

STATE STREET Corp
Form 10-Q
August 05, 2011
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2011

or

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

For the transition period from _____ to _____

Commission File No. 001-07511

STATE STREET CORPORATION

(Exact name of registrant as specified in its charter)

Massachusetts

04-2456637

Edgar Filing: STATE STREET Corp - Form 10-Q

(State or other jurisdiction

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

of incorporation or organization)

One Lincoln Street

Boston, Massachusetts
(Address of principal executive office)

02111
(Zip Code)

617-786-3000

(Registrant's telephone number, including area code)

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

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

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

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

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

The number of shares of State Street's common stock outstanding on July 29, 2011 was 504,031,728

Table of Contents

STATE STREET CORPORATION

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

Table of Contents

	Page
PART I. FINANCIAL INFORMATION	
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	2
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	46
<u>Controls and Procedures</u>	46
<u>Consolidated Statement of Income (Unaudited) for the three and six months ended June 30, 2011 and 2010</u>	47
<u>Consolidated Statement of Condition as of June 30, 2011 (Unaudited) and December 31, 2010</u>	48
<u>Consolidated Statement of Changes in Shareholders' Equity (Unaudited) for the six months ended June 30, 2011 and 2010</u>	49
<u>Consolidated Statement of Cash Flows (Unaudited) for the six months ended June 30, 2011 and 2010</u>	50
<u>Table of Contents for Condensed Notes to Consolidated Financial Statements (Unaudited)</u>	51
<u>Condensed Notes to Consolidated Financial Statements (Unaudited)</u>	52
<u>Report of Independent Registered Public Accounting Firm</u>	100
<u>FORM 10-Q PART I CROSS-REFERENCE INDEX</u>	101
PART II. OTHER INFORMATION	
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	102
<u>Exhibits</u>	102
<u>SIGNATURES</u>	103
<u>EXHIBIT INDEX</u>	104

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 June 30, 2011, we had consolidated total assets of \$190.46 billion, consolidated total deposits of \$125.41 billion, consolidated total shareholders' equity of \$19.83 billion and 29,450 employees.

We are a leader in providing financial services and products to meet the needs of institutional investors worldwide, with \$22.76 trillion of assets under custody and administration and \$2.12 trillion of assets under management as of June 30, 2011. Our clients include U.S. mutual funds, collective investment funds and other investment pools, corporate and public retirement plans, insurance companies, foundations, endowments and investment managers.

We have two lines of business:

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

Investment Management, 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 second quarter of 2011, and updates the Management's Discussion and Analysis in our Annual Report on Form 10-K, or Form 10-K, for the year ended December 31, 2010, and in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2011. 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 those reports. Certain previously reported amounts have been reclassified to conform to current period classifications as presented in this Form 10-Q.

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

Table of Contents

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

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

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

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

Certain financial information provided in this Management's Discussion and Analysis has been prepared on both a GAAP basis and a non-GAAP, or operating, basis. Management measures and compares certain financial information on an operating basis, as it believes 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. Any non-GAAP, or operating-basis, financial information presented in this Management's Discussion and Analysis is reconciled to its nearest GAAP-basis measure.

FORWARD-LOOKING STATEMENTS

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

Forward-looking statements are subject to various risks and uncertainties, which change over time, are based on management's expectations and assumptions at the time the statements are made, and are not guarantees of future results. Management's expectations and assumptions, and the continued validity of the forward-looking statements, are subject to change due to a broad range of factors affecting the national and

Table of Contents

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

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

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

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

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

financial market disruptions and 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 business operations and IT transformation program, 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;

Edgar Filing: STATE STREET Corp - Form 10-Q

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

the 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 dis synergies will be experienced, that client and deposit retention goals will not be met, that other regulatory or operational challenges will be experienced and that disruptions from the transaction will harm 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;

Table of Contents

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

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

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

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

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

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

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

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

our ability to control operating risks, data security breach risks, information technology systems risks and outsourcing risks, and our ability to protect our intellectual property rights, the possibility of errors in the quantitative models we use to manage our 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.

Edgar Filing: STATE STREET Corp - Form 10-Q

Therefore, actual outcomes and results may differ materially from what is expressed in our forward-looking statements and from our historical financial results due to the factors discussed in this section and elsewhere in this Form 10-Q or disclosed in our other SEC filings, including the risk factors discussed in our 2010 Form 10-K. Forward-looking statements should not be relied upon as representing our expectations or beliefs as of any date subsequent to the time this Form 10-Q is filed with the SEC. We undertake no obligation to revise the forward-looking statements contained in this Form 10-Q to reflect events after the time it is filed with the SEC. The factors discussed above are not intended to be a complete summary of all risks and uncertainties that may affect our businesses. We cannot anticipate all political, operational, market, financial and other developments that may adversely affect our consolidated results of operations and financial condition.

Forward-looking statements should not be viewed as predictions, and should not be the primary basis upon which investors evaluate State Street. Any investor in State Street should consider all risks and uncertainties disclosed in our SEC filings, including our filings under the Securities Exchange Act of 1934, in particular our reports on Forms 10-K, 10-Q and 8-K, or registration statements filed under the Securities Act of 1933, all of which are accessible on the SEC's website at www.sec.gov 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 June 30,			Six Months Ended June 30,		
	2011	2010 ⁽¹⁾	% Change	2011	2010 ⁽¹⁾	% Change
Total fee revenue	\$ 1,892	\$ 1,696	12%	\$ 3,683	\$ 3,236	14%
Net interest revenue	572	658	(13)	1,149	1,319	(13)
Gains (Losses) related to investment securities, net	27	(50)		20	45	
Total revenue	2,491	2,304	8	4,852	4,600	5
Provision for loan losses	2	10		1	25	
Expenses:						
Expenses from operations	1,757	1,468	20	3,440	3,034	13
Securities lending charge and U.K. bonus tax		435			435	
Acquisition and restructuring costs	17	41		36	54	
Total expenses	1,774	1,944	(9)	3,476	3,523	(1)
Income before income tax expense	715	350	104	1,375	1,052	31
Income tax expense (benefit)	202	(82)		391	125	
Net income	\$ 513	\$ 432		\$ 984	\$ 927	
Adjustments to net income:						
Dividends on preferred stock	(7)			(7)		
Earnings allocated to participating securities ⁽²⁾	(4)	(5)		(9)	(8)	
Net income available to common shareholders	\$ 502	\$ 427		\$ 968	\$ 919	
Earnings per common share:						
Basic	\$ 1.01	\$.87		\$ 1.95	\$ 1.86	
Diluted	1.00	.87		1.93	1.86	
Average common shares outstanding (in thousands):						
Basic	496,806	495,606		497,137	495,099	
Diluted	501,044	498,886		500,753	498,295	
Cash dividends declared	\$.18	\$.01		\$.36	\$.02	
Return on average common equity	10.6%	11.0%		10.6%	12.2%	

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

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

Table of Contents

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

Highlights

This section provides highlights with respect to our consolidated financial results for the second 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

During the second quarter, we declared a quarterly common stock dividend of \$0.18 per share, or approximately \$90 million, payable in July 2011. This dividend, together with the \$0.18-per-share, or \$90 million, dividend declared by us during the first quarter of this year and paid in April 2011, compares to aggregate dividends of \$0.04 per share, or \$20 million, paid in all of 2010. The 2011 dividends represented the first increase in our common stock dividend since we announced a reduction of such dividends in the first quarter of 2009, in connection with our plan to strengthen our tangible common equity.

During the second quarter, we purchased approximately 4.9 million shares of our common stock under the program approved by the Board of Directors during the first quarter of 2011, under which we are authorized to purchase up to \$675 million of our common stock during 2011. The shares were purchased at an average and aggregate cost of \$46.18 and approximately \$225 million, respectively. The shares were recorded as treasury stock in our consolidated statement of condition as of June 30, 2011. We had approximately \$450 million of common stock that remained to be purchased under the program as of June 30, 2011. The common stock purchase program was disclosed in our first-quarter 2011 Form 10-Q.

Financial Results

Total revenue for the second quarter of 2011 increased 8% compared to the same period in 2010; total fee revenue increased 12% and net interest revenue decreased 13% in the same comparison.

Servicing and management fees for the second quarter of 2011 were up 16% and 24%, respectively, compared to the second quarter of 2010. The increase in servicing fee revenue was mainly due to the impact of net new business installed, improvements in equity market valuations and the addition of a full quarter of revenue from the acquired Intesa business, which acquisition was completed in the middle of the second quarter of 2010. The increase in management fee revenue was mainly due to improvements in equity market valuations, as well as the addition of revenue from the acquired Bank of Ireland Asset Management, or BIAM, business, which acquisition was completed in January 2011.

Trading services revenue decreased 5% comparing the second quarter of 2011 with the second quarter of 2010, primarily as a result of a decline in foreign exchange trading revenue associated with lower volatility, partly offset by higher client volume. This net decline was partly offset by an increase in revenue from electronic trading. In the same comparison, securities finance revenue increased 26% as a result of the effect of stronger seasonal activity relative to 2010 related to European equities and annual dividend payment dates, contributing to an improvement in spreads, partly offset by an overall decrease in average lending volumes. Processing fees and other revenue decreased 20%, primarily the result of lower revenue from joint ventures and structured products.

For the second quarter of 2011, we recorded net interest revenue of \$572 million, which included \$51 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. The corresponding amounts for the second quarter of 2010 were \$658 million and \$172 million, respectively. Accordingly, net

Table of Contents

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

interest revenue declined 13% compared to the prior-year second quarter (refer to the Net Interest Revenue section under Consolidated Results of Operations in this Management's Discussion and Analysis). This decrease primarily reflected the impact of the decline in conduit related accretion, which was primarily due to sales, particularly the December 2010 investment portfolio repositioning, and pay-downs. 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 of \$605 million (\$572 million plus a tax-equivalent adjustment of \$33 million), declined 45 basis points from 2.21% in the second quarter of 2010 to 1.76% in the second quarter of 2011. The above-mentioned conduit-related discount accretion accounted for 15 basis points of net interest margin for the second quarter of 2011, compared to 55 basis points for the second quarter of 2010. Excluding discount accretion, fully taxable-equivalent net interest revenue for the second quarter of 2011 would have been \$554 million (\$605 million less \$51 million), an increase of 7% from \$517 million (\$689 million less \$172 million) for the second quarter of 2010. Net interest margin for the second quarter of 2011 computed on the same basis would have been 1.61% compared to 1.66% for the second quarter of 2010.

We recorded net realized gains of \$62 million from sales of available-for-sale securities during the second quarter of 2011, compared to net realized gains of \$3 million during the second quarter of 2010. Separately, we recorded credit-related other-than-temporary impairment of \$35 million during the second quarter of 2011, compared to \$53 million during the second quarter of 2010, largely related to non-agency mortgage-backed securities. The aggregate net realized gains and impairment losses resulted in net gains related to investment securities of \$27 million for the second quarter of 2011, compared to net losses of \$50 million for the same period in 2010.

Total expenses declined 9% for the second quarter of 2011 compared to the second quarter of 2010; however, if the securities lending charge of \$414 million recorded in the second quarter of 2010 were excluded, total expenses for the second quarter of 2010 would have been \$1.53 billion, representing \$1.94 billion less the charge of \$414 million, and total expenses would have increased 16% in the same comparison. This adjusted increase mainly reflected a reduction of cash incentive compensation in the 2010 period related to the securities lending charge, increases in salaries and employee benefits expenses in 2011 associated with the business operations and information technology transformation program and the addition of expenses in 2011 from the acquired Intesa (full versus partial quarter) and BIAM businesses.

We recorded income tax expense of \$202 million for the second quarter of 2011, compared to a tax benefit of \$82 million for the second quarter of 2010; the 2010 benefit resulted from a discrete tax benefit of \$180 million generated by the restructuring of the former non-U.S conduit assets. Our effective tax rate for the second quarter of 2011 was 28.2% compared to (23.4)% for the second quarter of 2010. Excluding the tax benefit, the effective tax rate for the second quarter of 2010 would have been 28%.

During the second quarter of 2011, we were awarded approximately \$280 billion of new business in assets to be serviced; approximately \$130 billion was installed prior to June 30, 2011, and most of the remaining \$150 billion is expected to be installed during the second half of this year. In addition, of the remaining \$460 billion of new asset servicing business awarded in 2010 and during the first quarter of 2011 that had not been installed as of March 31, 2011, approximately \$280 billion was installed during the second quarter of 2011. The remaining \$180 billion is expected to be installed during the second half of this year.

Table of Contents

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

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

During the second quarter of 2011, we were awarded approximately \$141 billion of new business in assets to be managed. We installed \$111 billion of this new asset management business during the second quarter, and we are scheduled to install the remaining \$30 billion of this new business later in 2011. This new business is composed of a variety of investment strategies, mainly passive and exchange-traded funds.

