STATE STREET Corp
Form 10-Q
May 09, 2011
Table of Contents

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 March 31, 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 of incorporation)	(I.R.S. Employer Identification No.)
One Lincoln Street	
Boston, Massachusetts	**02111**
(Address of principal executive office)	(Zip Code)

617-786-3000

(Registrant s telephone number, including area code)

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

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

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

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨

(Do not check if a smaller reporting company)

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

The number of shares of State Street s common stock outstanding on April 29, 2011 was 504,038,676

Table of Contents

STATE STREET CORPORATION

Quarterly Report on Form 10-Q for the Quarterly Period Ended March 31, 2011

Table of Contents

	Page
PART I. FINANCIAL INFORMATION	
Management s Discussion and Analysis of Financial Condition and Results of Operations	2
Quantitative and Qualitative Disclosures About Market Risk	39
Controls and Procedures	40
Consolidated Statement of Income (Unaudited) for the three months ended March 31, 2011 and 2010	41
Consolidated Statement of Condition as of March 31, 2011 (Unaudited) and December 31, 2010	42
Consolidated Statement of Changes in Shareholders Equity (Unaudited) for the three months ended March 31, 2011 and 2010	43
Consolidated Statement of Cash Flows (Unaudited) for the three months ended March 31, 2011 and 2010	44
Table of Contents for Condensed Notes to Consolidated Financial Statements (Unaudited)	45
Condensed Notes to Consolidated Financial Statements (Unaudited)	46
Report of Independent Registered Public Accounting Firm	88
FORM 10-Q PART I CROSS-REFERENCE INDEX	89
PART II. OTHER INFORMATION	
Exhibits	90
SIGNATURES	91
EXHIBIT INDEX	92

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS

GENERAL

State Street Corporation, the parent company, is a financial holding company headquartered in Boston, Massachusetts. Unless otherwise indicated or unless the context requires otherwise, all references in this Management s Discussion and Analysis to State Street, we, us, our or similar terms mean State Street Corporation and its subsidiaries on a consolidated basis. Our principal banking subsidiary is State Street Bank and Trust Company, or State Street Bank. At March 31, 2011, we had consolidated total assets of $171.80 billion, consolidated total deposits of $107.41 billion, consolidated total shareholders equity of $19.18 billion and 29,000 employees.

We are a leader in providing financial services and products to meet the needs of institutional investors worldwide, with $22.61 trillion of assets under custody and administration and $2.12 trillion of assets under management as of March 31, 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, through State Street Global Advisors, or SSgA, provides 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 16 to the consolidated financial statements included in this Form 10-Q.

This Management s Discussion and Analysis is part of our Quarterly Report on Form 10-Q for the first 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. You should read the financial information in this Management s Discussion and Analysis and elsewhere in this Form 10-Q in conjunction with the financial and other information contained in our 2010 Form 10-K. 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 these accounting policies, by their nature, require 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

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

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 fair value measurements; interest revenue recognition and other-than- temporary impairment; and goodwill and other intangible assets. These accounting policies require the most subjective or complex judgments, and underlying estimates and assumptions could be most 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 quarter 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 this presentation supports meaningful comparisons from period to period and the analysis of comparable financial trends with respect to State Street s normal ongoing business operations. 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.

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 identified by such forward-looking terminology as expect, look, believe, anticipate, estimate, forecast, seek, may, will, trend, target and goa 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 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

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

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 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 the 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 global multi-year program designed to enhance our operating model, which could lead to changes in our estimates of the charges, expenses or 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 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;

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;

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

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;

the results of litigation, government investigations and similar disputes or proceedings;

our ability to control operating 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 business 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*.

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

OVERVIEW OF FINANCIAL RESULTS

(Dollars in millions, except per share amounts)	Quarters Ended March 31, 2011	2010[1]	% Change
Total fee revenue	**$ 1,791**	$ 1,540	16%
Net interest revenue	**577**	661	(13)
Gains (Losses) related to investment securities, net	**(7)**	95	
Total revenue	**2,361**	2,296	3
Provision for loan losses	**(1)**	15	
Expenses:			
Expenses from operations	**1,683**	1,566	7
Acquisition and restructuring costs	**19**	13	
Total expenses	**1,702**	1,579	8
Income before income tax expense	**660**	702	(6)
Income tax expense	**189**	207	
Net income	**$ 471**	$ 495	
Adjustments for participating securities[2]	**(5)**	(3)	
Net income available to common shareholders	**$ 466**	$ 492	
Earnings per common share:			
Basic	**$ .94**	$ .99	
Diluted	**.93**	.99	
Average common shares outstanding (in thousands):			
Basic	**497,471**	494,588	
Diluted	**500,980**	498,056	
Cash dividends declared	**$ .18**	$ .01	
Return on average common equity	**10.5%**	13.4%	

(1) Financial results for the quarter ended March 31, 2010 do not include those of the acquired Intesa Sanpaolo securities services business and Mourant International Finance Administration, or MIFA, which acquisitions were completed in the second quarter of 2010.

(2) Adjustments represented the allocation of earnings to participating securities. See note 15 to the consolidated financial statements included in this Form 10-Q.

Highlights

This section provides highlights with respect to our consolidated financial results for the first quarter of 2011 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

On January 10, 2011, we completed our acquisition of Bank of Ireland s asset management business, or BIAM. Our acquisition of BIAM provided SSgA with new Ireland-based clients and employees. In addition, we added $23 billion of assets under management as of March 31, 2011, which provided us with additional

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

capabilities with respect to global fundamental equities, fixed-income, cash, asset allocation, property and balanced mandates. Additional information about this acquisition is provided in note 2 to the consolidated financial statements included in this Form 10-Q.

In February 2011, we issued approximately $500 million of 4.956% junior subordinated debentures due 2018, in connection with a remarketing of the 6.001% junior subordinated debentures due 2042 originally issued to State Street Capital Trust III in 2008. The 6.001% junior subordinated debentures were issued in connection with our concurrent offering of the trust s 8.25% fixed-to-floating rate normal automatic preferred enhanced capital securities, referred to as normal APEX. The 4.956% debentures qualify for inclusion in tier 2 regulatory capital under current federal regulatory capital guidelines. The original 6.001% junior subordinated debentures, which qualified for inclusion in tier 1 regulatory capital as trust preferred securities, were redeemed as a result of the remarketing transaction.

In March 2011, we issued $500 million of our non-cumulative perpetual preferred stock, series A, $100,000 liquidation preference per share, in connection with the above-referenced remarketing transaction. The preferred stock was purchased by State Street Capital Trust III using the ultimate proceeds from the remarketing transaction, and now constitutes the principal asset of the trust. The preferred stock qualifies for inclusion in tier 1 regulatory capital under federal regulatory capital guidelines.

In March 2011, we issued an aggregate of $2 billion of senior notes, composed of $1 billion of 2.875% notes due 2016, $750 million of 4.375% notes due 2021 and $250 million of floating-rate notes due 2014.

Additional information about certain of these debt and equity issuances is provided under Financial Condition Capital in this Management s Discussion and Analysis and in notes 7 and 10 to the consolidated financial statements included in this Form 10-Q.

In March 2011, our Board of Directors declared a quarterly common stock dividend of $0.18 per share, payable in April 2011. In addition, in March 2011, the Board approved a new program authorizing the purchase by us of up to $675 million of our common stock in 2011. This new program supersedes the Board s prior authorization, under which 13.25 million common shares were available for purchase as of December 31, 2010. Additional information about the dividend and common stock purchase program is provided under Financial Condition Capital in this Management s Discussion and Analysis.

Financial Results

Total revenue for the first quarter of 2011 increased 3% compared to the same period in 2010; total fee revenue increased 16% and net interest revenue decreased 13% in the same comparison.

Servicing and management fees for the first quarter of 2011 were up 22% and 12%, respectively, compared to the first quarter of 2010. Servicing fee revenue increased mainly due to the addition of revenue from the acquired Intesa and MIFA businesses, which acquisitions were completed during the second quarter of 2010, the impact of new business and improvements in equity market valuations. Management fee revenue increased primarily due to improvements in equity market valuations as well as the addition of revenue from the acquired BIAM business. Trading services revenue increased 25% comparing the first quarter of 2011 with the first quarter of 2010, primarily as a result of higher levels of client volumes in foreign exchange, partly offset by lower volatility, as well as higher electronic trading revenues and strength in transition management, both of which are recorded in brokerage and other fees. In the same comparison, securities finance revenue declined 8% as average lending volumes declined, offset slightly by higher spreads. Processing fees and other revenue decreased 23%, primarily due to net revenue recorded in the first quarter of 2010 related to certain tax-advantaged investments, partly offset by higher levels of revenue in the first quarter of 2011 from our structured products business.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

For the first quarter of 2011, we recorded net interest revenue of $577 million, which included $62 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 decreased 13% and 12% compared to the prior-year first quarter, on a GAAP and on a fully taxable-equivalent basis, respectively (the latter $608 million compared to $693 million, reflecting increases from tax-equivalent adjustments of $31 million and $32 million, respectively). These decreases were primarily the result of the impact of lower conduit related accretion due to paydowns and sales during the past year (discount accretion of $62 million for the first quarter of 2011 compared to $212 million for the same period in 2010). The decreases were offset in part by net interest revenue generated from the investment of the deposits added in May 2010 in connection with the Intesa acquisition, as well as favorable short-term funding costs related to higher client deposit volumes.

