forwards	\$ 250,003	\$ 52,383
Options and caps purchased	1,069	140
Options and caps written	2,068	130
Futures	71,245	25,253
Foreign exchange contracts:		
Forward, swap and spot	1,097,107	637,847
Options purchased	13,795	14,299
Options written	14,119	14,587
Credit derivative contracts:		
Credit default swap agreements	105	155
Other:		
Stable value contracts	41,987	46,758
<b>Derivatives designated as hedging instruments:</b>		
Interest-rate contracts:		
Swap agreements	2,161	1,886
Futures	2,505	
Foreign exchange contracts:		
Forwards	2,799	



**Table of Contents****STATE STREET CORPORATION****Condensed Notes to Consolidated Financial Statements (Continued)****(Unaudited)****Note 12. Derivative Financial Instruments (Continued)**

In connection with our asset and liability management activities, we have entered into interest-rate contracts designated as fair value and cash flow hedges to manage our interest-rate risk. The following table presents the aggregate notional amounts of these interest-rate contracts and the related assets or liabilities being hedged as of the dates indicated.

(In millions)	September 30, 2011			December 31, 2010		
	Fair Value Hedges	Cash Flow Hedges	Total	Fair Value Hedges	Cash Flow Hedges	Total
Investment securities available for sale	\$ 3,842	\$ 124	\$ 3,966	\$ 1,561	\$ 125	\$ 1,686
Long-term debt <sup>(1)</sup>	700		700	200		200
<b>Total</b>	<b>\$ 4,542</b>	<b>\$ 124</b>	<b>\$ 4,666</b>	<b>\$ 1,761</b>	<b>\$ 125</b>	<b>\$ 1,886</b>

<sup>(1)</sup> As of September 30, 2011 and December 31, 2010, fair value hedges of long-term debt increased the carrying value of long-term debt presented in our consolidated statement of condition by \$129 million and \$81 million, respectively.

The following table presents the contractual and weighted-average interest rates for long-term debt, which include the effects of the hedges presented in the table above, for the periods indicated:

	Three Months Ended September 30,			
	2011	2011	2010	2010
	Contractual Rates	Rate Including Impact of Hedges	Contractual Rates	Rate Including Impact of Hedges
Long-term debt	3.58%	3.17%	3.72%	3.33%

  

	Nine Months Ended September 30,			
	2011	2011	2010	2010
	Contractual Rates	Rate Including Impact of Hedges	Contractual Rates	Rate Including Impact of Hedges
Long-term debt	3.56%	3.17%	3.73%	3.28%

For cash flow hedges, any changes in the fair value of the derivative financial instruments remain in accumulated OCI and are generally recorded in our consolidated statement of income in future periods when earnings are affected by the variability of the hedged cash flow.

Table of Contents

## STATE STREET CORPORATION

## Condensed Notes to Consolidated Financial Statements (Continued)

(Unaudited)

## Note 12. Derivative Financial Instruments (Continued)

The following table presents the fair value of the derivative financial instruments, excluding the impact of master netting agreements, recorded in our consolidated statement of condition as of the dates indicated. The impact of master netting agreements is disclosed in note 11.

(In millions)	Asset Derivatives September 30, 2011		Liability Derivatives September 30, 2011	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
<b>Derivatives not designated as hedging instruments:</b>				
Interest-rate contracts	Other assets	\$ 1,351	Other liabilities	\$ 1,418
Foreign exchange contracts	Other assets	20,429	Other liabilities	21,176
Credit derivative contracts	Other assets		Other liabilities	1
Equity derivative contracts	Other assets	2	Other liabilities	
<b>Total</b>		<b>\$ 21,782</b>		<b>\$ 22,595</b>
<b>Derivatives designated as hedging instruments:</b>				
Interest-rate contracts	Other assets	\$ 103	Other liabilities	\$ 297
Foreign exchange contracts	Other assets	221	Other liabilities	
<b>Total</b>		<b>\$ 324</b>		<b>\$ 297</b>
(In millions)	Asset Derivatives December 31, 2010		Liability Derivatives December 31, 2010	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
<b>Derivatives not designated as hedging instruments:</b>				
Interest-rate contracts	Other assets	\$ 133	Other liabilities	\$ 140
Foreign exchange contracts	Other assets	8,058	Other liabilities	8,455
Credit derivative contracts	Other assets	1	Other liabilities	1
Equity derivative contracts	Other assets	1	Other liabilities	
<b>Total</b>		<b>\$ 8,193</b>		<b>\$ 8,596</b>
<b>Derivatives designated as hedging instruments:</b>				
Interest-rate contracts	Other assets	\$ 32	Other liabilities	\$ 228