CONSOLIDATED RESULTS OF OPERATIONS

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

TOTAL REVENUE

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

(Dollars in millions)	Quarters Ended June 30,			Six Months Ended June 30,		
	2011	2010	% Change	2011	2010	% Change
Fee revenue:						
Servicing fees	\$ 1,124	\$ 973	16%	\$ 2,219	\$ 1,868	19%
Management fees	250	201	24	486	412	18
Trading services	311	326	(5)	613	568	8
Securities finance	137	109	26	203	181	12
Processing fees and other	70	87	(20)	162	207	(22)
Total fee revenue	1,892	1,696	12	3,683	3,236	14
Net interest revenue:						
Interest revenue	719	846	(15)	1,453	1,724	(16)
Interest expense	147	188	(22)	304	405	(25)
Net interest revenue	572	658	(13)	1,149	1,319	(13)
Gains (Losses) related to investment securities, net	27	(50)		20	45	
Total revenue	\$ 2,491	\$ 2,304	8	\$ 4,852	\$ 4,600	5

Fee Revenue

Servicing and management fees collectively comprised approximately 73% of our total fee revenue for both the second quarter and first six months of 2011 compared to approximately 69% and 70% for the corresponding periods in 2010. These fees are influenced by, among other factors, the mix and volume of assets under custody

Table of Contents

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

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.

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 Quarters Ended June 30,			Average of Month-End Indices Quarters Ended June 30,			Quarter-End Indices As of June 30,		
	2011	2010	% Change	2011	2010	% Change	2011	2010	% Change
S&P 500®	1,318	1,135	16%	1,343	1,102	22%	1,321	1,031	28%
NASDAQ®	2,765	2,342	18	2,827	2,276	24	2,774	2,109	32
MSCI EAFE®	1,710	1,460	17	1,746	1,421	23	1,708	1,348	27

	Daily Averages of Indices Six Months Ended June 30,			Average of Month-End Indices Six Months Ended June 30,		
	2011	2010	% Change	2011	2010	% Change
S&P 500®	1,310	1,129	16%	1,328	1,109	20%
NASDAQ®	2,752	2,312	19	2,791	2,269	23
MSCI EAFE®	1,705	1,504	13	1,731	1,476	17

Servicing Fees

The 16% increase in servicing fees in the quarterly comparison resulted primarily from the impact of net new business installed on current period revenue, as well as increases in daily average equity market valuations. In addition, the second quarter of 2011 reflected a full quarter of revenue from the acquired Intesa business,

Table of Contents

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

which business was acquired in the middle of the second quarter of 2010. The 19% increase in servicing fees in the six-month comparison resulted primarily from the addition of revenue from the acquired Intesa and MIFA businesses (full versus partial period), the impact of net new business installed and increases in daily average equity market valuations. For the second quarter and first six months of 2011, servicing fees generated outside the U.S. were approximately 43% and 42%, respectively, of total servicing fees compared to approximately 41% and 40% for the second quarter and first six months of 2010, respectively.

At June 30, 2011, we had aggregate assets under custody and administration, presented in the tables that follow, of \$22.76 trillion, which increased \$1.23 trillion from \$21.53 trillion at December 31, 2010, and increased \$3.73 trillion from \$19.03 trillion at June 30, 2010. The increases in both comparisons mainly reflected the installation of new business, as well as higher asset valuations associated with the improvement in the global financial markets. The new asset servicing business not installed by June 30, 2011 was not included in our assets under custody and administration at that date, and had no impact on our servicing fee revenue for the second quarter of 2011, as the assets are not included until their installation is complete and we begin to service them. The assets do not begin generating servicing fee revenue until they are installed.

ASSETS UNDER CUSTODY AND ADMINISTRATION

(In billions)	June 30, 2011	December 31, 2010	June 30, 2010
Mutual funds	\$ 5,584	\$ 5,540	\$ 4,720
Collective funds	4,708	4,350	3,773
Pension products	5,185	4,726	4,357
Insurance and other products	7,285	6,911	6,182
Total	\$ 22,762	\$ 21,527	\$ 19,032

FINANCIAL INSTRUMENT MIX OF ASSETS UNDER CUSTODY AND ADMINISTRATION

(In billions)	June 30, 2011	December 31, 2010	June 30, 2010
Equities	\$ 12,601	\$ 11,000	\$ 9,581
Fixed-income	7,392	7,875	6,946
Short-term and other investments	2,769	2,652	2,505
Total	\$ 22,762	\$ 21,527	\$ 19,032

Management Fees

Management fees increased 24% and 18% during the second quarter and first six months of 2011, respectively, compared to the second quarter and first six months of 2010. The increases in both periods were primarily the result of increases in average month-end equity market valuations and the addition of revenue from the acquired BIAM business. Average month-end equity market valuations, individually presented in the foregoing INDEX table, were up an average of 23% for the second quarter of 2011 compared to the second quarter of 2010, and were up 21% in the six-month comparison. For the second quarter and first six months of 2011, management fees generated outside the U.S. were approximately 45% and 40%, respectively, of total management fees, compared to approximately 35% for both the second quarter and first six months of 2010.

Table of Contents

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

At June 30, 2011, we had aggregate assets under management, presented in the tables that follow, of \$2.12 trillion, which increased \$106 billion from \$2.01 trillion at December 31, 2010, and increased \$281 billion from \$1.84 trillion at June 30, 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 June 30, 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 June 30, 2011 was not included in our assets under management as of June 30, 2011, and will be included in managed assets as the new business is installed. The assets do not begin generating management fee revenue until they are installed.

ASSETS UNDER MANAGEMENT

(In billions)	June 30, 2011	December 31, 2010	June 30, 2010
Passive:			
Equities	\$ 706	\$ 655	\$ 480
Fixed-income	324	363	399
Exchange-traded funds ⁽¹⁾	266	255	201
Other	234	210	196
Total Passive	1,530	1,483	1,276
Active:			
Equities	56	55	52
Fixed-income	17	17	22
Other	50	28	27
Total Active	123	100	101
Cash	463	427	458
Total	\$ 2,116	\$ 2,010	\$ 1,835

⁽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 June 30, 2011:

ASSETS UNDER MANAGEMENT

(In billions)	
June 30, 2010	\$ 1,835
Net new (lost) business	(15)
Market appreciation	190
December 31, 2010	\$ 2,010
Net new business ⁽¹⁾	3
Assets added from BIAM acquisition	23
Market appreciation	80

June 30, 2011

\$ 2,116

- ⁽¹⁾ Reflects the sale of approximately \$49 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 further reduce our assets under management.

Table of Contents

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

Trading Services

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

Trading services revenue declined 5% for the second quarter of 2011 compared to the second quarter of 2010 and increased 8% in the six-month comparison. Foreign exchange trading revenue declined 9% to \$169 million for the second quarter of 2011 from \$185 million for the second quarter of 2010 and increased 3% to \$329 million from \$319 million in the six month comparison. The quarterly decrease was primarily the result of a 24% decline in currency volatility, partly offset by higher client volumes. The increase in the six-month comparison primarily resulted from higher client volumes, partly offset by a 15% decrease in currency volatility.

We enter into FX transactions with clients and investment managers that contact our trading desk directly. These trades are all executed at negotiated rates. We refer to this activity, and our market-making activities, as direct FX. Alternatively, clients or their investment managers may elect to route FX transactions to our FX desk through our asset servicing operation, to which we refer as indirect FX. We execute indirect FX trades as a principal at rates based on a published formula. We derive our estimated revenue for indirect FX using an attribution methodology based on estimated effective mark-ups/downs and observed client volumes. For the second quarter and first six months of 2011, our estimated indirect FX revenue was approximately \$85 million and \$171 million, respectively. All other FX revenue not included in this indirect FX revenue estimate, and unrelated to electronic trading, is estimated and considered by us to be direct FX revenue. For the second quarter and first six months of 2011, our estimated direct FX revenue was \$84 million and \$158 million, respectively.

Brokerage and other trading services revenue was \$142 million for the second quarter of 2011, essentially flat compared to \$141 million for the second quarter of 2010. For the first six months of 2011, brokerage and other trading services revenue totaled \$284 million, up 14% from \$249 million for the first six months of 2010. The increase largely related to higher electronic trading volumes and higher trading profits, partly offset by lower levels of transition management.

Our clients may choose to execute FX transactions through one of our electronic trading platforms. This service generates revenue through a click fee. For the second quarter and first six months of 2011, our estimated direct FX revenue from electronic trading was approximately \$61 million and \$120 million, respectively. As described above, this revenue was recorded in brokerage and other trading services revenue.

Securities Finance

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

Table of Contents

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

Securities finance revenue for the second quarter of 2011 increased 26% compared to the second quarter of 2010, and for the first six months increased 12% compared to the corresponding period in 2010. The increase in both periods was substantially the result of the effect of stronger seasonal activity relative to 2010, partly offset by an overall decrease in average lending volumes. The stronger seasonal activity resulted, in large part, from heavy client demand to borrow significant volumes of European equities corresponding to their annual dividend payment dates, and contributed to an improvement in spreads. Spreads increased 35% and 27%, respectively, for the second quarter and first six months of 2011 compared to the same periods in 2010. Securities on loan averaged \$379 billion for the second quarter of 2011, down from \$421 billion for the second quarter of 2010, and averaged \$369 billion for the first six months of 2011, down from \$417 billion for the comparable period in 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 June 30, 2011, the aggregate net assets of the liquidity pools and duration pools were \$23.8 billion and \$7.4 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 pay-downs 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 \$219 million as of June 30, 2011, compared to \$319 million as of December 31, 2010. This amount is expected to be eliminated as the assets in the duration pools mature or pay down.

Processing Fees and Other

Processing fees and other revenue was \$70 million and \$162 million for the second quarter and first six months of 2011, respectively, decreases of 20% and 22%, respectively, compared to the same periods in 2010. The decreases in both comparisons were primarily due to lower income from joint ventures and from our structured products business.

Table of Contents

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

NET INTEREST REVENUE

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

(Dollars in millions; fully taxable-equivalent basis)	Quarters Ended June 30,					
	Average Balance	2011 Interest Revenue/ Expense	Rate	Average Balance	2010 Interest Revenue/ Expense	Rate
Interest-bearing deposits with banks	\$ 10,325	\$ 28	1.05%	\$ 14,091	\$ 22	.62%
Securities purchased under resale agreements	2,556	6	.94	2,567	6	.98
Trading account assets	2,421			170		
Investment securities	104,570	650	2.49	95,312	774	3.26
Loans and leases	12,720	67	2.14	11,933	74	2.48
Other interest-earning assets	5,346	1	.03	1,065	1	.45
Total average interest-earning assets	\$ 137,938	\$ 752	2.18	\$ 125,138	\$ 877	2.81
Interest-bearing deposits:						
U.S.	\$ 1,605	\$.09%	\$ 9,081	\$ 7	.28%
Non-U.S.	83,378	44	.21	66,314	39	.24
Securities sold under repurchase agreements	9,179	3	.14	8,403	2	.07
Federal funds purchased	1,104		.09	1,900		.06
Other short-term borrowings	4,975	21	1.71	14,940	68	1.84
Long-term debt	9,541	76	3.16	8,761	71	3.23
Other interest-bearing liabilities	3,426	3	.27	810	1	.70
Total average interest-bearing liabilities	\$ 113,208	\$ 147	.52	\$ 110,209	\$ 188	.68
Interest-rate spread			1.66%			2.13%
Net interest revenue fully taxable-equivalent basis		\$ 605			\$ 689	
Net interest margin fully taxable-equivalent basis			1.76%			2.21%
Tax-equivalent adjustment		(33)			(31)	
Net interest revenue GAAP basis		\$ 572			\$ 658	

Table of Contents

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

(Dollars in millions; fully taxable-equivalent basis)	Six Months Ended June 30,					
	Average Balance	2011 Interest Revenue/ Expense	Rate	Average Balance	2010 Interest Revenue/ Expense	Rate
Interest-bearing deposits with banks	\$ 12,181	\$ 55	.90%	\$ 12,230	\$ 41	.67%
Securities purchased under resale agreements	3,710	16	.87	2,631	10	.79
Trading account assets	2,279			159		
Investment securities	100,161	1,297	2.61	95,065	1,548	3.38
Loans and leases	12,729	148	2.35	11,521	186	3.25
Other interest-earning assets	4,586	1	.03	1,085	2	.34
Total average interest-earning assets	\$ 135,646	\$ 1,517	2.26	\$ 122,691	\$ 1,787	2.93
Interest-bearing deposits:						
U.S.	\$ 3,368	\$ 6	.36%	\$ 8,130	\$ 13	.32%
Non-U.S.	81,063	96	.24	63,453	66	.21
Securities sold under repurchase agreements	9,117	5	.12	8,441	3	.06
Federal funds purchased	1,139		.06	1,730		.04
Other short-term borrowings	5,337	46	1.72	15,883	178	2.26
Long-term debt	9,228	147	3.18	8,797	143	3.26
Other interest-bearing liabilities	2,784	4	.26	721	2	.59
Total average interest-bearing liabilities	\$ 112,036	\$ 304	.55	\$ 107,155	\$ 405	.76
Interest-rate spread			1.71%			2.17%
Net interest revenue fully taxable-equivalent basis		\$ 1,213			\$ 1,382	
Net interest margin fully taxable-equivalent basis			1.80%			2.27%
Tax-equivalent adjustment		(64)			(63)	
Net interest revenue GAAP basis		\$ 1,149			\$ 1,319	

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

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 second quarter and first six months of 2011, on a fully taxable-equivalent basis, net interest revenue declined 12%, compared to the same periods in 2010. On a GAAP basis, net interest revenue declined 13% in both comparisons. The decreases were mainly the result of lower discount accretion recorded in the 2011 periods associated with former conduit securities, more fully described below. The level of accretion recorded was affected by sales of securities, particularly the investment portfolio repositioning completed in December 2010, and pay-downs.