Net interest margin, computed on fully taxable-equivalent net interest revenue, decreased 49 basis points from 2.34% in the first quarter of 2010 to 1.85% in the first quarter of 2011. The above-mentioned $62 million of discount accretion accounted for 19 basis points of net interest margin for the first quarter of 2011, compared to 72 basis points for the first quarter of 2010. Excluding the effect of discount accretion, fully taxable-equivalent net interest revenue for the first quarter of 2011 would have been $546 million ($608 million less $62 million), an increase of 14% from $481 million ($693 million less $212 million) for the first quarter of 2010. Net interest margin for the first quarter of 2011 would have been 1.66% compared to 1.62% for the first quarter of 2010.

We recorded net realized gains of $4 million from sales of available-for-sale securities during the first quarter of 2011, compared to net realized gains of $192 million during the first quarter of 2010. Separately, we recorded net other-than-temporary impairment of $11 million during the first quarter of 2011, compared to $97 million during the first quarter of 2010, largely related to non-agency mortgage-backed securities. The aggregate net realized gains and net impairment losses resulted in net losses related to investment securities of $7 million for the first quarter of 2011, compared to net gains of $95 million for the same period in 2010.

Total expenses increased 8% for the first quarter of 2011 compared to the first quarter of 2010, mainly as a result of increases in salaries and benefits expense associated with the addition of employees and associated expenses of the acquired Intesa, MIFA and BIAM businesses and higher benefits expenses.

We recorded income tax expense of $189 million for the first quarter of 2011, compared to $207 million for the first quarter of 2010. Our effective tax rate for the first quarter of 2011 was 28.7% compared to 29.5% for the first quarter of 2010, with the decrease primarily the result of the geographic mix of earnings.

During the first quarter of 2011, we won mandates for approximately $300 billion in assets to be serviced; of the total, approximately $115 billion was installed prior to March 31, 2011, with approximately $185 billion expected to be installed in subsequent periods. In addition, of the $390 billion of new asset servicing business from 2010 that had not been installed as of December 31, 2010, approximately $115 billion was installed during the first quarter of 2011. In the aggregate, we expect the remaining $460 billion of new asset servicing business to be installed in the remaining three quarters of 2011. The new asset servicing business not installed by March 31, 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 first quarter of 2011, as the assets are not included until their installation is complete and we begin to service them. Once installed, the assets generate servicing fee revenue.

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,

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

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 first quarter of 2011, we had net new business installed of approximately $29 billion in assets to be managed; in addition, we added approximately $23 billion of managed assets in connection with our acquisition of BIAM. During the first quarter, we won new mandates for approximately $170 billion of business in assets to be managed, $17 billion of which we expect to install in the remaining three quarters of 2011. These new mandates are composed of a variety of investment strategies, mainly passive equities.

CONSOLIDATED RESULTS OF OPERATIONS

This section discusses our consolidated results of operations for the first quarter of 2011 compared to the same period 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 March 31,		
(Dollars in millions)	**2011**	**2010**	**% Change**
Fee revenue:			
Servicing fees	**$ 1,095**	$ 895	22%
Management fees	**236**	211	12
Trading services	**302**	242	25
Securities finance	**66**	72	(8)
Processing fees and other	**92**	120	(23)
Total fee revenue	**1,791**	1,540	16
Net interest revenue:			
Interest revenue	**734**	878	(16)
Interest expense	**157**	217	(28)
Net interest revenue	**577**	661	(13)
Gains (Losses) related to investment securities, net	**(7)**	95	
Total revenue	**$ 2,361**	$ 2,296	3

Fee Revenue

Servicing and management fees collectively comprised approximately 74% and 72% of our total fee revenue for the first quarters of 2011 and 2010, respectively. 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.

9

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

Generally, servicing fees are affected, in part, by changes in daily average valuations of assets under custody and administration, while 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 servicing fee revenue.

Generally, management fee revenue is more sensitive to market valuations than 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 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			Averages of Month-End Indices			Quarter-End Indices		
	Quarters Ended March 31,			Quarters Ended March 31,			As of March 31,		
	2011	**2010**	**% Change**	**2011**	**2010**	**% Change**	**2011**	**2010**	**% Change**
S&P 500®	**1,303**	1,124	16%	**1,313**	1,116	18%	**1,326**	1,169	13%
NASDAQ®	**2,739**	2,281	20	**2,754**	2,261	22	**2,781**	2,398	16
MSCI EAFE®	**1,701**	1,549	10	**1,716**	1,531	12	**1,703**	1,584	8

Servicing Fees

The 22% increase in servicing fees for the first quarter of 2011 compared to the first quarter of 2010 primarily resulted from the addition of revenue from the acquired Intesa and MIFA businesses, the impact of new business awarded and installed in prior periods on current period revenue and increases in daily average equity market valuations. For the first quarter of 2011, servicing fees generated outside the U.S. were approximately 42% of total servicing fees compared to approximately 38% for the first quarter of 2010.

At March 31, 2011, we had aggregate assets under custody and administration, presented in the tables that follow, of $22.61 trillion, which increased $1.08 trillion from $21.53 trillion at December 31, 2010, and increased $3.57 trillion from $19.04 trillion at March 31, 2010. The increases in both comparisons mainly reflected the installation of new business awarded in prior periods, as well as higher asset valuations associated with the improvement in the global financial markets. In addition, the increase from March 31, 2010 reflected the addition of servicing assets from the acquired Intesa and MIFA businesses.

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

ASSETS UNDER CUSTODY AND ADMINISTRATION

(In billions)	March 31, 2011	December 31, 2010	March 31, 2010
Mutual funds	**$ 5,717**	$ 5,540	$ 4,931
Collective funds	**4,586**	4,350	3,697
Pension products	**5,005**	4,726	4,449
Insurance and other products	**7,301**	6,911	5,964
Total	**$ 22,609**	$ 21,527	$ 19,041

FINANCIAL INSTRUMENT MIX OF ASSETS UNDER CUSTODY AND ADMINISTRATION

(In billions)	March 31, 2011	December 31, 2010	March 31, 2010
Equities	**$ 12,420**	$ 11,000	$ 9,217
Fixed-income	**7,319**	7,875	7,090
Short-term and other investments	**2,870**	2,652	2,734
Total	**$ 22,609**	$ 21,527	$ 19,041

Management Fees

Management fees increased 12% for the first quarter of 2011 compared to the first quarter of 2010. The increase was primarily the result of increases in average month-end equity market valuations and the addition of revenue from the acquired BIAM business. Average month-end equity market valuations, individually presented in the foregoing INDEX table, were up an average of 18% for the first quarter of 2011 compared to the same period in 2010. Management fees generated outside the U.S. were approximately 35% of total management fees for both the first quarter of 2011 and the first quarter of 2010.

At March 31, 2011, we had aggregate assets under management, presented in the tables that follow, of $2.12 trillion, which increased $110 billion from $2.01 trillion at December 31, 2010, and increased $151 billion from $1.97 trillion at March 31, 2010. The increase from December 31, 2010 primarily reflected increases in asset valuations, net new business installed and assets added from our acquisition of BIAM. The increase from March 31, 2010 primarily reflected asset appreciation and the addition of assets from the BIAM acquisition, partly offset by net lost business. New asset management business awarded to us but not installed by March 31, 2011 is not reflected in our assets under management as of March 31, 2011, and will be included in managed assets as the new business is installed. Once installed, the assets generate management fee revenue.

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

ASSETS UNDER MANAGEMENT

(In billions)	March 31, 2011	December 31, 2010	March 31, 2010
Passive:			
Equities	**$ 703**	$ 655	$ 531
Fixed-income	**353**	361	405
Exchange-traded funds[1]	**260**	255	205
Other	**239**	210	217
Total Passive	**1,555**	1,481	1,358
Active:			
Equities	**53**	55	63
Fixed-income	**22**	20	23
Other	**44**	28	26
Total Active	**119**	103	112
Cash	**446**	426	499
Total	**$ 2,120**	$ 2,010	$ 1,969

(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 March 31, 2011:

ASSETS UNDER MANAGEMENT

(In billions)	
March 31, 2010	$ 1,969
Net new business	(54)
Market appreciation	95
December 31, 2010	$ 2,010
Net new business[1]	**29**
Assets added from BIAM acquisition	**23**
Market appreciation	**58**
March 31, 2011	**$ 2,120**

(1) Reflects the sale of approximately $13 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 will reduce our assets under management.

Trading Services

Trading services revenue includes revenue from foreign exchange trading, as well as brokerage and other trading services. We offer a range of foreign exchange services to our clients, which services focus on their global requirements for our proprietary research and the execution of trades in any time zone.