<b>Total</b>	\$ 32	\$ 228
--------------	-------	--------



**Table of Contents****STATE STREET CORPORATION****Condensed Notes to Consolidated Financial Statements (Continued)****(Unaudited)****Note 12. Derivative Financial Instruments (Continued)**

The following tables present the impact of our use of derivative financial instruments on our consolidated statement of income for the periods indicated:

(In millions)	Location of Gain (Loss) on Derivative in Consolidated Statement of Income	Amount of Gain (Loss) on Derivative Recognized in Consolidated Statement of Income	
		Three Months Ended	
		September 30, 2011	Nine Months Ended September 30, 2011
<b>Derivatives not designated as hedging instruments:</b>			
Interest-rate contracts	Trading services revenue	\$ 43	\$ (4)
Foreign exchange contracts	Trading services revenue	170	526
Foreign exchange contracts	Processing fees and other revenue	5	6
<b>Total</b>		<b>\$ 218</b>	<b>\$ 528</b>

(In millions)	Location of Gain (Loss) on Derivative in Consolidated Statement of Income	Amount of Gain (Loss) on Derivative Recognized in Consolidated Statement of Income	
		Three Months Ended	
		September 30, 2010	Nine Months Ended September 30, 2010
<b>Derivatives not designated as hedging instruments:</b>			
Interest-rate contracts	Trading services revenue	\$ (1)	\$ (3)
Interest-rate contracts	Processing fees and other revenue	3	17
Foreign exchange contracts	Trading services revenue	117	448
Foreign exchange contracts	Processing fees and other revenue	5	(2)
<b>Total</b>		<b>\$ 124</b>	<b>\$ 460</b>

Table of Contents

## STATE STREET CORPORATION

## Condensed Notes to Consolidated Financial Statements (Continued)

(Unaudited)

## Note 12. Derivative Financial Instruments (Continued)

	Location of Gain (Loss) on Derivative in Consolidated Statement of Income	Amount of Gain (Loss) on Derivative Recognized in Consolidated Statement of Income		Hedged Item in Fair Value Hedging Relationship	Location of Gain (Loss) on Hedged Item in Consolidated Statement of Income	Amount of Gain (Loss) on Hedged Item Recognized in Consolidated Statement of Income	
		Three Months Ended September 30, 2011	Nine Months Ended September 30, 2011			Three Months Ended September 30, 2011	Nine Months Ended September 30, 2011
<b>(In millions)</b>							
<b>Derivatives designated as fair value hedges:</b>							
Interest-rate contracts	Processing fees and other revenue	\$ 44	\$ 60	Long-term debt	Processing fees and other revenue	\$ (42)	\$ (56)
Interest-rate contracts	Processing fees and other revenue	(171)	(161)	Available-for-sale securities	Processing fees and other revenue	172	158
Foreign exchange contracts	Processing fees and other revenue	(306)	(306)	Investment securities	Processing fees and other revenue	306	306
<b>Total</b>		<b>\$ (433)</b>	<b>\$ (407)</b>			<b>\$ 436</b>	<b>\$ 408</b>

