STATE STREET CORP
Form 10-Q
November 04, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 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**

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

617-786-3000

(Registrant s telephone number, including area code)

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

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

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

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

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

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

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STATE STREET CORPORATION

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

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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

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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, tre
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

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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;

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 disynergies 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;

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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.

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* or on our website at *www.statestreet.com*.

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OVERVIEW OF FINANCIAL RESULTS

(Dollars in millions, except per share amounts)	Quarters Ended September 30, 2011	2010	% Change	Nine Months Ended September 30, 2011	2010[1]	% 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[2]	**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[3]	**(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 Mourant 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.

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

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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.

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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.

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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.

	Quarters Ended September 30,			Nine Months Ended September 30,		
(Dollars in millions)	**2011**	**2010**	**% Change**	**2011**	**2010**	**% Change**
Fee revenue:						
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)
Total fee revenue	**1,844**	1,569	18	**5,527**	4,805	15
Net interest revenue:						
Interest revenue	**728**	904	(19)	**2,181**	2,628	(17)
Interest expense	**150**	180	(17)	**454**	585	(22)
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

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.

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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 Quarters Ended September 30,			**Average of Month-End Indices Quarters Ended September 30,**			**Quarter-End Indices 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 Nine Months Ended September 30,			**Average of Month-End Indices 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.

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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
Total	**$ 21,510**	$ 21,527	$ 20,226

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
Total	**$ 21,510**	$ 21,527	$ 20,226

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

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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[1]	**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

(1) 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[1]	**(47)**
Assets added from BIAM acquisition	**23**
Market depreciation	**(109)**
September 30, 2011	**$ 1,877**

[1] 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.

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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.

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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.

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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:

	Quarters Ended September 30,					
	2011			2010		
(Dollars in millions; fully taxable-equivalent basis)	Average Balance	Interest Revenue/ Expense	Rate	Average Balance	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
Total average interest-earning assets	**$ 155,178**	**$ 760**	**1.95**	$ 127,625	$ 937	2.91
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
Total average interest-bearing liabilities	**$ 115,228**	**$ 150**	**.52**	$ 112,945	$ 180	.63
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)	
Net interest revenue GAAP basis		**$ 578**			$ 724	

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	Nine Months Ended September 30,					
	2011			2010		
(Dollars in millions; fully taxable-equivalent basis)	Average Balance	Interest Revenue/ Expense	Rate	Average Balance	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
Total average interest-earning assets	**$ 142,228**	**$ 2,277**	**2.15**	$ 124,356	$ 2,724	2.93
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
Total average interest-bearing liabilities	**$ 113,096**	**$ 454**	**.55**	$ 109,106	$ 585	.72
Interest-rate spread			**1.60%**			2.21%
Net interest revenue fully taxable-equivalent basis		**$ 1,823**			$ 2,139	
Net interest margin fully taxable-equivalent basis			**1.71%**			2.30%
Tax-equivalent adjustment		**(96)**			(96)	
Net interest revenue GAAP basis		**$ 1,727**			$ 2,043	

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

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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

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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:

	Quarters ended September 30,		Nine Months Ended September 30,	
(In millions)	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
Total average short-duration advances	**$ 3,732**	$ 3,129	**$ 3,672**	$ 2,826

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.

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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.

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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:

	Quarters Ended September 30,		Nine Months Ended September 30,	
(In millions)	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

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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:

	Quarters Ended September 30,			Nine Months Ended September 30,		
(Dollars in millions)	**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

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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**
Total	**$ 158**	**$ 56**	**$ 17**	**$ 231**

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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.

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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.

(Dollars in millions, except where otherwise noted)	Quarters Ended September 30, 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

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	Nine Months Ended September 30							
(Dollars in millions,	Investment Servicing		Investment Management		Other		Total	
except where otherwise noted)	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

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.

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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.

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FINANCIAL CONDITION

The structure of our consolidated statement of condition is primarily driven by the liabilities generated by our Investment Servicing and Investment Management 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.