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

We execute foreign exchange transactions with clients and investments managers that contact our trading desk directly. These types of transactions, which are executed at individually negotiated rates, are referred to as direct foreign exchange. In addition, clients may choose to execute foreign exchange transactions through one of our electronic trading platforms. This type of service generates transaction fees. Finally, clients or their investment managers may elect to route foreign exchange transactions through our asset servicing business. We enter into these types of transactions, which are referred to as indirect foreign exchange, as a dealer, and we charge the client a set rate based on a published formula.

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.

Trading services revenue increased 25% for the first quarter of 2011 compared to the first quarter of 2010. Foreign exchange trading revenue for the first quarter of 2011 totaled $160 million, a 19% increase from $134 million for the first quarter of 2010, primarily the result of higher client volumes, partly offset by a decline in currency volatility. Brokerage and other trading fees were $142 million for the first quarter of 2011, up 31% from $108 million in the first quarter of 2010, with the increase largely attributable to higher electronic trading volumes and higher levels of transition management.

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.

Market influences continued to affect our revenue from, and the profitability of, our securities lending activities during the first quarter of 2011, and may do so in future periods. Securities finance revenue for the first quarter of 2011 decreased 8% compared to the first quarter of 2010, substantially the result of a 13% decline in the average volume of securities on loan, from $412 billion for the first quarter of 2010 to $359 billion for the first quarter of 2011 (with the average down 2% from $368 billion for the fourth quarter of 2010), partly offset by improved spreads across all lending programs. Spreads, which had declined significantly compared to those earned in late 2007 and throughout 2008, increased 10% for the first quarter of 2011 compared to those for the first quarter of 2010.

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 March 31, 2011, the aggregate net assets of the liquidity pools and duration pools were $22.6 billion and $9.2 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 $252 million as of March 31, 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.

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

Processing Fees and Other

Processing fees and other revenue decreased to $92 million for the first quarter of 2011 compared to $120 million for the same period in 2010, primarily due to net revenue recorded in the first quarter of 2010 related to certain tax-advantaged investments, including a gain from a buyout of a leasing transaction. This decrease was partly offset by higher levels of revenue in the first quarter of 2011 from our structured products business.

NET INTEREST REVENUE

The following table presents the components of average interest-earning assets and average interest-bearing liabilities, related interest revenue and interest expense, and rates earned and paid, for the quarters ended March 31:

	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	**$ 14,057**	**$ 27**	**.79%**	$ 10,348	$ 19	.75%
Securities purchased under resale agreements	**4,877**	**10**	**.83**	2,697	4	.61
Trading account assets	**2,136**			148		
Investment securities	**95,703**	**647**	**2.74**	94,814	774	3.31
Loans and leases	**12,738**	**81**	**2.56**	11,104	112	4.10
Other interest-earning assets	**3,818**		**.02**	1,106	1	.23
Total interest-earning assets	**$ 133,329**	**$ 765**	**2.32**	$ 120,217	$ 910	3.07
Interest-bearing deposits:						
U.S.	**$ 5,151**	**$ 6**	**.44%**	$ 7,168	$ 6	.36%
Non-U.S.	**78,721**	**52**	**.27**	60,561	27	.18
Securities sold under repurchase agreements	**9,053**	**2**	**.10**	8,478	1	.06
Federal funds purchased	**1,175**		**.04**	1,558		.02
Other short-term borrowings	**5,703**	**25**	**1.73**	16,836	110	2.64
Long-term debt	**8,912**	**71**	**3.20**	8,833	72	3.28
Other interest-bearing liabilities	**2,135**	**1**	**.25**	632	1	.44
Total interest-bearing liabilities	**$ 110,850**	**$ 157**	**.57**	$ 104,066	$ 217	.85
Interest-rate spread			**1.75%**			2.22%
Net interest revenue fully taxable-equivalent basis[1]		**$ 608**			$ 693	
Net interest margin fully taxable-equivalent basis			**1.85%**			2.34%
Net interest revenue GAAP basis		**$ 577**			$ 661	

[1] Amounts included fully taxable-equivalent adjustments of $31 million for 2011 and $32 million for 2010.

Net interest revenue is defined as the total of 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 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.

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

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.

For the first quarter of 2011, on a GAAP and on a fully taxable-equivalent basis, net interest revenue decreased 13% and 12%, respectively, compared to the same period in 2010 (with fully taxable-equivalent net interest revenue reflective of tax-equivalent adjustments of $31 million and $32 million, respectively). The decrease was mainly the result of lower discount accretion associated with former conduit securities, more fully described below, as the level of accretion was affected by paydowns and sales, particularly the investment portfolio repositioning completed in December 2010. If the discount accretion related to former conduit securities was excluded, fully taxable-equivalent net interest revenue for the first quarter of 2011 would have increased to $546 million ($608 million presented in the preceding table less accretion of $62 million) from $481 million ($693 million presented in the preceding table less accretion of $212 million), an increase of 14%. The increase excluding discount accretion was primarily the result of net interest revenue generated from the investment of the Intesa-related deposits added in May 2010 in connection with that acquisition, as well as favorable short-term funding costs related to a higher volume of client deposits.

Subsequent to the consolidation of the asset-backed commercial paper conduits in May 2009, we have recorded aggregate discount accretion in interest revenue of $1.40 billion ($621 million in 2009, $712 million in 2010 and $62 million in the first quarter 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 risk and other characteristics associated with our investment portfolio, including any resulting sales of securities from which we 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 March 31, 2011 to generate aggregate discount accretion in future periods of approximately $1.29 billion over their remaining terms.

Interest-bearing deposits with banks, including cash balances held at the Federal Reserve to satisfy reserve requirements, averaged $14.06 billion for the first quarter of 2011, an increase of 36% compared to $10.35 billion for the first quarter of 2010. An average of $3.71 billion was held at the Federal Reserve Bank during the first quarter of 2011, a decrease of 36% compared to $5.78 billion held during the first quarter of 2010, with balances in both periods exceeding minimum reserve requirements.

Average securities purchased under resale agreements increased 81% from $2.70 billion for the first quarter of 2010 to $4.88 billion for the first quarter of 2011. Average trading account assets increased from $148 million for the first quarter of 2010 to $2.14 billion for the first quarter of 2011. Both averages benefited from an increase in client demand with respect to our new interest-rate products.

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

Our average investment securities portfolio increased slightly from $94.81 billion for the first quarter of 2010 to approximately $95.70 billion for the first quarter of 2011, generally the result of continued purchases of securities pursuant to our re-investment strategy, partly offset by maturities and sales of securities during the quarter. In December 2010, we repositioned our portfolio by selling approximately $11 billion of mortgage- and asset-backed securities. By the end of 2010, we had re-invested approximately $7 billion of the proceeds from the repositioning, primarily in agency mortgage-backed securities. During the first quarter of 2011, we invested an additional $15 billion in highly rated U.S. Treasury securities, agency mortgage-backed securities and asset-backed securities. As of March 31, 2011, securities rated AAA and AA comprised approximately 90% of our portfolio (with approximately 80% rated AAA) compared to 81% rated AAA and AA (with approximately 69% rated AAA) as of March 31, 2010, with the change resulting primarily from the effects of the December 2010 repositioning and subsequent re-investment.

Loans and leases averaged $12.74 billion for the first quarter of 2011, up 15% from $11.10 billion in the first quarter of 2010. The increase was primarily due to 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 paydowns. For the first quarter of 2011, approximately 28% of the average loan and lease portfolio was composed of U.S. and non-U.S. short-duration advances that provided liquidity to clients in support of their investment activities related to securities settlement. For the first quarter of 2010, these advances comprised approximately 20% of the average loan and lease portfolio. In the aggregate, these short-duration advances averaged approximately $3.56 billion for the first quarter of 2011, up 64% from $2.17 billion for the first quarter of 2010. U.S. short-duration advances averaged approximately $1.83 billion for the first quarter of 2011, up 16% compared to $1.58 billion for the first quarter of 2010. Average non-U.S. short-duration advances increased 189% to $1.72 billion for the first quarter of 2011, mainly due to activity associated with clients added in connection with the Intesa acquisition.

Average interest-bearing deposits increased 24%, from $67.73 billion for the first quarter of 2010, to $83.87 billion for the first quarter of 2011. The increases reflected the client deposits added in connection with the Intesa acquisition, as well as higher levels of transaction accounts associated with new business in assets under custody and administration.

Average other short-term borrowings decreased 66% to $5.70 billion for the first quarter of 2011, as higher levels of client deposits provided additional liquidity. Average long-term debt increased slightly to $8.91 billion for the first quarter of 2011, reflecting the issuance of an aggregate of $2 billion of senior notes by us in March 2011, partly offset by the maturity of $1 billion of senior notes in February 2011 previously issued by State Street Bank under the FDIC s Temporary Liquidity Guarantee Program. Additional information about long-term debt is provided in note 7 to the consolidated financial statements included in this Form 10-Q.

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, 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 asset-backed securities. The pace at which we continue to re-invest and the types of securities purchased will depend on market conditions 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.