	Location of Gain (Loss) on Derivative in Consolidated Statement of Income	Amount of Gain (Loss) on Derivative Recognized in Consolidated Statement of Income		Hedged Item in Fair Value Hedging Relationship	Location of Gain (Loss) on Hedged Item in Consolidated Statement of Income	Amount of Gain (Loss) on Hedged Item Recognized in Consolidated Statement of Income	
		Three Months Ended September 30, 2010	Nine Months Ended September 30, 2010			Three Months Ended September 30, 2010	Nine Months Ended September 30, 2010
<b>(In millions)</b>							
<b>Derivatives designated as fair value hedges:</b>							
Interest-rate contracts	Processing fees and other revenue	\$ 30	\$ 70	Long-term debt	Processing fees and other revenue	\$ (26)	\$ (61)

Edgar Filing: STATE STREET CORP - Form 10-Q

Interest-rate contracts	Processing fees and other revenue	(48)	(138)	Available-for-sale securities	Processing fees and other revenue	46	136
<b>Total</b>		\$ (18)	\$ (68)			\$ 20	\$ 75

Table of Contents

## STATE STREET CORPORATION

## Condensed Notes to Consolidated Financial Statements (Continued)

(Unaudited)

## Note 12. Derivative Financial Instruments (Continued)

Differences between the gains (losses) on the derivative and the gains (losses) on the hedged item, excluding any amounts recorded in net interest revenue, represent hedge ineffectiveness.

(In millions)	Amount of Gain (Loss) on Derivative Recognized in Other Comprehensive Income		Location of Gain (Loss) Reclassified from OCI to Consolidated Statement of Income	Amount of Gain (Loss) Reclassified from OCI to Consolidated Statement of Income		Location of Gain (Loss) on Derivative Recognized in Consolidated Statement of Income	Amount of Gain (Loss) on Derivative Recognized in Consolidated Statement of Income	
	Three Months Ended	Nine Months Ended		Three Months Ended	Nine Months Ended		Three Months Ended	Nine Months Ended
	September 30, 2011	September 30, 2011		September 30, 2011	September 30, 2011		September 30, 2011	September 30, 2011
<b>Derivatives designated as cash flow hedges:</b>								
Interest-rate contracts	\$ 4	\$ 8	Net interest revenue	\$ (1)	\$ (5)	Net interest revenue		\$ 2
<b>Total</b>	<b>\$ 4</b>	<b>\$ 8</b>		<b>\$ (1)</b>	<b>\$ (5)</b>			<b>\$ 2</b>

(In millions)	Amount of Gain (Loss) on Derivative Recognized in Other Comprehensive Income		Location of Gain (Loss) Reclassified from OCI to Consolidated Statement of Income	Amount of Gain (Loss) Reclassified from OCI to Consolidated Statement of Income		Location of Gain (Loss) on Derivative Recognized in Consolidated Statement of Income	Amount of Gain (Loss) on Derivative Recognized in Consolidated Statement of Income	
	Three Months Ended	Nine Months Ended		Three Months Ended	Nine Months Ended		Three Months Ended	Nine Months Ended
	September 30, 2010	September 30, 2010		September 30, 2010	September 30, 2010		September 30, 2010	September 30, 2010
<b>Derivatives designated as cash flow hedges:</b>								
Interest-rate contracts	\$ 1	\$ 6	Net interest revenue	\$ (2)	\$ (5)	Net interest revenue	\$ 2	\$ 4
<b>Total</b>	<b>\$ 1</b>	<b>\$ 6</b>		<b>\$ (2)</b>	<b>\$ (5)</b>		<b>\$ 2</b>	<b>\$ 4</b>



**Table of Contents****STATE STREET CORPORATION****Condensed Notes to Consolidated Financial Statements (Continued)****(Unaudited)****Note 13. Net Interest Revenue**

The following table presents the components of interest revenue and interest expense, and related net interest revenue, for the periods indicated:

(In millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
<b>Interest revenue:</b>				
Deposits with banks	\$ 39	\$ 22	\$ 94	\$ 63
Investment securities:				
U.S. Treasury and federal agencies	186	198	590	507
State and political subdivisions	55	56	166	166
Other investments	374	551	1,093	1,619
Securities purchased under resale agreements	6	7	22	17
Loans and leases <sup>(1)</sup>	68	69	215	254
Other interest-earning assets		1	1	2
Total interest revenue	728	904	2,181	2,628
<b>Interest expense:</b>				
Deposits	52	62	154	141
Short-term borrowings <sup>(1)</sup>	23	46	74	229
Long-term debt	73	72	220	215
Other interest-bearing liabilities	2		6	
Total interest expense	150	180	454	585
Net interest revenue	\$ 578	\$ 724	\$ 1,727	\$ 2,043