Table of Contents

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

If the conduit-related discount accretion were excluded, fully taxable-equivalent net interest revenue for the second quarter of 2011 would have increased 7% from \$517 million (\$689 million presented in the preceding quarterly table less accretion of \$172 million) to \$554 million (\$605 million presented in the preceding quarterly table less accretion of \$51 million). For the six-month period, fully taxable-equivalent net interest revenue would have increased 10% from \$998 million (\$1.38 billion presented in the preceding six-month table less accretion of \$384 million) to \$1.10 billion (\$1.21 billion presented in the preceding six-month table less accretion of \$113 million). These increases primarily resulted from the net interest revenue generated from investment of the Intesa-related deposits added in May 2010 in connection with that acquisition, as well as favorable short-term funding costs associated with higher levels of other non-U.S. 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 \$1.45 billion (\$621 million in 2009, \$712 million in 2010 and \$113 million in the first six months of 2011). The timing and ultimate recognition of discount accretion depends, in part, on factors that are outside of our control, including anticipated prepayment speeds and credit quality. The impact of these factors is uncertain and can be significantly influenced by general economic and financial market conditions. The timing and recognition of discount accretion can also be influenced by our ongoing management of the risks and other characteristics associated with our investment portfolio, including sales of securities which would otherwise generate accretion, such as the portfolio repositioning that we completed in December 2010.

Depending on the factors discussed above, among others, we anticipate that, until the former conduit securities remaining in our portfolio mature or are sold, discount accretion will continue to contribute to our net interest revenue, and may increase the volatility of our net interest revenue and margin. The December 2010 portfolio repositioning resulted in a significant decrease in the discount accretion that we expect to recognize in future periods. Assuming that we hold the remaining former conduit securities to maturity, all other things equal, we expect the remaining former conduit securities carried in our investment portfolio as of June 30, 2011 to generate aggregate discount accretion in future periods of approximately \$1.25 billion over their remaining terms.

Interest-bearing deposits with banks, including cash balances held at the Federal Reserve to satisfy reserve requirements, averaged \$10.33 billion for the second quarter of 2011 compared to \$14.09 billion for the second quarter of 2010. For the first six months of 2011, interest-bearing deposits with banks averaged \$12.18 billion, essentially flat compared to \$12.23 billion for the same period in 2010. An average of \$3.34 billion was held at the Federal Reserve Bank during the second quarter of 2011, compared to \$3.87 billion held during the second quarter of 2010, with balances in both periods exceeding minimum reserve requirements.

Average securities purchased under resale agreements were flat at \$2.56 billion for the second quarter of 2011 compared to \$2.57 billion for the second quarter of 2010, and increased from \$2.63 billion to \$3.71 billion in the six-month comparison. Average trading account assets increased from \$170 million for the second quarter of 2010 to \$2.42 billion for the second quarter of 2011, and for the six-month periods increased from \$159 million to \$2.28 billion. Both averages benefited largely from an increase in client demand associated with our trading activities. In connection with these activities, we trade in highly liquid fixed-income securities as principal with our custody clients and other third-parties that trade in these securities. These activities generate fee revenue.

Our average investment securities portfolio increased from \$95.31 billion for the second quarter of 2010 to \$104.57 billion for the second quarter of 2011, and for the six-month periods increased from \$95.07 billion to

Table of Contents

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

\$100.16 billion. The increases in both comparisons were generally the result of continued purchases of securities pursuant to our re-investment strategy, partly offset by maturities and sales. In December 2010, we repositioned our portfolio by selling approximately \$11 billion of mortgage- and asset-backed securities and re-invested approximately \$7 billion of the proceeds, primarily in agency mortgage-backed securities. During the second quarter and first six months of 2011, we purchased \$16 billion and \$31 billion, respectively, of highly rated U.S. Treasury securities, agency mortgage-backed securities and asset-backed securities. As of June 30, 2011, securities rated AAA and AA comprised approximately 90% of our portfolio (approximately 80% rated AAA), compared to 82% rated AAA and AA (approximately 71% rated AAA) as of June 30, 2010. The change resulted primarily from the effects of the December 2010 repositioning and subsequent re-investment.

Loans and leases averaged \$12.72 billion for the second quarter of 2011, up slightly compared to \$11.93 for the second quarter of 2010, and \$12.73 billion for the first six months of 2011, up from \$11.52 billion in the 2010 period. The increases primarily resulted from higher client demand for short-duration liquidity, offset in part by a decrease in the purchased receivables added in connection with the conduit consolidation, mainly from pay-downs and maturities.

For the second quarters of 2011 and 2010, approximately 29% and 27%, respectively, of our average loan and lease portfolio was composed of short-duration advances that provided liquidity to clients in support of their investment activities related to securities settlement. In the aggregate, these short-duration advances averaged approximately \$3.72 billion for the second quarter of 2011, compared to \$3.17 billion for the second quarter of 2010, and \$3.64 billion for the first six months of 2011 compared to \$2.67 billion for the 2010 period.

U.S. short-duration advances averaged approximately \$1.99 billion and \$1.91 billion for the second quarter and first six months of 2011, respectively, compared to approximately \$1.94 billion and \$1.76 billion for the second quarter and first six months of 2010, respectively. Non-U.S. short-duration advances averaged approximately \$1.73 billion for both the second quarter and first six months of 2011, compared to approximately \$1.23 billion and \$914 million, respectively, for the comparable periods in 2010. The increase in average non-U.S. short duration advances was mainly due to activity associated with clients added in connection with the Intesa acquisition.

Average other interest-earning assets increased from \$1.06 billion for the second quarter of 2010 to \$5.35 billion for the second quarter of 2011, and from \$1.09 billion to \$4.59 billion in the six-month comparison. Both increases were primarily the result of higher levels of cash collateral associated with our role as principal in certain securities borrowing activities.

Average interest-bearing deposits increased from \$75.40 billion for the second quarter of 2010 to \$84.98 billion for the second quarter of 2011. For the six-month periods, average interest-bearing deposits were \$84.43 billion in 2011 compared to \$71.58 billion in 2010. Both increases reflected the client deposits added in connection with the Intesa acquisition, as well as higher levels of non U.S. transaction accounts associated with new and existing business in assets under custody and administration.

Average other short-term borrowings declined to \$4.98 billion for the second quarter of 2011 compared to \$14.94 billion for the second quarter of 2010, and to \$5.34 billion for the first six months of 2011 compared to \$15.88 billion for the corresponding period in 2010. Higher levels of client deposits provided additional liquidity. Average long-term debt increased to \$9.54 billion for the second quarter of 2011 from \$8.76 billion for the same period in 2010, and increased to \$9.23 billion from \$8.80 billion in the six-month comparison. These increases

Table of Contents

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

primarily reflected 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 our long-term debt is provided in note 7 to the consolidated financial statements included in this Form 10-Q.

Average other interest-bearing liabilities increased from \$810 million for the second quarter of 2010 to \$3.43 billion for the second quarter of 2011, and increased from \$721 million to \$2.78 billion in the six-month comparison. The increases in both comparisons were primarily the result of higher levels of client cash collateral held in connection with our role as principal in certain securities lending activities.

Several factors could affect future levels of our net interest revenue and margin, including the mix of client liabilities; actions of the various central banks; changes in U.S. and non-U.S. interest rates; the various yield curves around the world; the amount of discount accretion generated by the former conduit securities that remain in our investment portfolio; and the relative impact of the yields earned on the securities purchased by us with the proceeds from the December 2010 portfolio repositioning compared to the yields earned on the securities sold. Based on market conditions, we have continued to re-invest the proceeds from pay-downs 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.

Gains (Losses) Related to Investment Securities, Net

From time to time, in connection with our ongoing management of the investment portfolio, we sell available-for-sale securities, to manage risk, to reduce our risk profile, to take advantage of favorable market conditions, or for other reasons. We recorded net realized gains of \$62 million from sales of approximately \$5.43 billion of available-for-sale securities in the second quarter of 2011, and \$66 million from sales of approximately \$9.37 billion of available-for-sale securities during the first six months of 2011, compared to net realized gains of \$3 million and \$195 million, respectively, in the 2010 periods.

Management regularly reviews the investment securities portfolio to identify other-than-temporary impairment of individual securities. The aggregate unrealized losses on securities for which other-than-temporary impairment was recorded in the second quarter and first six months of 2011 were \$44 million and \$79 million, respectively. Of this total, \$9 million and \$33 million, respectively, related to factors other than credit, and were recorded, net of related taxes, as a component of other comprehensive income in our consolidated statement of condition. The remaining \$35 million and \$46 million, respectively, were recorded in our consolidated statement of income.

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

Table of Contents

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

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

(In millions)	Quarters Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Net realized gains from sales of available-for-sale securities	\$ 62	\$ 3	\$ 66	\$ 195
Losses from other-than-temporary impairment	(44)	(240)	(79)	(480)
Losses not related to credit	9	187	33	330
Net impairment losses	(35)	(53)	(46)	(150)
Gains (Losses) related to investment securities, net	\$ 27	\$ (50)	\$ 20	\$ 45
Impairment associated with expected credit losses	\$ (24)	\$ (41)	\$ (29)	\$ (130)
Impairment associated with management's intent to sell the impaired securities prior to their recovery in value	(8)		(8)	
Impairment associated with adverse changes in timing of expected future cash flows	(3)	(12)	(9)	(20)
Net impairment losses	\$ (35)	\$ (53)	\$ (46)	\$ (150)

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

PROVISION FOR LOAN LOSSES

We recorded a provision for loan losses of \$2 million for the second quarter of 2011; the net provision for loan losses for the first six months of 2011 was \$1 million, which resulted from a negative provision for the first quarter of 2011. For the second quarter and first six months of 2010, we recorded provisions for loan losses of \$10 million and \$25 million, respectively. The majority of the provision recorded in 2010 resulted from a revaluation of the collateral supporting a commercial real estate, or CRE, loan. The loan was part of the portfolio acquired in 2008 pursuant to indemnified repurchase agreements with an affiliate of Lehman as a result of the Lehman Brothers bankruptcy.

We review our loans and leases on a regular basis, in connection with our evaluation of the allowance for loan losses, and consider factors including the effect of economic conditions on borrowers' ability to repay, the estimated value of any underlying collateral, the contract terms underlying extensions of credit and previous loss experience. Provisions for loan losses reflect our estimate of the amount necessary to maintain the allowance at a level considered by us to be appropriate to absorb estimated probable credit losses inherent in the loan and lease portfolio. With respect to the CRE loans, any provisions for loan losses reflect management's expectations with respect to future cash flows from these loans and the value of available collateral, based on an assessment of economic conditions in the commercial real estate market and other factors. Future changes in expectations with respect to these loans or in our estimates of probable credit losses inherent in the loan and lease portfolio could result in additional provisions for loan losses.

Table of Contents

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

EXPENSES

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

(Dollars in millions)	Quarters Ended June 30,			Six Months Ended June 30,		
	2011	2010	% Change	2011	2010	% Change
Salaries and employee benefits	\$ 1,009	\$ 849	19%	\$ 1,983	\$ 1,732	14%
Information systems and communications	199	174	14	390	341	14
Transaction processing services	193	164	18	373	317	18
Occupancy	113	116	(3)	220	234	(6)
Securities lending charge		414			414	
Acquisition and restructuring costs	17	41	(59)	36	54	(33)
Other:						
Professional services	84	85	(1)	166	166	
Amortization of other intangible assets	50	46	9	99	80	24
Securities processing costs (recoveries)	(12)	(14)	(14)	(17)	44	(139)
Regulator fees and assessments	16	15	7	22	26	(15)
Other	105	54	94	204	115	77
Total other	243	186	31	474	431	10
Total expenses	\$ 1,774	\$ 1,944	(9)	\$ 3,476	\$ 3,523	(1)
Number of employees at quarter end	29,450	28,925				

The increases in salaries and employee benefits expenses for the second quarter and first six months of 2011 compared to the prior-year periods were primarily due to higher cash incentive compensation, partly the result of a reduction of such compensation in 2010 related to the securities lending charge; the effect of salary adjustments primarily related to merit increases; higher contract employee costs associated with the business operations and information technology transformation program described below; the addition of the expenses of the acquired Intesa (full versus partial periods), MIFA (full versus partial six-month period) and BIAM businesses subsequent to their respective acquisition dates; and higher medical insurance costs.

Information systems and communications expenses for the second quarter and first six months of 2011 increased primarily due to the addition of expenses from the acquired Intesa (full versus partial periods) and MIFA (full versus partial six-month period) 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 external contract services costs related to increases in transaction volumes, as well as higher levels of sub-custodian services.

During the second quarter and first six months of 2011, we recorded \$17 million and \$36 million respectively, of acquisition and restructuring costs, composed of \$13 million and \$27 million, respectively, of integration costs related to the Intesa, MIFA and BIAM acquisitions and \$4 million and \$9 million, respectively, of restructuring charges related to the business operations and information technology transformation program.

In November 2010, we announced a global multi-year business operations and information technology transformation program. The program includes operational and information technology enhancements and

Table of Contents

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

targeted cost initiatives, including plans related to reductions in both staff and occupancy costs. To implement this program, we expect to recognize aggregate pre-tax restructuring charges of approximately \$400 million to \$450 million over the four-year period ending December 31, 2014. Excluding these 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.