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

Gains (Losses) Related to Investment Securities, Net

In connection with our ongoing management of the investment portfolio, we may, from time to time, sell available-for-sale securities, to manage risk, to reduce our risk profile, to take advantage of favorable market conditions, or for other reasons. We recorded net realized gains of $4 million from sales of approximately $3.94 billion of available-for-sale securities in the first quarter of 2011, compared to net realized gains of $192 million from sales of approximately $5.73 billion of available-for-sale securities in the first quarter of 2010.

Management regularly reviews the investment securities portfolio to identify other-than-temporary impairment of individual securities. The aggregate unrealized loss on securities for which other-than-temporary impairment was recorded in the first quarter of 2011 was $35 million. Of this total, $24 million related to factors other than credit, and was recorded, net of related taxes, as a component of other comprehensive income in our consolidated statement of condition, and the remaining $11 million was recorded in our consolidated statement of income.

For the first quarter of 2011, the impairment losses were 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 quarter. 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 realized gains from sales, and the components of net impairment losses, included in net gains and losses related to investment securities, for the quarters ended March 31:

(In millions)	2011	2010
Net realized gains from sales of available-for-sale securities	**$ 4**	$ 192
Gross losses from other-than-temporary impairment	**(35)**	(240)
Losses not related to credit	**24**	143
Net impairment losses	**(11)**	(97)
Gains (Losses) related to investment securities, net	**$ (7)**	$ 95
Impairment associated with expected credit losses	**$ (5)**	$ (89)
Impairment associated with adverse changes in timing of expected future cash flows	**(6)**	(8)
Net impairment losses	**$ (11)**	$ (97)

Additional information about investment securities, 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 recorded provisions for loan losses of $(1) million for the first quarter of 2011 and $15 million for the first quarter of 2010. The majority of the provision recorded in the 2010 period resulted from a revaluation of the collateral supporting a commercial real estate loan.

17

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

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 level considered by us to be appropriate to absorb estimated probable credit losses inherent in the loan and lease portfolio. We review the commercial real estate loans quarterly, and any provisions for loan losses reflect management s current expectations with respect to future cash flows from these loans, 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 quarters ended March 31:

(Dollars in millions)	2011	2010	% Change
Salaries and employee benefits	**$ 974**	$ 883	10%
Information systems and communications	**191**	167	14
Transaction processing services	**180**	153	18
Occupancy	**107**	118	(9)
Acquisition and restructuring costs	**19**	13	
Other:			
Professional services	**82**	81	1
Amortization of other intangible assets	**49**	34	44
Securities processing costs (recoveries)	**(5)**	58	(109)
Regulator fees and assessments	**6**	11	(45)
Other	**99**	61	62
Total other	**231**	245	(6)
Total expenses	**$ 1,702**	$ 1,579	8
Number of employees at quarter-end	**29,000**	27,700	

The increase in salaries and employee benefits expenses for the first quarter of 2011 compared to the first quarter of 2010 was primarily due to the addition of the employees and associated expenses of the acquired Intesa, MIFA and BIAM businesses subsequent to their respective acquisition dates, and higher benefits expenses, partly offset by lower medical insurance costs.

Information systems and communications expenses for the first quarter of 2011 increased compared to the first quarter of 2010 primarily due to the addition of expenses from the acquired Intesa and MIFA businesses subsequent to their respective acquisition dates and higher levels of spending on telecommunications hardware and software for our global infrastructure. Transaction processing services expenses, which are volume-related and include equity trading services and fees related to securities settlement, sub-custodian services and external contract services, increased due to higher levels of sub-custodian services, higher external contract services costs related to increases in transaction volumes and higher broker fees.

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

During the first quarter of 2011, we recorded $19 million of acquisition and restructuring costs, composed of $14 million of merger and integration costs related to the Intesa, MIFA and BIAM acquisitions and $5 million of restructuring charges related to the business operations and information technology transformation program described below.

In November 2010, we announced a global multi-year program designed to enhance service excellence and innovation, deliver increased efficiencies in our operating model and position us for accelerated growth. The program includes operational and information technology enhancements and targeted cost initiatives, including plans related to reductions in both staff and occupancy costs. To implement this program, we expect to recognize aggregate restructuring charges of approximately $400 million to $450 million over four years.

During the fourth quarter of 2010, in connection with the program, we recorded restructuring charges of $156 million in our 2010 consolidated statement of income and 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. These charges also included costs related to actions taken by us to reduce our occupancy costs through real estate consolidation.

Excluding related restructuring charges, we expect the program to reduce our expenses from operations, on an annualized basis, by approximately $575 million to $625 million by the end of 2014. Information with respect to activity during the first quarter of 2011 in the balance sheet reserve related to the program is provided in note 14 to the consolidated financial statements included in this Form 10-Q.

The decrease in aggregate other expenses (professional services, amortization of other intangible assets, securities processing, regulator fees and assessments, and other) for the first quarter of 2011 compared to the first quarter of 2010 resulted primarily from lower securities processing costs. This decrease was offset by lower insurance recoveries and by amortization of other intangible assets recorded in the first quarter of 2011 in connection with the second-quarter 2010 Intesa and MIFA acquisitions.

INCOME TAX EXPENSE

We recorded income tax expense of $189 million for the first quarter of 2011, compared to $207 million for the first quarter of 2010. Our effective tax rate for the first quarter of 2011 was 28.7% compared to 29.5% for the first quarter of 2010, with the decrease primarily due to 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 table presents our line-of-business results. The amount presented in the Other column for 2011 represents merger and integration costs associated with acquisitions and restructuring charges associated with our business operations and information technology transformation program. The amount presented in the Other column for 2010 represents merger and integration costs. The amounts in both Other columns were not allocated to State Street s business lines. During the first quarter of 2011, management revised its methodology

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

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,	For the Quarters Ended March 31, Investment Servicing		Investment Management		Other		Total	
except where otherwise noted)	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
Fee revenue:								
Servicing fees	**$ 1,095**	$ 895					**$ 1,095**	$ 895
Management fees			**$ 236**	$ 211			**236**	211
Trading services	**302**	242					**302**	242
Securities finance	**59**	58	**7**	14			**66**	72
Processing fees and other	**69**	90	**23**	30			**92**	120
Total fee revenue	**1,525**	1,285	**266**	255			**1,791**	1,540
Net interest revenue	**535**	627	**42**	34			**577**	661
Gains (Losses) related to investment securities, net	**(7)**	95					**(7)**	95
Total revenue	**2,053**	2,007	**308**	289			**2,361**	2,296
Provision for loan losses	**(1)**	15					**(1)**	15
Expenses from operations	**1,453**	1,348	**230**	218			**1,683**	1,566
Acquisition and restructuring costs					**$ 19**	$ 13	**19**	13
Total expenses	**1,453**	1,348	**230**	218	**19**	13	**1,702**	1,579
Income from continuing operations before income taxes	**$ 601**	$ 644	**$ 78**	$ 71	**$ (19)**	$ (13)	**$ 660**	$ 702
Pre-tax margin	**29%**	32%	**25%**	25%				
Average assets (in billions)	**$ 153.5**	$ 137.9	**$ 5.1**	$ 5.0			**$ 158.6**	$ 142.9

Investment Servicing

Total revenue for the first quarter of 2011 increased 2% compared to the first quarter of 2010. Total fee revenue increased 19% in the same comparison, with increases in total fee revenue attributable to growth in servicing fees and trading services revenue, partly offset by a decline in processing fees and other revenue.

The increase in servicing fees resulted from the addition of revenue from the acquired Intesa and MIFA businesses, the impact of new business awarded and installed in prior periods on current period revenue and increases in daily average equity market valuations. Trading services revenue increased as a result of higher client volumes in foreign exchange trading, partly offset by a decline in currency volatility, as well as higher electronic trading volumes and higher levels of transition management, both of which are recorded in brokerage and other fees.

Processing fees and other revenue declined, primarily due to net revenue recorded in the first quarter of 2010 related to certain tax-advantaged investments, including a gain from a buyout of a leasing transaction. This decrease was partly offset by higher levels of revenue in the first quarter of 2011 from our structured products business.

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

Servicing fees, trading services revenue and gains (losses) 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 processing fees and other revenue is provided in the Processing Fees and Other section under Total Revenue.

Net interest revenue for the first quarter of 2011 decreased 15% compared to the first quarter of 2010, primarily as a result of lower discount accretion associated with former conduit securities, partly offset by net interest revenue generated from the investment of the Intesa deposits added in May 2010 in connection with that acquisition. 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 for the first quarter of 2011 increased 8% compared to the first quarter of 2010, primarily due to the addition of the employees and associated expenses of the acquired Intesa and MIFA businesses.

Investment Management

Total revenue for the first quarter of 2011 increased 7% compared to the first quarter of 2010, primarily as a result of increases in management fees and net interest revenue. Management fees, generated by SSgA, increased 12% in the first quarter of 2011 compared to the first quarter of 2010, due to improvements in equity market valuations and the addition of revenue from the acquired BIAM business. Net interest revenue for the first quarter of 2011 increased 24% compared to the first quarter of 2010, primarily as a result of the impact of a higher volume of client deposits.