<sup>(1)</sup> Amount for the nine months ended September 30, 2010 included \$67 million related to the third-party asset-backed securitization trusts consolidated into our financial statements on January 1, 2010 in connection with our adoption of new GAAP. These trusts were de-consolidated in June 2010.

**Note 14. Acquisition and Restructuring Costs**

For the three and nine months ended September 30, 2011, we recorded acquisition and restructuring costs of \$85 million and \$121 million, respectively. For the three and nine months ended September 30, 2010, we recorded acquisition and restructuring costs of \$23 million and \$77 million, respectively. The costs for the three and nine months ended September 30, 2011 were composed of integration costs of \$19 million and \$46 million, respectively, related to the acquired Intesa, MIFA and BIAM businesses, and restructuring costs of \$66 million and \$75 million, respectively, related to the business operations and information technology transformation program described below. The 2010 costs were composed of integration costs associated with acquisitions.

In November 2010, we announced a global multi-year business operations and information technology transformation program. The program includes operational and information technology enhancements and targeted cost initiatives, including plans related to reductions in both staff

## Edgar Filing: STATE STREET CORP - Form 10-Q

and occupancy costs. To date, we have recorded aggregate pre-tax restructuring charges of \$231 million, composed of \$156 million in 2010 and \$75 million in the first nine months of 2011, including \$66 million in the third quarter of this year.

**Table of Contents****STATE STREET CORPORATION****Condensed Notes to Consolidated Financial Statements (Continued)****(Unaudited)****Note 14. Acquisition and Restructuring Costs (Continued)**

The charges related to the program include costs associated with severance, benefits and outplacement services, as well as costs which resulted from actions taken to consolidate real estate. In addition, the program includes charges for costs related to information technology, including transition fees associated with the expansion of our use of service providers associated with components of our information technology infrastructure and application maintenance and support.

In 2010, in connection with the program, we initiated a reduction of 1,400 employees, or approximately 5% of our global workforce, which we expect to have substantially completed by the end of 2011. In addition, in the third quarter of 2011, in connection with the above-described expansion of our use of service providers associated with planned enhancements to our information technology infrastructure, we identified approximately 530 employees who will be provided with severance and outplacement services as their roles are eliminated. As of September 30, 2011, in connection with the planned aggregate staff reductions of 1,930 employees described above, approximately 1,260 employees had been involuntarily terminated and left State Street, including approximately 710 employees during the first nine months of 2011.

The following table presents activity associated with restructuring-related accruals:

(In millions)	Employee- Related Costs	Real Estate Consolidation	IT Transition Costs	Total
Initial accrual	\$ 105	\$ 51		\$ 156
Payments	(15)	(4)		(19)
Balance at December 31, 2010	90	47		137
Additional restructuring-related accruals	53	5	\$ 17	75
Payments	(66)	(12)	(4)	(82)
Balance at September 30, 2011	\$ 77	\$ 40	\$ 13	\$ 130

**Note 15. Income Taxes**

We recorded income tax expense of \$74 million for the three months ended September 30, 2011, compared to income tax expense of \$236 million for the three months ended September 30, 2010. Income tax expense for the nine months ended September 30, 2011 was \$465 million, compared to \$361 million for the nine months ended September 30, 2010. Our effective tax rates for the three and nine months ended September 30, 2011 were 11.7% and 23.2%, respectively, compared to 30.1% and 19.7% for the three and nine months ended September 30, 2010. Income tax expense and the effective tax rates for the three and nine months ended September 30, 2011 included a discrete tax benefit of \$91 million related to the cost of terminating funding obligations that supported former conduit asset structures.