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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
Assets:		
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
Total interest-earning assets	**142,228**	124,356
Cash and due from banks	**2,809**	2,518
Other assets	**22,997**	22,493
Total assets	**$ 168,034**	$ 149,367
Liabilities and shareholders equity:		
Interest-bearing deposits:		
U.S.	**$ 3,312**	$ 8,707
Non-U.S.	**82,069**	65,832
Total interest-bearing deposits	**85,381**	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
Total interest-bearing liabilities	**113,096**	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
Total liabilities and shareholders equity	**$ 168,034**	$ 149,367

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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
Available for sale:		
U.S. Treasury and federal agencies:		
Direct obligations	**$ 5,365**	$ 7,577
Mortgage-backed securities	**28,026**	23,640
Asset-backed securities:		
Student loans[1]	**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
Held to Maturity:		
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

Collateralized mortgage obligations		**3,624**		4,452
Total	**$**	**10,018**	$	12,249

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

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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[1]	**31**	
AA	**10**	11
A	**6**	6
BBB	**3**	2
Below BBB	**2**	2
	100%	100%

[1] 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.

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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
Available for sale:		
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
Total	**$ 17,286**	$ 12,017
Held to maturity:		
Australia	**$ 2,700**	$ 3,121
United Kingdom	**2,447**	3,190
Italy	**316**	342
Spain	**232**	245
Other	**249**	288
Total	**$ 5,944**	$ 7,186

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.

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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
State of Issuer:				
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.

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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

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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.

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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:

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

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.

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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.

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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.

	Regulatory Guidelines[(1)]		State Street		State Street Bank	
(Dollars in millions)	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

(1) 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

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$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.

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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.

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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.

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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.

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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.

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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

	Nine Months Ended September 30,					
		2011			2010	
(In millions)	**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

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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

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

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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 ±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

	Estimated Exposure to Net Interest Revenue	
(In millions)	**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)

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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

	Estimated Exposure to Economic Value of Equity	
(In millions)	**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

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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

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.

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STATE STREET CORPORATION

CONSOLIDATED STATEMENT OF INCOME

(UNAUDITED)

(Dollars in millions, except per share amounts)	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Fee revenue:				
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
Total fee revenue	**1,844**	1,569	**5,527**	4,805
Net interest revenue:				
Interest revenue	**728**	904	**2,181**	2,628
Interest expense	**150**	180	**454**	585
Net interest revenue	**578**	724	**1,727**	2,043
Gains (Losses) related to investment securities, net:				
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
Gains related to investment securities, net	**5**	17	**25**	62
Total revenue	**2,427**	2,310	**7,279**	6,910
Provision for loan losses		1	**1**	26
Expenses:				
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
Total expenses	**1,798**	1,527	**5,274**	5,050
Income before income tax expense	**629**	782	**2,004**	1,834
Income tax expense	**74**	236	**465**	361
Net income	**$ 555**	$ 546	**$ 1,539**	$ 1,473
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 per common share	**$ .18**	$ .01	**$ .54**	$ .03

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

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STATE STREET CORPORATION

CONSOLIDATED STATEMENT OF CONDITION

(Dollars in millions, except per share amounts)	September 30, 2011 (Unaudited)	December 31, 2010
Assets		
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 $3,425)	**1,738**	1,802
Accrued income receivable	**1,932**	1,733
Goodwill	**5,639**	5,597
Other intangible assets	**2,486**	2,593
Other assets	**24,704**	13,841
Total assets	**$ 208,795**	$ 160,505
Liabilities		
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
Total liabilities	**189,144**	142,718
Commitments and contingencies (note 8)		
Shareholders equity		
Preferred stock, no par: 3,500,000 shares authorized; 5,001 shares issued and outstanding	**500**	
Common stock, $1 par: 750,000,000 shares authorized; 504,000,556 and 502,064,454 shares issued	**504**	502
Surplus	**9,528**	9,356
Retained earnings	**9,889**	8,634
Accumulated other comprehensive (loss) income	**(315)**	(689)
Treasury stock, at cost (10,918,592 and 420,016 shares)	**(455)**	(16)
Total shareholders equity	**19,651**	17,787
Total liabilities and shareholders equity	**$ 208,795**	$ 160,505

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

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STATE STREET CORPORATION

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY

(UNAUDITED)

(Dollars in millions, except per share amounts, shares in thousands)	Preferred Stock	Common Stock Shares	Common Stock Amount	Surplus	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Treasury Stock Shares	Treasury Stock Amount	Total
Balance at December 31, 2009		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							