To date, we have recorded aggregate pre-tax restructuring charges of \$165 million in our consolidated statement of income, composed of \$156 million in 2010 and \$9 million in the first half of 2011. The aggregate charges consisted of \$111 million of employee-related costs, including severance, benefits and outplacement services, and \$54 million related to actions taken to reduce our occupancy costs through consolidation of real estate. In 2010, in connection with the program, we initiated a reduction of 1,400 employees, or approximately 5% of our global workforce, which we expect to have substantially completed by the end of 2011. As of June 30, 2011, in connection with this reduction, a total of approximately 975 employees had been involuntarily terminated and left State Street.

As of June 30, 2011, we had paid approximately \$72 million of the aggregate balance sheet accrual of \$165 million, with \$19 million paid in 2010 and \$53 million paid in 2011. Of the total payments of \$72 million, \$64 million related to employee severance, benefits and outplacement, and \$8 million related to real estate consolidation. The remaining accrual as of June 30, 2011 totaled \$93 million, composed of accruals of \$47 million for employee-related costs and \$46 million for real estate consolidation. Information with respect to activity during the first six months of 2011 in the balance sheet accrual related to the program is provided in note 14 to the consolidated financial statements included in this Form 10-Q.

During the second half of 2011, we expect to record approximately \$110 million to \$130 million of additional pre-tax restructuring charges to accrue for the severance and related costs associated with additional workforce reduction and other transition costs, as a result of implementation of further aspects of the program. As part of this implementation, an additional approximately 530 employees will be provided with severance and outplacement services as their roles are eliminated over the course of the next 18-20 months.

The increase in aggregate other expenses (professional services, amortization of other intangible assets, securities processing costs, regulator fees and assessments and other) for the second quarter and first six months of 2011 compared to the same periods in 2010 resulted primarily from lower insurance recoveries, higher sales and promotion expenses and higher amortization of other intangible assets from acquisitions.

INCOME TAX EXPENSE

We recorded income tax expense of \$202 million for the second quarter of 2011, compared to an income tax benefit of \$82 million for the second quarter of 2010. For the first six months of 2011, income tax expense was \$391 million, compared to \$125 million for the corresponding 2010 period. Our effective tax rates for the second quarter and first six months of 2011 were 28.2% and 28.4%, compared to (23.4)% and 11.9% for the second quarter and first six months of 2010, respectively. The effective tax rates for the second quarter and first six months of 2010 resulted from a discrete tax benefit of \$180 million generated by the restructuring of former non-U.S. conduit assets. Excluding the tax benefit, the effective tax rates for the second quarter and first six months of 2010 would have been 28% and 29%, respectively.

Table of Contents

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

LINE OF BUSINESS INFORMATION

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

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

(Dollars in millions, except where otherwise noted)	Quarters Ended June 30,							
	Investment Servicing		Investment Management		Other		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
Fee revenue:								
Servicing fees	\$ 1,124	\$ 973					\$ 1,124	\$ 973
Management fees			\$ 250	\$ 201			250	201
Trading services	311	326					311	326
Securities finance	116	84	21	25			137	109
Processing fees and other	53	63	17	24			70	87
Total fee revenue	1,604	1,446	288	250			1,892	1,696
Net interest revenue	519	613	53	45			572	658
Gains (Losses) related to investment securities, net	27	(50)					27	(50)
Total revenue	2,150	2,009	341	295			2,491	2,304
Provision for loan losses	2	10					2	10
Expenses from operations	1,538	1,291	219	198			1,757	1,489
Acquisition and restructuring costs					\$ 17	\$ 41	17	41
Securities lending charge		75		339				414
Total expenses	1,538	1,366	219	537	17	41	1,774	1,944
Income (Loss) from continuing operations before income taxes	\$ 610	\$ 633	\$ 122	\$ (242)	\$ (17)	\$ (41)	\$ 715	\$ 350
Pre-tax margin	28%	32%	36%	(82)%				
Average assets (in billions)	\$ 158.0	\$ 145.2	\$ 6.3	\$ 5.8			\$ 164.3	\$ 151.0

Table of Contents

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

(Dollars in millions, except where otherwise noted)	Six Months Ended June 30,							
	Investment Servicing		Investment Management		Other		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
Fee revenue:								
Servicing fees	\$ 2,219	\$ 1,868					\$ 2,219	\$ 1,868
Management fees			\$ 486	\$ 412			486	412
Trading services	613	568					613	568
Securities finance	175	142	28	39			203	181
Processing fees and other	122	153	40	54			162	207
Total fee revenue	3,129	2,731	554	505			3,683	3,236
Net interest revenue	1,054	1,240	95	79			1,149	1,319
Gains related to investment securities, net	20	45					20	45
Total revenue	4,203	4,016	649	584			4,852	4,600
Provision for loan losses	1	25					1	25
Expenses from operations	2,991	2,639	449	416			3,440	3,055
Acquisition and restructuring costs					\$ 36	\$ 54	36	54
Securities lending charge		75		339				414
Total expenses	2,991	2,714	449	755	36	54	3,476	3,523
Income (Loss) from continuing operations before income taxes	\$ 1,211	\$ 1,277	\$ 200	\$ (171)	\$ (36)	\$ (54)	\$ 1,375	\$ 1,052
Pre-tax margin	29%	32%	31%	(29)%				
Average assets (in billions)	\$ 155.7	\$ 141.6	\$ 5.7	\$ 5.4			\$ 161.4	\$ 147.0

Investment Servicing

Total revenue for the second quarter of 2011 increased 7% compared to the second quarter of 2010, and 5% in the six-month comparison. Total fee revenue in the same comparison increased 11% and 15%, respectively, with the increases mainly attributable to growth in servicing fees and securities finance revenue. The increases were partly offset by a decline in processing fees and other revenue.

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

Securities finance revenue in both the quarterly and six-month comparisons increased, primarily as a result of the effect of stronger seasonal activity relative to 2010, partly offset by an overall decrease in average lending volumes. The stronger seasonal activity resulted, in large part, from heavy client demand to borrow significant volumes of European equities corresponding to their annual dividend payment dates, and contributed to improvement in spreads.

Table of Contents

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

Trading services revenue declined 5% in the second quarter of 2011 compared to the second quarter of 2010 and increased 8% in the six-month comparison. The quarterly decrease was primarily the result of a decline in currency volatility, partly offset by higher trading volumes. The increase in the six-month comparison primarily resulted from higher trading volumes, partly offset by a decline in currency volatility. Processing fees and other revenue declined in both comparisons primarily due to lower income from joint ventures and from our structured products business.

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 both the second quarter and first six months of 2011 decreased 15% compared to the same periods in 2010, primarily as a result of lower discount accretion associated with former conduit securities, partly offset by interest revenue generated from the investment of the Intesa-related 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 from operations increased 19% for the second quarter and 13% for the first six months of 2011 compared to the corresponding periods in 2010. Components of the increase included higher salaries and employee benefits expenses, higher costs related to transaction processing associated with higher volumes, and the addition of the expenses of the acquired Intesa and MIFA businesses for the full quarter (Intesa) and first six months (Intesa and MIFA) versus partial periods in 2010. The increases also reflected the impact of the reduction of cash incentive compensation in 2010 related to the securities lending charge.

Investment Management

Total revenue for the second quarter of 2011 increased 16% compared to the second quarter of 2010, and increased 11% for the first six months of 2011 compared to the first six months of 2010. These increases generally resulted from increases in management fees and net interest revenue. Management fees, generated by SSgA, increased 24% in the second quarter of 2011 compared to the second quarter of 2010, and 18% in the six-month comparison, due to improvements in average month-end equity market valuations and the addition of revenue from the acquired BIAM business. Net interest revenue for the second quarter of 2011 increased 18% compared to the second quarter of 2010, and 20% for the first six months of 2011 compared to the first six months of 2010, primarily as a result of the impact of a higher volume of non-U.S. 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 from operations for the second quarter increased 11% compared to the second quarter of 2010, and increased 8% for the first six months of 2011 compared to the first six months of 2010. The increases were related to lower insurance recoveries and higher salaries and employee benefits expenses related to the addition of the expenses of the acquired BIAM business. The 2010 periods reflected the impact of the reduction of cash incentive compensation related to the securities lending charge.

Table of Contents

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

FINANCIAL CONDITION

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

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

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

Additional information about our average 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.

Table of Contents

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

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

(In millions)	2011 Average Balance	2010 Average Balance
Assets:		
Interest-bearing deposits with banks	\$ 12,181	\$ 12,230
Securities purchased under resale agreements	3,710	2,631
Trading account assets	2,279	159
Investment securities	100,161	95,065
Loans and leases	12,729	11,521
Other interest-earning assets	4,586	1,085
Total interest-earning assets	135,646	122,691
Cash and due from banks	2,664	2,393
Other assets	23,137	21,913
Total assets	\$ 161,447	\$ 146,997
Liabilities and shareholders' equity:		
Interest-bearing deposits:		
U.S.	\$ 3,368	\$ 8,130
Non-U.S.	81,063	63,453
Total interest-bearing deposits	84,431	71,583
Securities sold under repurchase agreements	9,117	8,441
Federal funds purchased	1,139	1,730
Other short-term borrowings	5,337	15,883
Long-term debt	9,228	8,797
Other interest-bearing liabilities	2,784	721
Total interest-bearing liabilities	112,036	107,155
Non-interest-bearing deposits	17,220	13,285
Other liabilities	13,221	11,183
Preferred shareholders' equity	298	
Common shareholders' equity	18,672	15,374
Total liabilities and shareholders' equity	\$ 161,447	\$ 146,997

Table of Contents

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

Investment Securities

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

(In millions)	June 30, 2011	December 31, 2010
Available for sale:		
U.S. Treasury and federal agencies:		
Direct obligations	\$ 7,398	\$ 7,577
Mortgage-backed securities	25,535	23,640
Asset-backed securities:		
Student loans ⁽¹⁾	15,920	13,929
Credit cards	9,868	7,603
Sub-prime	1,645	1,818
Other	1,313	1,054
 Total asset-backed securities	 28,746	 24,404
Non-U.S. debt securities:		
Mortgage-backed securities	9,380	6,294
Asset-backed securities	6,101	3,787
Government securities	3,545	2,915
Other	1,120	1,022
 Total non-U.S. debt securities	 20,146	 14,018
State and political subdivisions	6,747	6,604
Collateralized mortgage obligations	2,654	1,861
Other U.S. debt securities	2,804	2,536
U.S. equity securities	563	1,115
Non-U.S. equity securities	190	126
 Total	 \$ 94,783	 \$ 81,881
(In millions)	June 30, 2011	December 31, 2010
Held to Maturity:		
U.S. Treasury and federal agencies:		
Mortgage-backed securities	\$ 332	\$ 413
Asset-backed securities	45	64
Non-U.S. debt securities:		
Mortgage-backed securities	5,942	6,332
Asset-backed securities	89	646
Other	782	208
 Total non-U.S. debt securities	 6,813	 7,186

Edgar Filing: STATE STREET Corp - Form 10-Q

State and political subdivisions	119	134
Collateralized mortgage obligations	3,822	4,452
Total	\$ 11,131	\$ 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 rated AAA or AA as of June 30, 2011. The following table presents the percentages of the carrying value of the portfolio, by external credit rating, as of the dates indicated:

	June 30, 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 June 30, 2011, the investment portfolio of approximately 10,100 securities was diversified with respect to asset class. Approximately 79% of the aggregate carrying value of the portfolio as of that date was composed of mortgage-backed and asset-backed securities. The predominantly floating-rate asset-backed portfolio consists primarily of student loan-backed and credit card-backed securities. Mortgage-backed securities are composed of securities issued by the Federal National Mortgage Association and Federal Home Loan Mortgage Corporation, as well as U.S. and non-U.S. large-issuer collateralized mortgage obligations.

Approximately 25% of the aggregate carrying value of the portfolio as of June 30, 2011 was composed of non-U.S. debt securities. The following tables summarize 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)	June 30, 2011	December 31, 2010
Available for sale:		
United Kingdom	\$ 7,168	\$ 4,451
Netherlands	3,278	2,320
Australia	2,503	1,332
Canada	2,156	2,138
Cayman Islands	1,830	1,518
Germany	1,410	916
France	340	219
Spain	289	285

Edgar Filing: STATE STREET Corp - Form 10-Q

Italy	273	
Other	899	839
Total	\$ 20,146	\$ 14,018

Table of Contents

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

(In millions)	June 30, 2011	December 31, 2010
Held to maturity:		
Australia	\$ 3,084	\$ 3,121
United Kingdom	2,851	3,190
Italy	350	342
Spain	255	245
Other	273	288
Total	\$ 6,813	\$ 7,186

Approximately 86% and 85% of the aggregate carrying value of these non-U.S. debt securities was rated AAA and AA as of June 30, 2011 and December 31, 2010, respectively. As of June 30, 2011, the securities had an aggregate pre-tax unrealized gain of approximately \$155 million and an average market-to-book ratio of 100.6%. The majority is floating-rate securities, and accordingly the aggregate holdings have minimal interest-rate risk. The underlying collateral includes U.K. prime mortgages, Australia and Netherlands mortgages, Australian and Canadian government securities and German automobile loans. The other category of available-for-sale securities included approximately \$78 million and \$69 million of securities as of June 30, 2011 and December 31, 2010, respectively, related to Portugal and Ireland, substantially all of which were mortgage-backed securities. The other category of held-to-maturity securities included approximately \$271 million and \$262 million of securities as of June 30, 2011 and December 31, 2010, respectively, related to Portugal, Ireland and Greece, substantially all of which were mortgage-backed securities.