Income tax expense and the effective tax rate for the nine months ended September 30, 2010 reflected a discrete tax benefit of \$180 million related to the cost of terminating funding obligations that supported former conduit asset structures.



**Table of Contents****STATE STREET CORPORATION****Condensed Notes to Consolidated Financial Statements (Continued)****(Unaudited)****Note 16. Earnings Per Common Share**

The following table presents the computation of basic and diluted earnings per common share for the periods indicated:

(Dollars in millions, except per share amounts)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net income	\$ 555	\$ 546	\$ 1,539	\$ 1,473
Less:				
Preferred stock dividends	(6)		(13)	
Dividends and undistributed earnings allocated to participating securities <sup>(1)</sup>	(6)	(6)	(15)	(14)
Net income available to common shareholders	\$ 543	\$ 540	\$ 1,511	\$ 1,459
<b>Average shares outstanding (in thousands):</b>				
Basic average shares	490,840	495,729	495,015	495,312
Effect of dilutive securities: stock options and stock awards	3,940	2,430	3,402	2,403
Diluted average shares	494,780	498,159	498,417	497,715
Anti-dilutive securities <sup>(2)</sup>	3,636	12,386	2,589	10,590
<b>Earnings per Share:</b>				
Basic	\$ 1.11	\$ 1.09	\$ 3.05	\$ 2.94
Diluted <sup>(3)</sup>	\$ 1.10	\$ 1.08	\$ 3.03	\$ 2.93

<sup>(1)</sup> Represented the portion of net income available to common equity allocated to participating securities; participating securities, composed of unvested restricted stock and director stock, have non-forfeitable rights to dividends during the vesting period on a basis equivalent to dividends paid to common shareholders.

<sup>(2)</sup> Represented stock options, restricted stock and other securities outstanding, but not included in the computation of diluted average shares because their effect was anti-dilutive.

<sup>(3)</sup> Calculations reflect the allocation of earnings to participating securities using the two-class method, as this computation was more dilutive than the calculation using the treasury stock method.

**Note 17. Line of Business Information**

We report two lines of business: Investment Servicing and Investment Management. Given our services and management organization, the results of operations for these lines of business are not necessarily comparable with those of other companies, including companies in the financial services industry. Information about revenue, expense and capital allocation methodologies is provided in note 24 to the consolidated financial statements included in our 2010 Form 10-K.

**Table of Contents****STATE STREET CORPORATION****Condensed Notes to Consolidated Financial Statements (Continued)****(Unaudited)****Note 17. Line of Business Information (Continued)**

The following tables present our line-of-business results. The Other column for 2011 represents integration costs associated with acquisitions and restructuring charges associated with our business operations and information technology transformation program. The Other column for 2010 represents integration costs. The amounts in the Other columns were not allocated to State Street's business lines. During the first three months of 2011, management revised its methodology with respect to funds transfer pricing, which is used in the measurement of business unit net interest revenue. Prior-year net interest revenue and average assets have been restated for comparative purposes to reflect the revised methodology.

(Dollars in millions, except where otherwise noted)	Investment Servicing		Investment Management		Other		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
Fee revenue:								
Servicing fees	\$ 1,106	\$ 1,006					\$ 1,106	\$ 1,006
Management fees			\$ 229	\$ 196			229	196
Trading services	334	228					334	228
Securities finance	77	62	8	6			85	68
Processing fees and other	57	39	33	32			90	71
Total fee revenue	1,574	1,335	270	234			1,844	1,569
Net interest revenue	539	688	39	36			578	724
Gains related to investment securities, net	5	17					5	17
Total revenue	2,118	2,040	309	270			2,427	2,310
Provision for loan losses		1						1
Expenses from operations	1,477	1,341	236	163			1,713	1,504
Acquisition and restructuring costs					\$ 85	\$ 23	85	23
Total expenses	1,477	1,341	236	163	85	23	1,798	1,527
Income from continuing operations before income taxes	\$ 641	\$ 698	\$ 73	\$ 107	\$ (85)	\$ (23)	\$ 629	\$ 782
Pre-tax margin	30%	34%	24%	40%				
Average assets (in billions)	\$ 175.9	\$ 149.4	\$ 5.1	\$ 4.6			\$ 181.0	\$ 154.0