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.

Total expenses for the first quarter of 2011 increased 6% compared to the first quarter of 2010, due to lower insurance recoveries and higher salaries and employee benefits expenses related to higher benefits requirements for payroll taxes, and the addition of the employees and associated expenses of the acquired BIAM business.

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.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

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 balance sheet, 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.

The following table presents the components of average total assets, average total liabilities and average shareholders equity for the quarters ended March 31:

(In millions)	2011 Average Balance	2010 Average Balance
Assets:		
Interest-bearing deposits with banks	**$ 14,057**	$ 10,348
Securities purchased under resale agreements	**4,877**	2,697
Trading account assets	**2,136**	148
Investment securities	**95,703**	94,814
Loans and leases	**12,738**	11,104
Other interest-earning assets	**3,818**	1,106
Total interest-earning assets	**133,329**	120,217
Cash and due from banks	**2,485**	2,452
Other assets	**22,746**	20,255
Total assets	**$ 158,560**	$ 142,924
Liabilities and shareholders equity:		
Interest-bearing deposits:		
U.S.	**$ 5,151**	$ 7,168
Non-U.S.	**78,721**	60,561
Total interest-bearing deposits	**83,872**	67,729
Securities sold under repurchase agreements	**9,053**	8,478
Federal funds purchased	**1,175**	1,558
Other short-term borrowings	**5,703**	16,836
Long-term debt	**8,912**	8,833
Other interest-bearing liabilities	**2,135**	632
Total interest-bearing liabilities	**110,850**	104,066
Non-interest-bearing deposits	**16,612**	13,387
Other liabilities	**12,829**	10,487
Preferred shareholders equity	**94**	
Common shareholders equity	**18,175**	14,984
Total liabilities and shareholders equity	**$ 158,560**	$ 142,924

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

Investment Securities

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

(In millions)	March 31, 2011	December 31, 2010
Available for sale:		
U.S. Treasury and federal agencies:		
Direct obligations	**$ 7,457**	$ 7,577
Mortgage-backed securities	**26,877**	23,640
Asset-backed securities:		
Student loans[(1)]	**15,924**	14,416
Credit cards	**8,539**	7,451
Sub-prime	**1,754**	1,818
Other	**1,597**	1,588
Total asset-backed securities	**27,814**	25,273
Non-U.S. debt securities:		
Mortgage-backed securities	**8,140**	6,294
Asset-backed securities	**4,542**	2,920
Government securities	**2,770**	2,913
Other	**947**	918
Total non-U.S. debt securities	**16,399**	13,045
State and political subdivisions	**6,606**	6,604
Collateralized mortgage obligations	**2,034**	1,861
Other U.S. debt securities	**2,717**	2,640
U.S. equity securities	**634**	1,115
Non-U.S. equity securities	**153**	126
Total	**$ 90,691**	$ 81,881
Held to maturity:		
U.S. Treasury and federal agencies:		
Mortgage-backed securities	**$ 364**	$ 413
Asset-backed securities	**53**	64
Non-U.S. debt securities:		
Mortgage-backed securities	**6,211**	6,332
Asset-backed securities	**644**	646
Government securities	**452**	
Other	**217**	208
Total non-U.S. debt securities	**7,524**	7,186
State and political subdivisions	**126**	134

Collateralized mortgage obligations	**4,186**	4,452
Total	**$ 12,253**	$ 12,249

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

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

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

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

The portfolio is concentrated in securities with high credit quality, with approximately 90% of the carrying value of the portfolio AAA or AA rated as of March 31, 2011. The following table presents the percentages of the carrying value of the portfolio, by external credit rating, as of the dates indicated:

	March 31, 2011	December 31, 2010
AAA[1]	**80%**	79%
AA	**10**	11
A	**6**	6
BBB	**2**	2
Below BBB	**2**	2
	100%	100%

[1] Includes U.S. Treasury securities.

As of March 31, 2011, the investment portfolio of approximately 9,885 securities was diversified with respect to asset class. Approximately 79% of the aggregate period-end carrying value of the portfolio was composed of mortgage-backed and asset-backed securities. The largely floating-rate asset-backed portfolio consists primarily of student loan-backed and credit card-backed securities. Mortgage-backed securities are split between securities of Federal National Mortgage Association, Federal Home Loan Mortgage Corporation and U.S. and non-U.S. large-issuer collateralized mortgage obligations.

Approximately 23% of the aggregate period-end carrying value of the portfolio is 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)	March 31, 2011	December 31, 2010
Available for sale:		
United Kingdom	**$ 5,906**	$ 4,451
Netherlands	**2,892**	2,320
Canada	**1,948**	2,138
Australia	**1,817**	1,332
Germany	**1,349**	916
Cayman Islands	**1,160**	981
France	**328**	219
Spain	**292**	285

Other	**707**	403
Total	**$ 16,399**	$ 13,045

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

(In millions)	March 31, 2011	December 31, 2010
Held to maturity:		
United Kingdom	**$ 3,130**	$ 3,190
Australia	**3,054**	3,121
Korea	**451**	
Italy	**354**	342
Spain	**250**	245
Other	**285**	288
Total	**$ 7,524**	$ 7,186

Approximately 86% of the aggregate carrying value of these non-U.S. debt securities was rated AAA and AA as of March 31, 2011. As of that date, the securities had an aggregate pre-tax unrealized gain of approximately $68 million and an average market-to-book ratio of 100.3%. The majority is floating-rate securities, and accordingly the aggregate holdings have minimal interest-rate risk. The underlying collateral includes U.K. prime mortgages, Netherlands mortgages and German automobiles. The other category of available-for-sale securities included approximately $195 million and $35 million of securities as of March 31, 2011 and December 31, 2010, respectively, related to Portugal and Italy, substantially all of which were mortgage-backed securities. The other category of held-to-maturity securities included approximately $172 million and $167 million of securities as of March 31, 2011 and December 31, 2010, respectively, related to Portugal and Greece, all of which were mortgage-backed securities.

Impairment

The following table presents net unrealized losses on securities available for sale as of the dates indicated:

(In millions)	March 31, 2011	December 31, 2010
Fair value	**$ 90,691**	$ 81,881
Amortized cost	**91,009**	82,329
Net unrealized loss, pre-tax	**$ (318)**	$ (448)
Net unrealized loss, after-tax	**$ (192)**	$ (270)

The net unrealized loss amounts excluded the remaining net unrealized loss of $474 million, or $293 million after-tax, and $523 million, or $317 million after-tax, respectively, as of March 31, 2011 and December 31, 2010, related to reclassifications of securities available for sale to securities held to maturity. These after-tax amounts were recorded in accumulated other comprehensive income. The decline in the remaining after-tax unrealized loss resulted primarily from amortization.

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 other comprehensive income 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

25

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

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-backed 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 December 31, 2010, national housing prices, according to the Case-Shiller National Home Price Index, had declined by approximately 31% peak-to-current. Overall, management s expectation is that information as of March 31, 2011 will indicate that peak-to-current housing prices will have declined by an additional 5% to 10%.

The performance of certain mortgage products and vintages 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 defaults and prepayment speeds. 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.

For example, as it relates to our U.S. non-agency prime and Alt-A residential mortgage-backed portfolios, if we were to increase default estimates to 110% of management s current expectations with a corresponding 10% slowdown of prepayment speeds to 90% of management s current expectations, we estimate that other-than-temporary impairment on these securities related to credit would increase by approximately $20 million to $40 million. This impairment would be recorded in our consolidated statement of income. As it relates to our U.S. sub-prime asset-backed portfolio, if we were to increase default estimates to 110% of management s current expectations with a corresponding 10% slowdown of prepayment speeds to 90% of management s current expectations, we estimate that other-than-temporary impairment on these securities related to credit would increase by approximately $5 million to $10 million. This impairment would be recorded in our consolidated statement of income.

The sensitivity estimates discussed above are 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, management considers the aggregate decline in fair value of the remaining securities and the resulting net unrealized losses as of March 31, 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.

Several major U.S. financial institutions are participating in a mortgage foreclosure moratorium with respect to residential mortgages. Generally, we have no direct exposure to this moratorium, since we do not originate, purchase or service residential mortgage loans. However, the rate at which existing residential mortgage foreclosure issues are resolved, as well as certain outcomes of the resolution of these issues, may affect, among

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

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, and, accordingly, could also affect the amount of other-than-temporary impairment that we recognize 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)	March 31, 2011	December 31, 2010
Institutional:		
U.S.	**$ 7,907**	$ 7,001
Non-U.S.	**4,123**	4,192
Commercial real estate:		
U.S.	**696**	764
Total loans and leases	**$ 12,726**	$ 11,957
Allowance for loan losses	**(80)**	(100)
Loans and leases, net of allowance for loan losses	**$ 12,646**	$ 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 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 $3.64 billion and $2.63 billion at March 31, 2011 and December 31, 2010, respectively. The decline in the commercial real estate loans was mainly associated with the charge-off of an acquired credit-impaired loan on which we foreclosed during the first quarter. This foreclosure is more fully described in note 4 to the consolidated financial statements included in this Form 10-Q.