We carry approximately \$6.87 billion of municipal securities, classified as state and political subdivisions in the preceding table of investment securities carrying values, in our investment portfolio. Substantially all of these securities are classified as securities available for sale, with the remainder classified as securities held to maturity. We also provide approximately \$8.41 billion of credit and liquidity facilities to municipal issuers as a form of credit enhancement. The following table presents our combined credit exposure to state and municipal obligors which represents 5% or more of our aggregate municipal credit exposure of approximately \$15.28 billion across our businesses as of June 30, 2011, grouped by state to display geographic dispersion:

(Dollars in millions)	Total Municipal Securities	Credit and Liquidity Facilities	Total	% of Total Municipal Exposure
State of Issuer:				
Texas	\$ 926	\$ 1,674	\$ 2,600	17%
California	189	1,452	1,641	11
Massachusetts	826	479	1,305	9
Wisconsin	501	419	920	6
New York	284	596	880	6
Florida	184	690	874	6
Total	\$ 2,910	\$ 5,310	\$ 8,220	

Our total municipal securities exposure presented above is concentrated primarily with highly rated counterparties, with 80% of obligors rated AA and higher as of June 30, 2011. As of that date, approximately 65% and 33% of our aggregate exposure was associated with general obligation and revenue bonds, respectively. In addition, we had no exposures associated with healthcare, industrial development or land development bonds. The portfolios are also diversified geographically; the states that represent our largest exposure are widely dispersed across the U.S.

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

Table of Contents

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

Impairment

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

(In millions)	June 30, 2011	December 31, 2010
Fair value	\$ 94,783	\$ 81,881
Amortized cost	94,701	82,329
Net unrealized gain (loss), pre-tax	\$ 82	\$ (448)
Net unrealized gain (loss), after-tax	\$ 49	\$ (270)

The net unrealized amounts excluded the remaining net unrealized loss of \$398 million, or \$247 million after-tax, and \$523 million, or \$317 million after-tax, as of June 30, 2011 and December 31, 2010, respectively, 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 this remaining after-tax unrealized loss from December 31, 2010 to June 30, 2011 resulted primarily from amortization. The loss is disclosed in note 10 to the consolidated financial statements included in this Form 10-Q.

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 contemplate current market conditions and security-specific performance. To the extent that market conditions are worse than management's expectations, other-than-temporary impairment could increase, in particular the credit component that would be recorded in our consolidated statement of income.

Given the exposure of our investment securities portfolio, particularly mortgage- and asset-backed securities, to residential mortgage and other consumer credit risks, the performance of the U.S. housing market is a significant driver of the portfolio's credit performance. As such, our assessment of other-than-temporary impairment relies to a significant extent on our estimates of trends in national housing prices. Generally, indices that measure trends in national housing prices are published in arrears. As of March 31, 2011, national housing prices, according to the Case-Shiller National Home Price Index, had declined by approximately 34% peak-to-current. Overall, management's expectation, for purposes of its evaluation of other-than-temporary impairment as of June 30, 2011, was that peak-to-trough housing prices declined by 37%.

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

Table of Contents

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

We estimate, for example, that other-than-temporary impairment of the investment portfolio could increase by approximately \$20 million to \$60 million, if national housing prices were to decline by 40% peak-to-trough, compared to management's expectation of 37% described above. These sensitivity estimates 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 during the first six months of 2011, management considers the aggregate decline in fair value of the remaining securities and the resulting net unrealized losses as of June 30, 2011 to be temporary and not the result of any material changes in the credit characteristics of the securities. Additional information about our assessment of impairment is provided in note 3 to the consolidated financial statements included in this Form 10-Q.

In late 2010, several major U.S. financial institutions participated in a mortgage foreclosure moratorium with respect to residential mortgages. While the moratorium has been lifted, the residential mortgage servicing environment remains challenging, and the timeline to liquidate distressed loans continues to extend. The rate at which distressed residential mortgages are liquidated may affect, among other things, our investment securities portfolio. Such effects could include the timing of cash flows or the credit quality associated with the mortgages collateralizing certain of our residential mortgage-backed securities, which, accordingly, could result in the recognition of additional other-than-temporary impairment in future periods.

Loans and Leases

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

(In millions)	June 30, 2011	December 31, 2010
Institutional:		
U.S.	\$ 8,230	\$ 7,001
Non-U.S.	4,039	4,192
Commercial real estate:		
U.S.	663	764
Total loans and leases	\$ 12,932	\$ 11,957
Allowance for loan losses	(54)	(100)
Loans and leases, net of allowance for loan losses	\$ 12,878	\$ 11,857

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

The increase in the U.S. portion of the institutional segment from December 31, 2010 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 \$3.84 billion and \$2.63 billion at June 30, 2011 and December 31, 2010,

Table of Contents

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

respectively. The decline in CRE loans was mainly associated with the charge-off of an acquired credit-impaired loan on which we foreclosed during the first quarter, and the charge-off of an acquired credit-impaired loan during the second quarter as a result of deterioration in the value of the underlying collateral. These loans were part of the portfolio acquired in 2008 pursuant to indemnified repurchase agreements with an affiliate of Lehman as a result of the Lehman Brothers bankruptcy. The charge-offs are more fully described in note 4 to the consolidated financial statements included in this Form 10-Q.

As of June 30, 2011, we held an aggregate of approximately \$284 million of CRE loans which were modified in troubled debt restructurings. No impairment loss was recognized upon restructuring the loans, as the discounted cash flows of the modified loans exceeded the carrying amount of the original loans as of the modification date. There were \$307 million of troubled debt restructurings outstanding as of December 31, 2010.

As of June 30, 2011 and December 31, 2010, approximately \$87 million and \$158 million, respectively, of the aforementioned CRE loans had been placed by management on non-accrual status, as the yield associated with these loans, determined when the loans were acquired, was deemed to be non-accretable. This determination was based on management's expectations of the future collection of principal and interest from the loans. Future changes in expectations with respect to collection of principal and interest on these loans could result in additional non-accrual loans and provisions for loan losses.

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

(In millions)	Six Months Ended June 30,	
	2011	2010
Allowance for loan losses:		
Beginning balance	\$ 100	\$ 79
Charge-offs	(47)	(3)
Provisions	1	25
Other		1
Ending balance	\$ 54	\$ 102

The charge-offs recorded in 2011 were mainly related to a foreclosure on an acquired credit-impaired CRE loan and an acquired credit-impaired CRE loan whose underlying collateral had deteriorated in value. Additional information is provided in note 4 to the consolidated financial statements included in this Form 10-Q. The majority of the provision for loan losses recorded in 2010 resulted from a revaluation of the collateral supporting a CRE loan.

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

Cross-Border Outstandings

Information with respect to the nature of our cross-border outstandings is provided under "Financial Condition - Cross-Border Outstandings" in Management's Discussion and Analysis included in our 2010 Form 10-K. Cross-border outstandings to countries in which we do business, and which amounted to at least 1% of our

Table of Contents

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

consolidated total assets, are presented in the following table as of the dates indicated. The aggregate cross-border outstandings presented in the table represented 16% of our consolidated total assets as of both June 30, 2011 and December 31, 2010.

(In millions)	June 30, 2011	December 31, 2010
United Kingdom	\$ 11,821	\$ 8,781
Germany	5,016	6,936
Australia	5,877	5,559
Canada	3,010	2,478
Netherlands	2,936	2,574
Japan	1,960	

Aggregate cross-border outstandings to countries which totaled between 0.75% and 1% of our consolidated total assets as of June 30, 2011 amounted to approximately \$1.49 billion, to Italy. There were no cross-border outstandings to countries which totaled between 0.75% and 1% of our consolidated total assets as of December 31, 2010.

With respect to the ongoing uncertainty in the sovereign bond markets of several European countries, we have heightened the monitoring of our cross-border exposures, particularly our exposures to Portugal, Ireland, Italy, Greece and Spain. In addition to the exposure to Italy described above, we had aggregate exposure of approximately \$1.27 billion to Portugal, Ireland, Greece and Spain as of June 30, 2011. As of that date, none of these country exposures was individually greater than .75% of our consolidated total assets. Approximately 68%, or \$856 million, of this aggregate exposure consisted of securities carried in our investment portfolio, substantially all of which are mortgage- or asset-backed. The remaining amount consisted primarily of exposures to counterparties in those countries related to foreign exchange and interest-rate contracts, cash and interest-bearing deposits, loans and short-duration advances and securities finance. We had not recorded any other-than-temporary impairment or provisions for loan losses with respect to any of these positions as of June 30, 2011.

Capital

The management of both regulatory and economic capital 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.

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.

Table of Contents

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

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

(Dollars in millions)	Regulatory Guidelines ⁽¹⁾		State Street		State Street Bank	
	Minimum	Well Capitalized	June 30, 2011	December 31, 2010	June 30, 2011	December 31, 2010
Tier 1 risk-based capital ratio	4%	6%	18.9%	20.5%	17.2%	18.1%
Total risk-based capital ratio	8	10	20.8	22.0	19.3	19.9
Tier 1 leverage ratio	4	5	8.6	8.2	7.7	7.1
Tier 1 risk-based capital			\$ 13,333	\$ 12,325	\$ 11,724	\$ 10,489
Total risk-based capital			14,609	13,231	13,180	11,565
Adjusted risk-weighted assets and market-risk equivalents:						
Balance sheet risk-weighted assets			\$ 53,453	\$ 46,209	\$ 51,453	\$ 44,103
Off-balance sheet equivalent risk-weighted assets			15,946	13,177	15,946	13,177
Market risk equivalent assets			995	791	946	750
Total			\$ 70,394	\$ 60,177	\$ 68,345	\$ 58,030
Adjusted quarterly average assets			\$ 155,030	\$ 150,770	\$ 152,226	\$ 147,908

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

As of June 30, 2011, State Street's and State Street Bank's tier 1 and total risk-based capital ratios declined compared to December 31, 2010. Higher capital associated with net income, other comprehensive income and the remarketing of subordinated debt, reduced by purchases of our common stock and declarations of common stock dividends, was more than offset by increases in total risk-weighted assets. The increases in risk-weighted assets were primarily related to balance sheet growth mainly associated with higher levels of investment securities. The increases in the tier 1 leverage ratios for both entities were generally due to the impact of the above-described net increases in capital, partly offset by increases in adjusted quarterly average assets. As of June 30, 2011, regulatory capital ratios for State Street and State Street Bank exceeded the regulatory minimum and "well-capitalized" thresholds.

During the first half of 2011, we declared quarterly common stock dividends totaling \$0.36 per share, or approximately \$180 million. These dividends compare to aggregate dividends of \$0.04 per share, or \$20 million, declared in all of 2010, and represented the first increase in our quarterly common stock dividend since we announced a reduction of such dividends in the first quarter of 2009 in connection with our plan to strengthen our tangible common equity. We also purchased approximately 4.9 million shares of our common stock under the program approved by the Board of Directors during the first quarter of 2011, under which we are authorized to purchase up to \$675 million of our common stock during 2011. The shares were purchased at an average and aggregate cost of \$46.18 and approximately \$225 million, respectively. We had approximately \$450 million of common stock that remained to be purchased under the program as of June 30, 2011.

Table of Contents

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

Other

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

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

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

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

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

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

Table of Contents

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

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.

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

Liquidity

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

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

Table of Contents

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

Our sources of liquidity come from two primary areas: access to the global capital markets and liquid assets carried in our consolidated statement of condition. Our ability to source incremental funding at reasonable rates of interest from wholesale investors in the capital markets is the first source of liquidity we would access to accommodate the uses of liquidity described below. On-balance sheet liquid assets are also an integral component of our liquidity management strategy. These assets provide liquidity through maturities of the assets, but more importantly, they provide us with the ability to raise funds by pledging the securities as collateral for borrowings or through outright sales. Each of these sources of liquidity is used in our management of daily cash needs and is available in a crisis scenario should we need to accommodate potential large, unexpected demand for funds.

Our uses of liquidity generally result from the following: withdrawals of unsecured client deposits; draw-downs of unfunded commitments to extend credit or to purchase securities, generally provided through lines of credit; and short-duration advance facilities. Client deposits are generated largely from our investment servicing activities, and are invested in a combination of investment securities and short-term money market 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 June 30, 2011, this wholesale CD portfolio totaled \$592 million, compared to \$6.82 billion at December 31, 2010. Higher levels of client deposits provided additional liquidity. As of June 30, 2011, we had no conduit-issued asset-backed commercial paper outstanding to third parties, compared to \$1.92 billion at December 31, 2010.

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

As of June 30, 2011, the value of our consolidated net liquid assets, as defined, totaled \$107.69 billion, compared to \$83.41 billion at December 31, 2010. For the quarter and six months ended June 30, 2011, consolidated average net liquid assets were \$88.80 billion and \$87.75 billion, respectively, compared to \$74.96 billion and \$72.01 billion, respectively, for the corresponding periods in 2010. Due to the unusual size and volatile nature of client deposits as of quarter-end, we maintained excess balances of approximately \$22.15 billion at central banks as of June 30, 2011, compared to \$16.61 billion as of December 31, 2010. As of June 30, 2011, the value of the parent company's net liquid assets totaled \$6.29 billion, compared with \$5.06 billion

Table of Contents

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

as of December 31, 2010. The increase in parent company liquid assets was primarily the result of the issuance of \$2 billion of senior notes in the first quarter of 2011. The parent company's liquid assets consisted primarily of overnight placements with its banking subsidiaries.