Table of Contents

## STATE STREET CORPORATION

## Condensed Notes to Consolidated Financial Statements (Continued)

(Unaudited)

## Note 17. Line of Business Information (Continued)

(Dollars in millions, except where otherwise noted)	Investment Servicing		Investment Management		Other		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
Fee revenue:								
Servicing fees	\$ 3,325	\$ 2,874					\$ 3,325	\$ 2,874
Management fees			\$ 715	\$ 608			715	608
Trading services	947	796					947	796
Securities finance	252	204	36	45			288	249
Processing fees and other	179	192	73	86			252	278
Total fee revenue	4,703	4,066	824	739			5,527	4,805
Net interest revenue	1,593	1,928	134	115			1,727	2,043
Gains related to investment securities, net	25	62					25	62
Total revenue	6,321	6,056	958	854			7,279	6,910
Provision for loan losses	1	26					1	26
Expenses from operations	4,468	3,980	685	579			5,153	4,559
Acquisition and restructuring costs					\$ 121	\$ 77	121	77
Securities lending charge		75		339				414
Total expenses	4,468	4,055	685	918	121	77	5,274	5,050
Income (Loss) from continuing operations before income taxes	\$ 1,852	\$ 1,975	\$ 273	\$ (64)	\$ (121)	\$ (77)	\$ 2,004	\$ 1,834
Pre-tax margin	29%	33%	28%	nm				
Average assets (in billions)	\$ 162.5	\$ 144.3	\$ 5.5	\$ 5.1			\$ 168.0	\$ 149.4

nm - not meaningful

**Table of Contents****STATE STREET CORPORATION****Condensed Notes to Consolidated Financial Statements (Continued)****(Unaudited)****Note 18. Non-U.S. Activities**

We define non-U.S. activities as those revenue-producing assets and business activities that arise from clients domiciled outside the U.S. Due to the nature of our business, precise segregation of U.S. and non-U.S. activities is not possible. Subjective judgments have been applied to determine results of operations related to our non-U.S. activities, including our application of funds transfer pricing and our asset and liability management policies. Interest expense allocations are based on the average cost of short-term borrowings.

The following table presents our non-U.S. operating results for the periods indicated. Effective January 1, 2011, management revised its methodology with respect to funds transfer pricing, which is used in the measurement of net interest revenue related to non-U.S. activities. Prior-year net interest revenue amounts were not restated to reflect the revised methodology.

(In millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Total fee revenue	\$ 758	\$ 676	\$ 2,293	\$ 1,998
Net interest revenue	300	184	877	519
Gains (Losses) related to investment securities, net	(4)	(2)	(13)	48
Total revenue	1,054	858	3,157	2,565
Expenses	809	688	2,485	2,113
Income before income taxes	245	170	672	452
Income tax expense	63	64	173	170
Net income	\$ 182	\$ 106	\$ 499	\$ 282

Non-U.S. revenue for the three and nine months ended September 30, 2011 included \$516 million and \$1.01 billion, respectively, in the U.K., primarily from our London operations.

The following table presents the significant components of our non-U.S. assets as of the dates indicated, based on the domicile of the underlying counterparties:

(In millions)	September 30, 2011	December 31, 2010
Interest-bearing deposits with banks	\$ 13,289	\$ 9,443
Non-U.S. investment securities	23,439	19,329
Other assets	24,717	13,994
Total assets	\$ 61,445	\$ 42,766



**Table of Contents**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Shareholders and Board of Directors

State Street Corporation

We have reviewed the consolidated statement of condition of State Street Corporation and subsidiaries as of September 30, 2011, and the related consolidated statements of income for the three- and nine-month periods ended September 30, 2011 and 2010, and the consolidated statements of changes in shareholders' equity and cash flows for the nine-month periods ended September 30, 2011 and 2010. These financial statements are the responsibility of the Corporation's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statement of condition of State Street Corporation and subsidiaries as of December 31, 2010, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for the year then ended, not presented herein, and in our report dated February 25, 2011, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated statement of condition as of December 31, 2010, is fairly stated, in all material respects, in relation to the consolidated statement of condition from which it has been derived.