As of March 31, 2011, we held an aggregate of approximately $302 million of commercial real estate 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. There were $307 million of troubled debt restructurings outstanding as of December 31, 2010.

As of March 31, 2011 and December 31, 2010, approximately $93 million and $158 million, respectively, of the aforementioned commercial real estate 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. 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.

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

The following table presents activity in the allowance for loan losses for the quarters ended March 31:

(In millions)	2011 Total Loans and Leases	2010 Total Loans and Leases
Allowance for loan losses:		
Beginning balance	**$ 100**	$ 79
Charge-offs	**(19)**	(3)
Provisions	**(1)**	15
Ending balance	**$ 80**	$ 91

The charge-offs recorded in the first quarter of 2011 related to a foreclosure on an acquired credit-impaired loan during the first quarter; 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 commercial real estate 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, which are reviewed quarterly, management also considers its expectations with respect to future cash flows from those loans. These expectations are based, among other things, on an assessment of economic conditions in the commercial real estate market and other factors.

Cross-Border Outstandings

Additional information with respect to 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 were as follows as of the dates indicated (no cross-border outstandings to any countries totaled between 0.75% and 1% of our consolidated total assets as of March 31, 2011 or December 31, 2010):

(In millions)	March 31, 2011	December 31, 2010
United Kingdom	**$ 11,774**	$ 8,781
Germany	**5,460**	6,936
Australia	**5,607**	5,559
Canada	**3,023**	2,478
Netherlands	**2,738**	2,574

The aggregate cross-border outstandings presented in the table represented 17% and 16% of our consolidated total assets as of March 31, 2011 and December 31, 2010, respectively.

Capital

The management of regulatory and economic capital both involve 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.

28

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

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 optimal 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.

At March 31, 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**	**March 31, 2011**	**December 31, 2010**	**March 31, 2011**	**December 31, 2010**
Tier 1 risk-based capital ratio	4%	6%	**19.6%**	20.5%	**17.4%**	18.1%
Total risk-based capital ratio	8	10	**21.6**	22.0	**19.7**	19.9
Tier 1 leverage ratio	4	5	**8.7**	8.2	**7.6**	7.1
Tier 1 risk-based capital			**$ 13,077**	$ 12,325	**$ 11,186**	$ 10,489
Total risk-based capital			**14,380**	13,231	**12,663**	11,565
Adjusted risk-weighted assets and market-risk equivalents:						
Balance sheet risk-weighted assets			**$ 50,293**	$ 46,209	**$ 47,981**	$ 44,103
Off-balance sheet equivalent risk-weighted assets			**15,254**	13,177	**15,254**	13,177
Market risk equivalent assets			**1,050**	791	**1,002**	750
Total			**$ 66,597**	$ 60,177	**$ 64,237**	$ 58,030
Adjusted quarterly average assets			**$ 149,824**	$ 150,770	**$ 147,034**	$ 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%.

At March 31, 2011, State Street s and State Street Bank s tier 1 and total risk-based capital ratios declined slightly compared to December 31, 2010. The declines resulted primarily from increases in total risk-weighted assets, partly offset by the impact of higher capital associated with net income, other comprehensive income and the APEX remarketing transaction. The increases in risk-weighted assets were primarily related to balance sheet growth mainly associated with higher levels of investment securities. The increases in the tier 1 leverage ratios for both entities were generally due to the impact of the above-described increases in capital and decreases in adjusted quarterly average assets. At March 31, 2011, regulatory capital ratios for State Street and State Street Bank exceeded the regulatory minimum and well-capitalized thresholds.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

First-Quarter 2011 Developments

In February 2011, we issued approximately $500 million of 4.956% junior subordinated debentures due 2018, in connection with a remarketing of the 6.001% junior subordinated debentures due 2042 originally issued to State Street Capital Trust III in 2008. The 6.001% junior subordinated debentures were issued in connection with our concurrent offering of the trust s 8.25% fixed-to-floating rate normal APEX. The 4.956% debentures qualify for inclusion in tier 2 regulatory capital under current federal regulatory capital guidelines. The original 6.001% junior subordinated debentures, which qualified for inclusion in tier 1 regulatory capital as trust preferred securities, were redeemed as a result of the remarketing transaction.

In March 2011, we issued $500 million of our non-cumulative perpetual preferred stock, series A, $100,000 liquidation preference per share, in connection with the above-referenced remarketing transaction. The preferred stock was purchased by State Street Capital Trust III using the ultimate proceeds from the remarketing transaction, and now constitutes the principal asset of the trust. The preferred stock qualifies for inclusion in tier 1 regulatory capital under federal regulatory capital guidelines.

In March 2011, our Board of Directors declared a quarterly common stock dividend of $0.18 per share, payable in April 2011. This dividend represents a $0.17 per share increase from our most recent quarterly dividend of $0.01 per share declared in the fourth quarter of 2010, and is the first increase in our quarterly dividend since we announced a reduction of our dividend in the first quarter of 2009 in connection with our plan to strengthen our tangible common equity.

In March 2011, the Board approved a new program authorizing the purchase by us of up to $675 million of our common stock in 2011. This new program supersedes the Board s prior authorization, under which 13.25 million common shares were available for purchase as of December 31, 2010.

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.

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

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, it is not possible to determine with certainty at this time how our regulatory capital and our operations will align with the regulatory capital requirements of Basel III, or when we will be expected to be compliant with the Basel regulatory capital requirements.

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 our balance sheet assets and liabilities;

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.

31

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

Economic capital for each of these five categories is estimated on a stand-alone basis using 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.

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.

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 assets 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 assets which are recorded in our consolidated statement of condition and would be available to meet cash needs. As of March 31, 2011, this wholesale CD portfolio totaled $2.19 billion, compared to $6.82 billion at December 31, 2010. As of March 31, 2011, we had no conduit-issued asset-backed commercial paper outstanding to third parties, compared to $1.92 billion at December 31, 2010.

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

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 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. As of March 31, 2011, the value of our liquid assets, as defined, totaled $95.24 billion, compared to $83.41 billion at December 31, 2010. Due to the unusual size and volatile nature of client deposits as of quarter-end, we maintained excess balances of approximately $13.29 billion at central banks as of March 31, 2011, compared to $16.61 billion as of December 31, 2010.

Aggregate investment securities carried at $44.50 billion as of March 31, 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 March 31, 2011, State Street Bank had no outstanding primary credit borrowings from the discount window.

Based on our level of 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 overall liquidity as of March 31, 2011 to be sufficient to meet State Street s current commitments and business needs, including supporting the liquidity of the commercial paper conduits and accommodating the transaction and cash management needs of our 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. In March 2011, we issued an aggregate of $2 billion of senior notes, composed of $1 billion of 2.875% notes due 2016, $750 million of 4.375% notes due 2021 and $250 million of floating-rate notes due 2014. Additional information about the notes is provided in note 7 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 March 31, 2011, we had $2.65 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. As of March 31, 2011, State Street Bank s outstanding unsecured senior notes issued under this Board authority totaled $1.45 billion, as $1 billion of senior notes matured in March 2011.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

State Street Bank currently maintains a line of credit with a financial institution of CAD $800 million, or approximately $825 million, as of March 31, 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 March 31, 2011, no balance was outstanding on this line of credit.

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 a more precise 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 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 use 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 designed to generate trading revenue and 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

34

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

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.

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, and interest-rate futures. As of March 31, 2011, the aggregate notional amount of these derivatives was $1.04 trillion, of which $798.69 billion 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 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 system to estimate VaR daily. We have adopted standards for estimating VaR, and we maintain capital for market risk in accordance with applicable regulatory 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 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.

The following table presents VaR with respect to 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

	For the Quarters Ended March 31,					
	2011			2010		
(In millions)	**Average**	**Maximum**	**Minimum**	**Average**	**Maximum**	**Minimum**
Foreign exchange rates	**$ 2.7**	**$ 6.0**	**$ 1.1**	$ 3.2	$ 8.2	$ 1.3
Interest rates	**6.0**	**9.3**	**3.4**	2.6	4.4	1.6
Total VaR for trading assets	**$ 6.6**	**$ 10.5**	**$ 3.5**	$ 4.2	$ 7.7	$ 2.2

We back-test the estimated one-day VaR on a daily basis. This information is reviewed and used to confirm that all relevant trading positions are properly modeled. For the quarters ended March 31, 2011 and 2010, we did not experience any actual trading losses in excess of our end-of-day VaR estimate.

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

Our VaR methodology also measures VaR associated with certain assets carried in trading account assets in our consolidated statement of condition. These assets are not held in connection with typical trading activities, and thus are not reflected in the foregoing VaR table. In the table below, the VaR associated with these assets is reported as VaR for non-trading assets. Total regulatory VaR is calculated as the sum of the VaR for trading assets and the VaR for non-trading assets, with no diversification benefits recognized. The average, maximum and minimum amounts are calculated for each line item separately.