Aggregate investment securities carried at \$44.56 billion as of June 30, 2011, compared to \$44.81 billion as of December 31, 2010, were designated as pledged for public and trust deposits, borrowed funds and for other purposes as provided by law, and are excluded from the liquid assets calculation, unless pledged internally between State Street affiliates. Liquid assets included securities pledged to the Federal Reserve Bank of Boston to secure State Street Bank's ability to borrow from their discount window should the need arise. This access to primary credit is an important source of back-up liquidity for State Street Bank. As of June 30, 2011, State Street Bank had no outstanding primary credit borrowings from the discount window.

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

We maintain an effective universal shelf registration that allows for the public offering and sale of debt securities, capital securities, common stock, depositary shares and preferred stock, and warrants to purchase such securities, including any shares into which the preferred stock and depositary shares may be convertible, or any combination thereof. Additional information about debt and equity securities issued pursuant to this shelf registration is provided in notes 7 and 10 to the consolidated financial statements included in this Form 10-Q.

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

We currently maintain a corporate commercial paper program, unrelated to the conduit asset-backed commercial paper program, under which we can issue up to \$3 billion with original maturities of up to 270 days from the date of issue. At June 30, 2011, we had \$2.42 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 June 30, 2011, State Street Bank's outstanding unsecured senior notes issued under this Board authority totaled \$1.45 billion.

State Street Bank currently maintains a line of credit with a financial institution of CAD \$800 million, or approximately \$830 million, as of June 30, 2011, to support its Canadian securities processing operations. The line of credit has no stated termination date and is cancelable by either party with prior notice. As of June 30, 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

Table of Contents

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

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

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

As part of our trading activities, we assume positions in the foreign exchange and interest-rate markets by buying and selling cash instruments and using derivatives, including foreign exchange forward contracts, foreign exchange and interest-rate options and interest-rate swaps, interest-rate forward contracts, and interest-rate futures. As of June 30, 2011, the aggregate notional amount of these derivatives was \$1.35 trillion, of which \$1.00 trillion was composed of foreign exchange forward, swap and spot contracts. In the aggregate, positions are matched closely to minimize currency and interest-rate risk. All foreign exchange contracts are valued daily at current market rates. Additional information about trading derivatives is provided in note 12 to the consolidated financial statements included in this Form 10-Q.

Table of Contents

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

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

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

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

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

VALUE-AT-RISK

(In millions)	Six Months Ended June 30,					
	Average	2011 Maximum	Minimum	Average	2010 Maximum	Minimum
Foreign exchange rates	\$ 2.7	\$ 6.0	\$ 1.1	\$ 3.7	\$ 9.4	\$ 1.3
Interest rates	6.0	9.3	3.4	2.8	4.5	1.6
Total VaR for trading assets	\$ 6.5	\$ 10.5	\$ 3.5	\$ 4.8	\$ 10.2	\$ 2.2

Our historical simulation VaR methodology recognizes diversification benefits by fully revaluing our portfolio using historical market information. As a result, this historical simulation better captures risk by incorporating, by construction, any diversification benefits or concentration risks in our portfolio related to market factors which have historically moved in correlated or independent directions and amounts.

Consistent with current bank regulatory market risk guidelines, our VaR measurement includes certain positions held outside of our regular sales and trading activities, but carried in trading account assets in our consolidated statement of condition and covered by those guidelines. We do not have a historical simulation VaR model that covers positions outside of our regular sales and trading activities. Consequently, we compute the VaR associated with those assets using a separate model, which we then add to the VaR associated with our sales

Table of Contents

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

and trading activities to derive State Street's total regulatory VaR. Although this simple addition does not fully give recognition to the benefits of diversification of our business, we believe that this approach is both conservative and consistent with the way in which we manage those businesses.

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

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

Total Regulatory VALUE-AT-RISK

(In millions)	Six Months Ended June 30,					
	Average	2011 Maximum	Minimum	Average	2010 Maximum	Minimum
VaR for trading assets	\$ 6.5	\$ 10.5	\$ 3.5	\$ 4.8	\$ 10.2	\$ 2.2
VaR for non-trading assets	1.7	1.9	1.4	3.3	6.7	2.7
Total regulatory VaR	\$ 8.2	\$ 12.4	\$ 5.0	\$ 8.1	\$ 13.1	\$ 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.

Table of Contents

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

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 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

(In millions)	Estimated Exposure to Net Interest Revenue	
	June 30, 2011	December 31, 2010
Rate change:		
+100 bps shock	\$ 93	\$ 121
-100 bps shock	(254)	(231)
+100 bps ramp	15	42
-100 bps ramp	(71)	(117)

As of June 30, 2011, NIR sensitivity to an upward-100-basis-point shock in market rates declined compared to December 31, 2010. A larger projected balance sheet with longer-duration assets was expected to slightly reduce the benefit of rising rates to NIR. The benefit to NIR was less significant for an upward-100-basis-point ramp, since market rates were assumed to increase gradually.

NIR was expected to be more sensitive to a downward-100-basis-point shock in market rates as of June 30, 2011 compared to December 31, 2010. Non-U.S. market rates have begun to rise sooner than was expected as of December 2010, which generates additional NIR sensitivity as forecast market rates rise 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.

Table of Contents

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

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

ECONOMIC VALUE OF EQUITY

(In millions)	Estimated Exposure to Economic Value of Equity	
	June 30, 2011	December 31, 2010
Rate change:		
+200 bps shock	\$ (1,499)	\$ (2,058)
- 200 bps shock	186	949

The decrease in the exposure to EVE for an upward-200-basis-point shock as of June 30, 2011 compared to December 31, 2010 was attributable to the issuance of long-term debt and the sale of long-dated investment securities. These same factors accounted for the decreased benefit to EVE for a downward-200-basis-point shock as of June 30, 2011 compared to December 31, 2010.

Credit Risk

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

An internal rating system is used to assess potential risk of loss. State Street's risk-rating process incorporates the use of risk rating tools in conjunction with management judgment. Qualitative and quantitative inputs are captured in a transparent and replicable manner, and following a formal review and approval process, an internal credit rating based on State Street's credit scale is assigned. We evaluate the creditworthiness of our counterparties on an ongoing basis, but at a minimum annually. Significant exposures are reviewed daily by State Street's Risk Management group. Processes for credit approval and monitoring are in place for all extensions of credit. As part of the approval and renewal process, due diligence is conducted based on the size and term of the exposure, as well as the creditworthiness of the counterparty. At any point in time, having one or more counterparties to which our exposure exceeds 10% of our consolidated total shareholders' equity, exclusive of unrealized gains or losses, is not unusual.

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

An allowance for loan losses is maintained to absorb estimated probable credit losses inherent in our loan and lease portfolio as of the balance sheet date; this allowance is reviewed on a regular basis by management. The provision for loan losses is a charge to current earnings to maintain the overall allowance for loan losses at a

Table of Contents

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

level considered appropriate relative to the level of estimated probable credit losses inherent in the loan and lease portfolio. Information about provisions for loan losses is included under "Provision for Loan Losses" in this Management's Discussion and Analysis.

We also assume other types of credit exposure with our clients and counterparties. We purchase securities under reverse repurchase agreements, which are agreements to resell. Most repurchase agreements are short-term, with maturities of less than 90 days. Risk is managed through a variety of processes, including establishing the acceptability of counterparties; limiting purchases 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 annually. We maintain a separate reserve for probable credit losses related to certain of these off-balance sheet activities, which is recorded in accrued expenses and other liabilities in our consolidated statement of condition. Management reviews the adequacy of this reserve on a regular basis.

On behalf of clients enrolled in our lending program, we lend securities to banks, broker/dealers and other institutions. In most circumstances, we indemnify our clients for the fair market value of those securities against a failure of the borrower to return such securities. Though these transactions are collateralized, the substantial volume of these activities necessitates detailed credit-based underwriting and monitoring processes. The aggregate amount of indemnified securities on loan totaled \$357.85 billion at June 30, 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 \$367.47 billion and \$343.41 billion as collateral for indemnified securities on loan at June 30, 2011 and December 31, 2010, respectively.

The collateral held by us is invested on behalf of our clients. In certain cases, the collateral is invested in third-party repurchase agreements, for which we indemnify the client against loss of the principal invested. We require the repurchase agreement counterparty to provide collateral in an amount equal to or in excess of 100% of the amount of the repurchase agreement. The indemnified repurchase agreements and the related collateral are not recorded in our consolidated statement of condition. Of the collateral of \$367.47 billion at June 30, 2011 and \$343.41 billion at December 31, 2010 referenced above, \$95.28 billion at June 30, 2011 and \$89.07 billion at December 31, 2010 was invested in indemnified repurchase agreements. We held, as agent, \$99.83 billion and \$93.29 billion as collateral for indemnified investments in repurchase agreements at June 30, 2011 and December 31, 2010, respectively.

Investments in debt and equity securities, including investments in affiliates, are monitored regularly by Corporate Finance and Risk Management. Procedures are in place for assessing impaired securities, as 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.

Table of Contents

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

NEW ACCOUNTING STANDARDS

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

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

CONTROLS AND PROCEDURES

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

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

Table of Contents

STATE STREET CORPORATION
CONSOLIDATED STATEMENT OF INCOME
(UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
(Dollars in millions, except per share amounts)				
Fee revenue:				
Servicing fees	\$ 1,124	\$ 973	\$ 2,219	\$ 1,868
Management fees	250	201	486	412
Trading services	311	326	613	568
Securities finance	137	109	203	181
Processing fees and other	70	87	162	207
Total fee revenue	1,892	1,696	3,683	3,236
Net interest revenue:				
Interest revenue	719	846	1,453	1,724
Interest expense	147	188	304	405
Net interest revenue	572	658	1,149	1,319
Gains (Losses) related to investment securities, net:				
Net gains from sales of available-for-sale securities	62	3	66	195
Losses from other-than-temporary impairment	(44)	(240)	(79)	(480)
Losses not related to credit	9	187	33	330
Gains (Losses) related to investment securities, net	27	(50)	20	45
Total revenue	2,491	2,304	4,852	4,600
Provision for loan losses	2	10	1	25
Expenses:				
Salaries and employee benefits	1,009	849	1,983	1,732
Information systems and communications	199	174	390	341
Transaction processing services	193	164	373	317
Occupancy	113	116	220	234
Securities lending charge		414		414
Acquisition and restructuring costs	17	41	36	54
Professional services	84	85	166	166
Amortization of other intangible assets	50	46	99	80
Other	109	55	209	185
Total expenses	1,774	1,944	3,476	3,523
Income before income tax expense	715	350	1,375	1,052
Income tax expense (benefit)	202	(82)	391	125
Net income	\$ 513	\$ 432	\$ 984	\$ 927
Net income available to common shareholders	\$ 502	\$ 427	\$ 968	\$ 919

Edgar Filing: STATE STREET Corp - Form 10-Q

Earnings per common share:

Basic	\$ 1.01	\$.87	\$ 1.95	\$ 1.86
Diluted	1.00	.87	1.93	1.86

Average common shares outstanding (in thousands):

Basic	496,806	495,606	497,137	495,099
Diluted	501,044	498,886	500,753	498,295

Cash dividends declared per common share	\$.18	\$.01	\$.36	\$.02
---	--------	--------	--------	--------

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)	June 30, 2011 (Unaudited)	December 31, 2010
Assets		
Cash and due from banks	\$ 4,572	\$ 3,311
Interest-bearing deposits with banks	30,899	22,234
Securities purchased under resale agreements	1,923	2,928
Trading account assets	2,427	479
Investment securities available for sale	94,783	81,881
Investment securities held to maturity (fair value of \$11,473 and \$12,576)	11,131	12,249
Loans and leases (less allowance for losses of \$54 and \$100)	12,878	11,857
Premises and equipment (net of accumulated depreciation of \$3,580 and \$3,425)	1,853	1,843
Accrued income receivable	1,871	1,733
Goodwill	5,748	5,597
Other intangible assets	2,616	2,593
Other assets	19,754	13,800
Total assets	\$ 190,455	\$ 160,505
Liabilities		
Deposits:		
Noninterest-bearing	\$ 28,065	\$ 17,464
Interest-bearing U.S.	987	6,957
Interest-bearing Non-U.S.	96,357	73,924
Total deposits	125,409	98,345
Securities sold under repurchase agreements	9,171	7,599
Federal funds purchased	3,076	7,748
Other short-term borrowings	8,642	8,694
Accrued expenses and other liabilities	14,779	11,782
Long-term debt	9,544	8,550
Total liabilities	170,621	142,718
Commitments and contingencies (note 8)		
Shareholders' equity		
Preferred stock, no par: 3,500,000 shares authorized; 5,001 shares issued and outstanding	500	
Common stock, \$1 par: 750,000,000 shares authorized; 504,051,907 and 502,064,454 shares issued	504	502
Surplus	9,474	9,356
Retained earnings	9,430	8,634
Accumulated other comprehensive (loss) income	160	(689)
Treasury stock, at cost (5,158,344 and 420,016 shares)	(234)	(16)
Total shareholders' equity	19,834	17,787
Total liabilities and shareholders' equity	\$ 190,455	\$ 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)