/s/ Ernst & Young LLP

Boston, Massachusetts

November 4, 2011

**Table of Contents****FORM 10-Q PART I CROSS-REFERENCE INDEX**

The information required by the items presented below is incorporated herein by reference from the Financial Information section of this Form 10-Q.

	<b>Page</b>
<b>PART I. FINANCIAL INFORMATION</b>	
Item 1. Financial Statements	
<u>Consolidated Statement of Income (Unaudited) for the three months and nine months ended September 30, 2011 and 2010</u>	49
<u>Consolidated Statement of Condition as of September 30, 2011 (Unaudited) and December 31, 2010</u>	50
<u>Consolidated Statement of Changes in Shareholders' Equity (Unaudited) for the nine months ended September 30, 2011 and 2010</u>	51
<u>Consolidated Statement of Cash Flows (Unaudited) for the nine months ended September 30, 2011 and 2010</u>	52
<u>Condensed Notes to Consolidated Financial Statements (Unaudited)</u>	53
<u>Report of Independent Registered Public Accounting Firm</u>	107
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	2
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	48
Item 4. <u>Controls and Procedures</u>	48

**Table of Contents****PART II. OTHER INFORMATION****ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

(c) During the three months ended March 31, 2011, our Board of Directors approved a new program authorizing the purchase by us of up to \$675 million of our common stock in 2011. We may employ third-party broker/dealers to acquire shares on the open market in connection with our common stock purchase programs.

The following table presents purchases of our common stock and related information for the three months ended September 30, 2011.

(Dollars in millions, except

per share amounts, shares in

thousands)

Period	Total Number of Shares Purchased Under Publicly Announced Program	Average Price Paid per Share	Approximate Dollar Value of Shares Purchased Under Publicly Announced Program	Approximate Dollar Value of Shares Yet to Be Purchased Under Publicly Announced Program
July 1 - July 31, 2011	1,432	\$ 42.16	\$ 60	\$ 390
August 1 - August 31, 2011	4,396	37.45	165	225
September 1 - September 30, 2011				225
Total	5,828	\$ 38.61	\$ 225	\$ 225

**ITEM 6. EXHIBITS**

The exhibits listed in the Exhibit Index on page 111 of this Form 10-Q are filed herewith or are incorporated herein by reference to other SEC filings.



Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

STATE STREET CORPORATION

(Registrant)

Date: November 4, 2011

By: /s/ EDWARD J. RESCH  
Edward J. Resch  
*Executive Vice President and  
Chief Financial Officer  
(Principal Financial Officer)*

Date: November 4, 2011

By: /s/ JAMES J. MALERBA  
James J. Malerba  
*Executive Vice President, Corporate Controller and  
Chief Accounting Officer  
(Principal Accounting Officer)*

**Table of Contents**

**EXHIBIT INDEX**

12	Ratios of earnings to fixed charges
15	Letter regarding unaudited interim financial information
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chairman, President and Chief Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
32	Section 1350 Certifications
101.INS	XBRL Instance Document*
101.SCH	XBRL Taxonomy Extension Schema Document*
101.CAL	XBRL Taxonomy Calculation Linkbase Document*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document*
101.LAB	XBRL Taxonomy Label Linkbase Document*
101.PRE	XBRL Taxonomy Presentation Linkbase Document*

\* Submitted electronically herewith

Attached as Exhibit 101 to this report are the following formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Statement of Income for the three and nine months ended September 30, 2011 and 2010, (ii) Consolidated Statement of Condition as of September 30, 2011 and December 31, 2010, (iii) Consolidated Statement of Changes in Shareholders' Equity for the nine months ended September 30, 2011 and 2010, (iv) Consolidated Statement of Cash Flows for the nine months ended September 30, 2011 and 2010, and (v) Condensed Notes to Consolidated Financial Statements.