Total Regulatory VALUE-AT-RISK

	For the Quarters Ended March 31,					
	2011			2010		
(In millions)	Average	Maximum	Minimum	Average	Maximum	Minimum
VaR for trading assets	**$ 6.6**	**$ 10.5**	**$ 3.5**	$ 4.2	$ 7.7	$ 2.2
VaR for non-trading assets	**1.7**	**1.9**	**1.4**	3.6	6.7	2.9
Total regulatory VaR	**$ 8.4**	**$ 12.4**	**$ 5.0**	$ 7.8	$ 11.3	$ 5.4

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 our balance sheet assets and liabilities 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 lines of business. 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 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 (1) 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 (2) 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

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

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)	March 31, 2011	December 31, 2010
Rate change:		
+100 bps shock	**$ 114**	$ 121
-100 bps shock	**(315)**	(231)
+100 bps ramp	**19**	42
-100 bps ramp	**(121)**	(117)

As of March 31, 2011, NIR sensitivity for an upward-100-basis-point shock in market rates was substantially similar to December 31, 2010. As market rates increase, asset yields rise correspondingly, while client deposit rates lag market rate increases, benefitting NIR under current assumptions. The benefit to NIR is less significant for an upward-100-basis-point ramp, as 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 March 31, 2011 compared to December 31, 2010. Current assumptions expect non-U.S. market rates to rise sooner than previously forecasted, which generates additional NIR sensitivity as client deposit rates move further from their implicit floors.

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)	March 31, 2011	December 31, 2010
Rate change:		
+200 bps shock	**$ (1,845)**	$ (2,058)
- 200 bps shock	**547**	949

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

The decrease in the exposure to EVE for an upward-200-basis-point shock as of March 31, 2011 compared to December 31, 2010 was attributable to the issuance of long-term debt, somewhat mitigated by an increase in long-term interest rates. These same factors account for the decreased benefit to EVE for a downward-200-basis-point shock as of March 31, 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 creditworthiness of our counterparties on an ongoing basis, but at least annually. Some exposures are reviewed daily. Processes for credit approval and monitoring are in place for all credit extensions. 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. Exposure to these counterparties is regularly evaluated by State Street s Risk Management group.

We provide, on a limited 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 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 largely 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

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

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 $350.29 billion at March 31, 2011, compared to $334.24 billion at 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 $360.92 billion and $343.41 billion as collateral for indemnified securities on loan at March 31, 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 $360.92 billion at March 31, 2011 and $343.41 billion at December 31, 2010 referenced above, $94.86 billion at March 31, 2011 and $89.07 billion at December 31, 2010 was invested in indemnified repurchase agreements. We held, as agent, $99.43 billion and $93.29 billion as collateral for indemnified investments in repurchase agreements at March 31, 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 discussed 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 PRONOUNCEMENTS

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

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The 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.

Table of Contents

CONTROLS AND PROCEDURES

State Street has established and maintains disclosure controls and procedures that are designed to ensure that material information relating to State Street and its subsidiaries on a consolidated basis 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 March 31, 2011, State Street s management carried out an evaluation, with the participation of the 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 March 31, 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 accounting principles generally accepted in the United States. 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 March 31, 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.

STATE STREET CORPORATION

CONSOLIDATED STATEMENT OF INCOME

(UNAUDITED)

(Dollars in millions, except per share amounts)	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Fee revenue:		
Servicing fees	**$ 1,095**	$ 895
Management fees	**236**	211
Trading services	**302**	242
Securities finance	**66**	72
Processing fees and other	**92**	120
Total fee revenue	**1,791**	1,540
Net interest revenue:		
Interest revenue	**734**	878
Interest expense	**157**	217
Net interest revenue	**577**	661
Gains (Losses) related to investment securities, net:		
Net gains from sales of available-for-sale securities	**4**	192
Losses from other-than-temporary impairment	**(35)**	(240)
Losses not related to credit	**24**	143
Gains (Losses) related to investment securities, net	**(7)**	95
Total revenue	**2,361**	2,296
Provision for loan losses	**(1)**	15
Expenses:		
Salaries and employee benefits	**974**	883
Information systems and communications	**191**	167
Transaction processing services	**180**	153
Occupancy	**107**	118
Acquisition and restructuring costs	**19**	13
Professional services	**82**	81
Amortization of other intangible assets	**49**	34
Other	**100**	130
Total expenses	**1,702**	1,579
Income before income tax expense	**660**	702
Income tax expense	**189**	207
Net income	**$ 471**	$ 495
Net income available to common shareholders	**$ 466**	$ 492
Earnings per common share:		

Basic	**$ .94**	$ .99
Diluted	**.93**	.99
Average common shares outstanding (in thousands):		
Basic	**497,471**	494,588
Diluted	**500,980**	498,056
Cash dividends declared per share	**$ .18**	$ .01

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

Table of Contents

STATE STREET CORPORATION

CONSOLIDATED STATEMENT OF CONDITION

(Dollars in millions, except per share amounts)	March 31, 2011 (Unaudited)	December 31, 2010
Assets		
Cash and due from banks	**$ 2,637**	$ 3,311
Interest-bearing deposits with banks	**19,984**	22,234
Securities purchased under resale agreements	**2,253**	2,928
Trading account assets	**1,832**	479
Investment securities available for sale	**90,691**	81,881
Investment securities held to maturity (fair value of $12,655 and $12,576)	**12,253**	12,249
Loans and leases (less allowance for losses of $80 and $100)	**12,646**	11,857
Premises and equipment (net of accumulated depreciation of $3,523 and $3,425)	**1,845**	1,843
Accrued income receivable	**1,850**	1,733
Goodwill	**5,720**	5,597
Other intangible assets	**2,644**	2,593
Other assets	**17,441**	13,800
Total assets	**$ 171,796**	$ 160,505
Liabilities		
Deposits:		
Noninterest-bearing	**$ 23,667**	$ 17,464
Interest-bearing U.S.	**2,581**	6,957
Interest-bearing Non-U.S.	**81,166**	73,924
Total deposits	**107,414**	98,345
Securities sold under repurchase agreements	**7,133**	7,599
Federal funds purchased	**4,605**	7,748
Other short-term borrowings	**8,060**	8,694
Accrued expenses and other liabilities	**15,873**	11,782
Long-term debt	**9,531**	8,550
Total liabilities	**152,616**	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, $1 par: 750,000,000 shares authorized; 503,995,215 and 502,064,454 shares issued	**504**	502
Surplus	**9,416**	9,356
Retained earnings	**9,013**	8,634
Accumulated other comprehensive loss	**(238)**	(689)
Treasury stock, at cost (401,849 and 420,016 shares)	**(15)**	(16)
Total shareholders equity	**19,180**	17,787
Total liabilities and shareholders equity	**$ 171,796**	$ 160,505

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

Table of Contents

STATE STREET CORPORATION

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY

(UNAUDITED)

		COMMON STOCK				Accumulated Other Comprehensive (Loss)	TREASURY STOCK		
(Dollars in millions, except per share amounts, shares in thousands)	**PREFERRED STOCK**	**Shares**	**Amount**	**Surplus**	**Retained Earnings**	**Income**	**Shares**	**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)			
Balance at January 1, 2010		495,366	495	9,180	7,098	(2,265)	432	(17)	14,491
Comprehensive income:									
Net income					495				495
Change in net unrealized loss on available-for-sale securities, net of reclassification adjustment, expected losses from other-than-temporary impairment related to factors other than credit and related taxes of $395						659			659
Change in net unrealized loss on fair value hedges of available-for-sale securities, net of related taxes of $(5)						(4)			(4)
Expected losses from other-than-temporary impairment on held-to-maturity securities related to factors other than credit, net of related taxes of $(30)						(50)			(50)
Foreign currency translation, net of related taxes of $80						(227)			(227)
Change in net unrealized losses on cash flow hedges, net of related taxes of $(1)						2			2
Total comprehensive income					495	380			875
Cash dividends declared $.01 per common share					(5)				(5)
Common stock awards and options exercised, including related taxes of $(11)		6,382	7	42					49
Other							(3)		
Balance at March 31, 2010		501,748	$ 502	$ 9,222	$ 7,588	$ (1,885)	429	$ (17)	$ 15,410
Balance at December 31, 2010		502,064	$ 502	$ 9,356	$ 8,634	$ (689)	420	$ (16)	$ 17,787
Comprehensive income:									
Net income					**471**				**471**
Change in net unrealized loss on available-for-sale securities, net of reclassification adjustment, expected losses from other-than-temporary impairment related to factors other than credit and related taxes of $48						**67**			**67**
Change in net unrealized loss on fair value hedges of available-for-sale securities, net of related taxes of $10						**15**			**15**
Expected losses from other-than-temporary impairment on held-to-maturity securities related to factors other than credit, net of related taxes of $2						**3**			**3**
Foreign currency translation, net of related taxes of $(23)						**360**			**360**
Change in net unrealized losses on cash flow hedges, net of related taxes of $1						**(1)**			**(1)**
Change in minimum pension liability, net of related taxes of $4						**7**			**7**
Total comprehensive income					**471**	**451**			**922**