(Dollars in millions, except per share amounts, shares in thousands)	Common Stock			Accumulated Other Comprehensive Income (Loss)		Treasury Stock		Total	
	Preferred Stock	Shares	Amount	Surplus	Retained Earnings	Shares	Amount		
Balance at December 31, 2009		495,366	\$ 495	\$ 9,180	\$ 7,071	\$ (2,238)	432	\$ (17)	\$ 14,491
Adjustment for effect of application of provisions of new accounting standard					27	(27)			
Adjusted balance at January 1, 2010		495,366	495	9,180	7,098	(2,265)	432	(17)	14,491
Comprehensive income:									
Net income					927				927
Change in net unrealized loss on available-for-sale securities, net of reclassification adjustment and net of related taxes of \$709						1,125			1,125
Change in net unrealized loss on available-for-sale securities designated in fair value hedges, net of related taxes of \$(37)						(53)			(53)
Expected losses from other-than-temporary impairment on held-to-maturity securities related to factors other than credit, net of related taxes of \$(30)						(44)			(44)
Foreign currency translation, net of related taxes of \$40						(476)			(476)
Change in net unrealized losses on cash flow hedges, net of related taxes of \$(1)						6			6
Total comprehensive income					927	558			1,485
Cash dividends declared \$0.02 per common share					(10)				(10)
Common stock awards and options exercised, including related taxes of \$(11)		6,495	7	86					93
Other							2		
Balance at June 30, 2010		501,861	\$ 502	\$ 9,266	\$ 8,015	\$ (1,707)	434	\$ (17)	\$ 16,059
Balance at December 31, 2010		502,064	\$ 502	\$ 9,356	\$ 8,634	\$ (689)	420	\$ (16)	\$ 17,787
Comprehensive income:									
Net income					984				984
Change in net unrealized loss on available-for-sale securities, net of reclassification adjustment and net of related taxes of \$243						358			358
Change in net unrealized loss on available-for-sale securities designated in fair value hedges, net of related taxes of \$6						8			8
Expected losses from other-than-temporary impairment on held-to-maturity securities related to factors other than credit, net of related taxes of \$8						13			13
Foreign currency translation, net of related taxes of \$(38)						472			472
Change in net unrealized losses on cash flow hedges, net of related taxes of \$1						3			3
Change in minimum pension liability, net of related taxes of \$23						(5)			(5)
Total comprehensive income					984	849			1,833
Preferred stock issued	\$ 500								500

Edgar Filing: STATE STREET Corp - Form 10-Q

Cash dividends declared:									
Common stock \$.36 per share							(181)		(181)
Preferred stock							(7)		(7)
Common stock acquired							4,872	(225)	(225)
Common stock awards and options exercised, including related taxes of \$(11)	1,988	2	129				(127)	6	137
Other							(7)	1	(10)
Balance at June 30, 2011	\$ 500	504,052	\$ 504	\$ 9,474	\$ 9,430	\$ 160	5,158	\$ (234)	\$ 19,834

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

Table of Contents

STATE STREET CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOWS
(UNAUDITED)

	Six Months Ended June 30,	
	2011	2010
(In millions)		
Operating Activities:		
Net income	\$ 984	\$ 927
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred income tax expense (benefit)	(15)	125
Amortization of other intangible assets	99	80
Other non-cash adjustments for depreciation, amortization and accretion	70	(249)
Losses related to investment securities, net	(20)	(45)
Change in trading account assets, net	(1,477)	(55)
Change in accrued income receivable	(138)	786
Change in collateral deposits, net	(683)	(229)
Change in trading liabilities, net	748	
Other, net	(3,942)	2,062
Net cash (used in) provided by operating activities	(4,374)	3,402
Investing Activities:		
Net (increase) decrease in interest-bearing deposits with banks	(8,665)	6,334
Net (increase) decrease in securities purchased under resale agreements	1,005	(363)
Proceeds from sales of available-for-sale securities	7,552	13,774
Proceeds from maturities of available-for-sale securities	21,380	20,680
Purchases of available-for-sale securities	(40,870)	(40,620)
Proceeds from maturities of held-to-maturity securities	1,940	2,742
Purchases of held-to-maturity securities	(452)	(382)
Net increase in loans	(1,154)	(1,146)
Business acquisitions, net of cash acquired	(77)	(2,240)
Purchases of equity investments and other long-term assets	(63)	(19)
Purchases of premises and equipment	(192)	(79)
Other, net	194	301
Net cash used in investing activities	(19,402)	(1,018)
Financing Activities:		
Net increase (decrease) in time deposits	(6,261)	3,965
Net increase in all other deposits	33,325	1,716
Net decrease in short-term borrowings	(3,152)	(5,020)
Proceeds from issuance of long-term debt, net of issuance costs	1,986	
Payments for long-term debt and obligations under capital leases	(1,018)	(333)
Proceeds from issuance of preferred stock	500	
Proceeds from exercises of common stock options	37	8
Purchases of common stock	(225)	
Repurchases of common stock for employee tax withholding	(58)	(39)
Proceeds from issuance of treasury stock for stock awards and options exercised	6	
Payments for cash dividends	(103)	(10)
Net cash provided by financing activities	25,037	287

Edgar Filing: STATE STREET Corp - Form 10-Q

Net increase	1,261	2,671
Cash and due from banks at beginning of period	3,311	2,641
Cash and due from banks at end of period	\$ 4,572	\$ 5,312

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

Table of Contents

STATE STREET CORPORATION

Table of contents

Condensed Notes to Consolidated Financial Statements (Unaudited)

<u>Note 1. Basis of Presentation</u>	52
<u>Note 2. Acquisitions</u>	53
<u>Note 3. Investment Securities</u>	55
<u>Note 4. Loans and Leases</u>	63
<u>Note 5. Goodwill and Other Intangible Assets</u>	67
<u>Note 6. Other Assets</u>	68
<u>Note 7. Long-Term Debt</u>	69
<u>Note 8. Commitments and Contingencies</u>	69
<u>Note 9. Variable Interest Entities</u>	74
<u>Note 10. Shareholders' Equity</u>	75
<u>Note 11. Fair Value</u>	77
<u>Note 12. Derivative Financial Instruments</u>	87
<u>Note 13. Net Interest Revenue</u>	95
<u>Note 14. Acquisition and Restructuring Costs</u>	95
<u>Note 15. Earnings Per Common Share</u>	96
<u>Note 16. Line of Business Information</u>	97
<u>Note 17. Non-U.S. Activities</u>	99

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 impairment of goodwill and other intangible assets. Among other effects, unanticipated events or circumstances could result in future impairment of investment securities, goodwill or other intangible assets, and the recognition of varying amounts of interest revenue from discount accretion related to certain investment securities.

Our consolidated statement of condition at December 31, 2010 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 June 2011, the FASB issued an amendment to GAAP that eliminates the option to report other comprehensive income and its components in the statement of changes in shareholders' equity. Instead, an entity can elect to present the components of net income and other comprehensive income in either one continuous statement, referred to as the statement of comprehensive income, or in two separate, but consecutive, statements. The amendment does not change what items are reported in other comprehensive income or the requirement to report reclassifications of items from other comprehensive income to net income. The amendment is effective, for State Street, for interim and annual periods beginning on January 1, 2012, and is required to be applied retrospectively. We are currently evaluating the options for presentation of other comprehensive income permitted by the amendment.

In May 2011, the FASB issued an amendment to GAAP associated with fair value measurement and related disclosures. While the amendment is not expected to significantly affect current practice, it clarifies the FASB's

Table of Contents

STATE STREET CORPORATION

Condensed Notes to Consolidated Financial Statements (Continued)

(Unaudited)

Note 1. Basis of Presentation (Continued)

intent about the application of existing fair value measurement requirements, and requires the disclosure of additional quantitative information about fair value measurements. The amendment includes guidance about, among other things, how a principal market is determined and the measurement of fair value of instruments with offsetting market or counterparty credit risks. The amendment is effective, for State Street, for interim and annual periods beginning on January 1, 2012, and is required to be applied prospectively.

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

In April 2011, the FASB issued an amendment to GAAP related to the identification and disclosure of troubled debt restructurings. The amendment clarifies that the inability of a borrower to access funds at a market rate for debt with characteristics similar to the restructured debt may be an indicator of a concession being granted. The amendment also clarifies that when evaluating whether a borrower is experiencing financial difficulty, a creditor must consider whether a borrower's default on any of its debt is probable in the foreseeable future, rather than wait for an actual default to occur. The amendment is effective, for State Street, as of July 1, 2011, and applies retroactively to restructurings occurring on or after January 1, 2011. 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 management products. In connection with our acquisition of BIAM, we recorded \$31 million of goodwill and \$27 million of other intangible assets in our consolidated statement of condition, and added approximately \$23 billion to our assets under management as of March 31, 2011. The assets under management are not recorded in our consolidated financial statements. Results of operations of the acquired BIAM business are included in our consolidated financial statements beginning on January 10, 2011.

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

Table of Contents

STATE STREET CORPORATION

Condensed Notes to Consolidated Financial Statements (Continued)

(Unaudited)

Note 2. Acquisitions (Continued)

With respect to the acquired Intesa business, we may be entitled to adjust the purchase price, to allow for a return of a portion of the purchase price, should we lose the business of certain key clients during a defined period subsequent to the closing of the transaction. This contingent asset, which was approximately \$59 million as of June 30, 2011, compared to approximately \$72 million as of December 31, 2010, will be re-measured to fair value at each reporting date through the end of the defined purchase price adjustment period, with any changes in its fair value recorded in our consolidated statement of income.

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

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

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

(In millions)	June 30, 2011			December 31, 2010				
	Amortized Cost	Gross Unrealized Gains	Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Losses	Fair Value
Available for sale:								
U.S. Treasury and federal agencies:								
Direct obligations	\$ 7,329	\$ 76	\$ 7	\$ 7,398	\$ 7,505	\$ 74	\$ 2	\$ 7,577
Mortgage-backed securities	25,107	434	6	25,535	23,398	325	83	23,640
Asset-backed securities:								
Student loans ⁽¹⁾	16,390	100	570	15,920	14,461	92	624	13,929
Credit cards	9,816	64	12	9,868	7,578	56	31	7,603
Sub-prime	2,007	3	365	1,645	2,161	3	346	1,818
Other	1,265	104	56	1,313	1,033	100	79	1,054
Total asset-backed securities	29,478	271	1,003	28,746	25,233	251	1,080	24,404
Non-U.S. debt securities:								
Mortgage-backed securities	9,311	102	33	9,380	6,258	82	46	6,294
Asset-backed securities	6,099	90	88	6,101	3,821	88	122	3,787
Government securities	3,545			3,545	2,915			2,915
Other	1,077	44	1	1,120	990	34	2	1,022
Total non-U.S. debt securities	20,032	236	122	20,146	13,984	204	170	14,018
State and political subdivisions	6,711	167	131	6,747	6,706	102	204	6,604
Collateralized mortgage obligations	2,623	56	25	2,654	1,828	49	16	1,861
Other U.S. debt securities	2,674	139	9	2,804	2,438	116	18	2,536
U.S. equity securities	559	4		563	1,115			1,115
Non-U.S. equity securities	188	2		190	122	5	1	126
Total	\$ 94,701	\$ 1,385	\$ 1,303	\$ 94,783	\$ 82,329	\$ 1,126	\$ 1,574	\$ 81,881
Held to maturity:								
U.S. Treasury and federal agencies:								
Mortgage-backed securities	\$ 332	\$ 24		\$ 356	\$ 413	\$ 26		\$ 439
Asset-backed securities	45		\$ 3	42	64		\$ 5	59
Non-U.S. debt securities:								
Mortgage-backed securities	5,942	167	143	5,966	6,332	166	160	6,338
Asset-backed securities	89	2	1	90	646	18	3	661
Other	782	20	4	798	208		2	206

Edgar Filing: STATE STREET Corp - Form 10-Q

Total non-U.S. debt securities	6,813	189	148	6,854	7,186	184	165	7,205
State and political subdivisions	119	3		122	134	3		137
Collateralized mortgage obligations	3,822	298	21	4,099	4,452	328	44	4,736
Total	\$ 11,131	\$ 514	\$ 172	\$ 11,473	\$ 12,249	\$ 541	\$ 214	\$ 12,576

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

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

Aggregate investment securities carried at \$44.56 billion and \$44.81 billion at June 30, 2011 and December 31, 2010, respectively, were designated as pledged for public and trust deposits, short-term borrowings and for other purposes as provided by law.