Preferred stock issued	**$ 500**								**500**
Cash dividends declared $.18 per common share					**(92)**				**(92)**
Common stock awards and options exercised, including related taxes of $(4)		**1,931**	**2**	**71**					**73**
Other				**(11)**			**(18)**	**1**	**(10)**
Balance at March 31, 2011	**$ 500**	**503,995**	**$ 504**	**$ 9,416**	**$ 9,013**	**$ (238)**	**402**	**$ (15)**	**$ 19,180**

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

43

Table of Contents

STATE STREET CORPORATION

CONSOLIDATED STATEMENT OF CASH FLOWS

(UNAUDITED)

(In millions)	Three Months Ended March 31, 2011	2010
Operating Activities:		
Net income	**$ 471**	$ 495
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred income tax expense	**10**	109
Amortization of other intangible assets	**49**	34
Other non-cash adjustments for depreciation, amortization and accretion	**10**	(148)
(Gains) Losses related to investment securities, net	**7**	(95)
Change in trading account assets, net	**(1,353)**	1
Change in accrued income receivable	**(117)**	(66)
Change in collateral deposits	**(1,981)**	783
Change in trading liabilities, net	**1,440**	
Other, net	**116**	690
Net cash (used in) provided by operating activities	**(1,348)**	1,803
Investing Activities:		
Net decrease in interest-bearing deposits with banks	**2,250**	2,363
Net decrease in securities purchased under resale agreements	**675**	473
Proceeds from sales of available-for-sale securities	**3,935**	5,726
Proceeds from maturities of available-for-sale securities	**7,329**	11,371
Purchases of available-for-sale securities	**(19,008)**	(16,528)
Proceeds from maturities of held-to-maturity securities	**629**	1,185
Purchases of held-to-maturity securities	**(452)**	(178)
Net increase in loans	**(775)**	(1,578)
Business acquisitions, net of cash acquired	**(77)**	
Purchases of equity investments and other long-term assets	**(25)**	(25)
Purchases of premises and equipment	**(89)**	(25)
Other, net	**14**	137
Net cash (used in) provided by investing activities	**(5,594)**	2,921
Financing Activities:		
Net increase (decrease) in time deposits	**(4,661)**	1,970
Net increase (decrease) in all other deposits	**13,730**	(1,696)
Net decrease in short-term borrowings	**(4,243)**	(5,480)
Proceeds from issuance of long-term debt, net of issuance costs	**1,986**	
Payments for long-term debt and obligations under capital leases	**(1,012)**	(23)
Proceeds from issuance of preferred stock	**500**	
Proceeds from exercises of common stock options	**30**	5
Repurchases of common stock for employee tax withholding	**(57)**	(39)
Payments for cash dividends	**(5)**	(5)
Net cash (used in) provided by financing activities	**6,268**	(5,268)
Net decrease	**(674)**	(544)
Cash and due from banks at beginning of period	**3,311**	2,641

Cash and due from banks at end of period	**$ 2,637**	$ 2,097

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

Table of Contents

STATE STREET CORPORATION

Table of contents

Condensed Notes to Consolidated Financial Statements (Unaudited)

Note 1. Basis of Presentation	46
Note 2. Acquisitions	46
Note 3. Investment Securities	48
Note 4. Loans and Leases	56
Note 5. Goodwill and Other Intangible Assets	61
Note 6. Other Assets	62
Note 7. Long-Term Debt	62
Note 8. Commitments and Contingencies	63
Note 9. Variable Interest Entities	66
Note 10. Shareholders Equity	68
Note 11. Fair Value	69
Note 12. Derivative Financial Instruments	77
Note 13. Net Interest Revenue	84
Note 14. Other Expenses	84
Note 15. Earnings Per Common Share	85
Note 16. Line of Business Information	85
Note 17. Non-U.S. Activities	86

Table of Contents

STATE STREET CORPORATION

Condensed Notes to Consolidated Financial Statements (Unaudited)

Note 1. Basis of Presentation

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

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

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

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

In April 2011, the FASB issued an amendment to GAAP related to the identification and disclosure of troubled debt restructurings. The amendment clarifies that the inability of a borrower to access funds at a market rate for debt with characteristics similar to the restructured debt may be an indicator of a concession being granted. The amendment also clarifies that when evaluating whether a borrower is experiencing financial difficulty, a creditor must consider whether a borrower s default is probable on any of its debt in the foreseeable future, rather than wait for an actual default to occur. The amendment is effective, for State Street, as of July 1, 2011, and applies retroactively to restructurings occurring on or after January 1, 2011. Adoption of the amendment is not expected to have a material effect on our consolidated financial statements.

Note 2. Acquisitions

On January 10, 2011, we completed our acquisition of Bank of Ireland s asset management business, or BIAM, in a cash acquisition financed through available capital. We acquired BIAM to expand our overall presence in Ireland, where we already provide services to institutional clients, to provide a range of investment

STATE STREET CORPORATION

Condensed Notes to Consolidated Financial Statements (Continued)

(Unaudited)

Note 2. Acquisitions (Continued)

management products. In connection with our acquisition of BIAM, we recorded $31 million of goodwill and $27 million of other intangible assets in our consolidated statement of condition, and added approximately $23 billion to our assets under management as of March 31, 2011. The assets under management are not recorded in our consolidated financial statements. Our allocation of the purchase price was preliminary as of March 31, 2011, and is subject to future adjustment over the measurement period as information needed to measure the fair values of certain assets and liabilities is obtained. Results of operations of the acquired BIAM business are included in our consolidated financial statements beginning on January 10, 2011.

In May 2010, we completed our acquisition of Intesa Sanpaolo s securities services business in a cash acquisition financed through available capital. Results of operations of the acquired Intesa business have been included in our consolidated financial statements from the date the acquisition was completed. We accounted for the Intesa transaction using the acquisition method of accounting, and the assets acquired, liabilities assumed and consideration paid were recorded in our consolidated statement of condition at their estimated fair values on the acquisition date.

In connection with the acquisition, we recorded $932 million of goodwill and $848 million of intangible assets, including assets related to customer relationships and core deposits, in our consolidated statement of condition. The goodwill, substantially all of which is not expected to be tax deductible, represents the expected long-term value of cost savings, growth opportunities and business efficiencies created by the integration of the acquired Intesa business.

In connection with the acquisition, we may be entitled to adjust the purchase price, to allow for a return of a portion of the purchase price, should we lose the business of certain key clients during a defined period subsequent to the closing of the transaction. This contingent asset, which was approximately $58 million as of March 31, 2011, compared to approximately $72 million as of December 31, 2010, will be re-measured to fair value at each reporting date through the end of the defined purchase price adjustment period, with any changes in its fair value recorded in our consolidated statement of income.

During the fourth quarter of 2010, Italian tax authorities issued an assessment for taxes, penalties and interest of approximately 130 million to an Italian banking subsidiary acquired by us in connection with the acquisition. The assessment relates to a pre-acquisition tax year (2005). State Street is indemnified for this liability under the acquisition agreement, which further requires the indemnity obligation to be collateralized in the event of a tax assessment. We are negotiating the terms of the delivery and maintenance of the collateral. We have not accrued for the assessment as of March 31, 2011. The Italian banking subsidiary is also currently under audit by the Italian tax authorities for the 2006 tax year.

STATE STREET CORPORATION

Condensed Notes to Consolidated Financial Statements (Continued)

(Unaudited)

Note 3. Investment Securities

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

	March 31, 2011				December 31, 2010			
		Gross				Gross		
	Amortized	Unrealized		Fair	Amortized	Unrealized		Fair
(In millions)	Cost	Gains	Losses	Value	Cost	Gains	Losses	Value
Available for sale:								
U.S. Treasury and federal agencies:								
Direct obligations	**$ 7,440**	**$ 19**	**$ 2**	**$ 7,457**	$ 7,505	$ 74	$ 2	$ 7,577
Mortgage-backed securities	**26,627**	**324**	**74**	**26,877**	23,398	325	83	23,640
Asset-backed securities:								
Student loans[1]	**16,442**	**99**	**617**	**15,924**	14,975	93	652	14,416
Credit cards	**8,500**	**57**	**18**	**8,539**	7,429	53	31	7,451
Sub-prime	**2,083**	**4**	**333**	**1,754**	2,161	3	346	1,818
Other	**1,484**	**186**	**73**	**1,597**	1,508	174	94	1,588
Total asset-backed securities	**28,509**	**346**	**1,041**	**27,814**	26,073	323	1,123	25,273
Non-U.S. debt securities:								
Mortgage-backed securities	**8,105**	**81**	**46**	**8,140**	6,258	82	46	6,294
Asset-backed securities	**4,577**	**15**	**50**	**4,542**	2,983	16	79	2,920
Government securities	**2,770**			**2,770**	2,913			2,913
Other	**917**	**31**	**1**	**947**	887	33	2	918
Total non-U.S. debt securities	**16,369**	**127**	**97**	**16,399**	13,041	131	127	13,045
State and political subdivisions	**6,667**	**117**	**178**	**6,606**	6,706	102	204	6,604
Collateralized mortgage obligations	**1,996**	**55**	**17**	**2,034**				