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

(In millions)	Under 1 Year	1 to 5 Years	6 to 10 Years	Over 10 Years
Available for sale:				
U.S. Treasury and federal agencies:				
Direct obligations	\$ 3,167	\$ 2,093	\$ 1,533	\$ 605
Mortgage-backed securities	4	1,192	10,415	13,924
Asset-backed securities:				
Student loans	119	4,055	7,884	3,862
Credit cards	1,810	6,229	1,829	
Sub-prime	989	202	12	442
Other	139	664	361	149
Total asset-backed securities	3,057	11,150	10,086	4,453
Non-U.S. debt securities:				
Mortgage-backed securities	310	2,089	239	6,742
Asset-backed securities	68	2,003	3,487	543
Government securities	3,545			
Other	53	938	128	1
Total non-U.S. debt securities	3,976	5,030	3,854	7,286
State and political subdivisions				
Collateralized mortgage obligations	457	2,634	2,632	1,024
Other U.S. debt securities	76	1,206	494	878
Other U.S. debt securities	231	1,844	687	42
Total	\$ 10,968	\$ 25,149	\$ 29,701	\$ 28,212
Held to maturity:				
U.S. Treasury and federal agencies:				
Mortgage-backed securities	\$ 5	\$ 75	\$ 80	\$ 172
Asset-backed securities	7			38
Non-U.S. debt securities:				
Mortgage-backed securities	1,253	884		3,805
Asset-backed securities		45	44	
Other		454	306	22

Edgar Filing: STATE STREET Corp - Form 10-Q

Total non-U.S. debt securities	1,253	1,383	350	3,827
State and political subdivisions	57	61		1
Collateralized mortgage obligations	415	1,830	369	1,208
Total	\$ 1,737	\$ 3,349	\$ 799	\$ 5,246

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

Table of Contents

STATE STREET CORPORATION

Condensed Notes to Consolidated Financial Statements (Continued)

(Unaudited)

Note 3. Investment Securities (Continued)

Impairment

We conduct periodic reviews of individual securities to assess whether other-than-temporary impairment exists. Impairment exists when the current fair value of an individual security is below its amortized cost basis. Where the decline in the security's fair value is deemed to be other than temporary, the loss is recorded in our consolidated statement of income. For debt securities available for sale and held to maturity, other-than-temporary impairment is recorded in our consolidated statement of income when management intends to sell (or may be required to sell) the securities before they recover in value, or when management expects the present value of cash flows expected to be collected from the securities to be less than the amortized cost of the impaired security (a credit loss).

Our review of impaired securities generally includes:

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

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

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

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

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

documentation of the results of these analyses.

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

the length of time the security has been impaired;

the severity of the impairment;

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

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

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

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

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

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

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

Mortgage- and Asset-Backed Securities

For U.S. mortgage-backed securities deemed most at risk, other-than-temporary impairment related to credit is assessed using cash flow models, tailored for each security, that estimate the future cash flows from the underlying mortgages, using the security-specific collateral and transaction structure. Estimates of future cash flows are subject to management judgment. The future cash flows and performance of our portfolio of U.S. mortgage-backed securities are a function of a number of factors, including, but not limited to, the condition of the U.S. economy, the condition of the U.S. residential mortgage markets, and the level of loan defaults, prepayments and loss severities. Management's estimates of future losses for each security also consider the underwriting and historical performance of our specific securities, the underlying collateral type, vintage, borrower profile, third-party guarantees, current levels of subordination, geography and other factors.

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

	Sub-Prime ARM	Alt-A	Non-Agency Prime
June 30, 2011:			
Prepayment rate	1-3%	3-5%	6-8%
Cumulative loss estimates	45-51	14-36	9-19
Loss severity ⁽¹⁾	68-70	57-59	51-54
Peak-to-trough housing price decline ⁽²⁾	37	37	37

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

	Sub-Prime ARM	Alt-A	Non-Agency Prime
December 31, 2010:			
Prepayment rate	2-3%	7%	7-10%
Cumulative loss estimates	33	21	13
Loss severity ⁽¹⁾	67	49	49
Peak-to-trough housing price decline ⁽²⁾	35-40	35-40	35-40

⁽¹⁾ Loss severity rates consider the initial loan-to-value ratio, lien position, geography, expected collateral value and other factors.

⁽²⁾ Management's expectation of the Case-Shiller National Home Price Index.

Table of Contents

STATE STREET CORPORATION

Condensed Notes to Consolidated Financial Statements (Continued)

(Unaudited)

Note 3. Investment Securities (Continued)

For securities that relate to these vintages, other-than-temporary impairment has been recorded on certain assets when both fair value was below carrying value and a credit loss existed. During the three and six months ended June 30, 2011, we recorded credit-related other-than-temporary impairment on securities in these vintages of \$6 million and \$8 million, respectively, with \$1 million and \$2 million, respectively, related to sub-prime first-lien mortgages, \$2 million and \$3 million, respectively, related to Alt-A mortgages and \$3 million for both periods related to non-agency prime mortgages. During the three and six months ended June 30, 2010, we recorded credit-related other-than-temporary impairment on securities in these vintages of \$33 million and \$99 million, respectively, with \$19 million and \$20 million, respectively, related to sub-prime first-lien mortgages, \$4 million and \$24 million, respectively, related to Alt-A mortgages and \$10 million and \$55 million, respectively, related to non-agency prime mortgages.

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

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

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

The assumptions presented above are used by management to identify those securities which are subject to further analysis of potential credit losses. Additional analyses are performed using more severe assumptions to further evaluate sensitivity of losses relative to the above factors. However, since the assumptions are based on the unique characteristics of each security, management uses a range of point estimates for prepayment speeds and housing prices that reflect the collateral profile of the securities within each asset class. In addition, in measuring expected credit losses, the individual characteristics of each security are examined to determine whether any additional factors would increase or mitigate the expected loss. Once losses are determined, the timing of the loss will also affect the ultimate other-than-temporary impairment, since the loss is ultimately subject to a discount commensurate with the purchase yield of the security. Primarily as a result of rising delinquencies and management's continued expectation of declining housing prices, we recorded credit-related other-than-temporary impairment of \$35 million and \$46 million during the three and six months ended June 30, 2011, respectively.

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

After a review of the investment portfolio, taking into consideration current economic conditions, adverse situations that might affect our ability to fully collect principal and interest, the timing of future payments, the credit quality and performance of the collateral underlying asset-backed securities and other relevant factors, and excluding the securities for which other-than-temporary impairment was recorded during the six months ended June 30, 2011, management considers the aggregate decline in fair value of the remaining securities and the resulting gross pre-tax unrealized losses of \$1.48 billion related to 1,649 securities as of June 30, 2011 to be temporary and not the result of any material changes in the credit characteristics of the securities.

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

June 30, 2011	Less than 12 months		12 months or longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
(In millions)						
Available for sale:						
U.S. Treasury and federal agencies:						
Direct obligations	\$ 1,631	\$ 6	\$ 86	\$ 1	\$ 1,717	\$ 7
Mortgage-backed securities	1,720	4	415	2	2,135	6
Asset-backed securities:						
Student loans	1,396	8	9,501	562	10,897	570
Credit cards	1,259	3	2,208	9	3,467	12
Sub-prime			1,595	365	1,595	365
Other	260	6	280	50	540	56
Total asset-backed securities	2,915	17	13,584	986	16,499	1,003
Non-U.S. debt securities:						
Mortgage-backed securities	1,770	12	1,113	21	2,883	33
Asset-backed securities	968	4	1,385	84	2,353	88
Other	74	1			74	1
Total non-U.S. debt securities	2,812	17	2,498	105	5,310	122
State and political subdivisions						
Collateralized mortgage obligations	386	6	1,613	125	1,999	131
Other U.S. debt securities	1,028	20	35	5	1,063	25
Other U.S. debt securities	296	2	64	7	360	9
Total	\$ 10,788	\$ 72	\$ 18,295	\$ 1,231	\$ 29,083	\$ 1,303
Held to maturity:						
Asset-backed securities			\$ 42	\$ 3	\$ 42	\$ 3

Edgar Filing: STATE STREET Corp - Form 10-Q

Non-U.S. debt securities:										
Mortgage-backed securities	\$	464	\$	18	1,452	125	1,916	143		
Asset-backed securities		32		1			32	1		
Other					245	4	245	4		
Total non-U.S. debt securities		496		19	1,697	129	2,193	148		
Collateralized mortgage obligations		480		8	246	13	726	21		
Total	\$	976	\$	27	\$ 1,985	\$	145	\$ 2,961	\$	172

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

December 31, 2010 (In millions)	Less than 12 months		12 months or longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available for sale:						
U.S. Treasury and federal agencies:						
Direct obligations			\$ 153	\$ 2	\$ 153	\$ 2
Mortgage-backed securities	\$ 6,639	\$ 81	431	2	7,070	83
Asset-backed securities:						
Student loans	1,980	25	7,990	599	9,970	624
Credit cards	1,268	5	2,396	26	3,664	31
Sub-prime			1,769	346	1,769	346
Other	90	1	275	78	365	79
Total asset-backed securities	3,338	31	12,430	1,049	15,768	1,080
Non-U.S. debt securities:						
Mortgage-backed securities	2,621	22	370	24	2,991	46
Asset-backed securities	464	2	1,368	120	1,832	122
Other	348	2			348	2
Total non-U.S. debt securities	3,433	26	1,738	144	5,171	170
State and political subdivisions	1,097	19	1,967	185	3,064	204
Collateralized mortgage obligations	494	5	109	11	603	16
Other U.S. debt securities	330	7	61	11	391	18
U.S. equity securities	8	1			8	1
Total	\$ 15,339	\$ 170	\$ 16,889	\$ 1,404	\$ 33,228	\$ 1,574
Held to maturity:						
Asset-backed securities			\$ 53	\$ 5	\$ 53	\$ 5
Non-U.S. debt securities:						
Mortgage-backed securities	\$ 1,445	\$ 72	862	88	2,307	160
Asset-backed securities			68	3	68	3
Other	206	2			206	2
Total non-U.S. debt securities	1,651	74	930	91	2,581	165
Collateralized mortgage obligations	125	2	575	42	700	44
Total	\$ 1,776	\$ 76	\$ 1,558	\$ 138	\$ 3,334	\$ 214

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

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

(In millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Gross realized gains from sales of available-for-sale securities	\$ 62	\$ 5	\$ 69	\$ 203
Gross realized losses from sales of available-for-sale securities		(2)	(3)	(8)
Gross losses from other-than-temporary impairment	(44)	(240)	(79)	(480)
Losses not related to credit	9	187	33	330
Net impairment losses	(35)	(53)	(46)	(150)
Gains (Losses) related to investment securities, net	\$ 27	\$ (50)	\$ 20	\$ 45
Impairment associated with expected credit losses	\$ (24)	\$ (41)	\$ (29)	\$ (130)
Impairment associated with management's intent to sell the impaired securities prior to their recovery in value	(8)		(8)	
Impairment associated with adverse changes in timing of expected future cash flows	(3)	(12)	(9)	(20)
Net impairment losses	\$ (35)	\$ (53)	\$ (46)	\$ (150)

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

(In millions)	2011	2010
Beginning balance	\$ 63	\$ 175
Plus expected credit-related losses for which other-than-temporary impairment was not previously recognized	7	72
Plus expected credit-related losses for which other-than-temporary impairment was previously recognized	31	78
Less losses realized for securities sold	(1)	(1)
Less losses related to securities intended or required to be sold	(2)	
Ending balance	\$ 98	\$ 324

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

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

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

(In millions)	June 30, 2011	December 31, 2010
Institutional:		
Investment funds:		
U.S.	\$ 6,449	\$ 5,316
Non-U.S.	1,802	1,478
Commercial and financial:		
U.S.	654	540
Non-U.S.	355	190
Purchased receivables:		
U.S.	719	728
Non-U.S.	966	1,471
Lease financing:		
U.S.	408	417
Non-U.S.	916	1,053
Total institutional	12,269	11,193
Commercial real estate:		
U.S.	663	764
Total loans and leases	12,932	11,957
Allowance for loan losses	(54)	(100)
Loans and leases, net of allowance for loan losses	\$ 12,878	\$ 11,857

Aggregate short-duration advances to our clients included in the institutional segment were \$3.84 billion and \$2.63 billion at June 30, 2011 and December 31, 2010, respectively. These advances, which we provide in support of clients' investment activities associated with securities settlement, fluctuate based on the volume of securities transactions, and are largely short-term in nature.

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

June 30, 2011	Institutional				Commercial Real Estate			Total Loans and Leases
	Investment Funds	Commercial and Financial	Purchased Receivables	Lease Financing	Property Development	Other Acquired Credit- Impaired	Other	
(In millions)								
Investment grade	\$ 8,145	\$ 836	\$ 1,685	\$ 1,150	\$ 1	\$ 4	\$ 39	\$ 11,860
Speculative	106	173		174	375	47	108	983
Doubtful					76	13		89

Edgar Filing: STATE STREET Corp - Form 10-Q

Total	\$ 8,251	\$ 1,009	\$ 1,685	\$ 1,324	\$ 452	\$ 64	\$ 147	\$ 12,932
-------	----------	----------	----------	----------	--------	-------	--------	-----------

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

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

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

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

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

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

	Institutional		Commercial Real Estate		Total Loans and Leases	
	June 30, 2011	December 31, 2010	June 30, 2011	December 31, 2010	June 30, 2011	December 31, 2010
(In millions)						
Loans and leases:						
Individually evaluated for impairment	\$ 90	\$ 112	\$ 599	\$ 623	\$ 689	\$ 735
Collectively evaluated for impairment	12,179	11,081			12,179	11,081
Loans acquired with deteriorated credit quality			64	141	64	141
Total	\$ 12,269	\$ 11,193	\$ 663	\$ 764	\$ 12,932	\$ 11,957
Allowance for loan losses:						
Individually evaluated for impairment			\$ 24	\$ 24	\$ 24	\$ 24
Collectively evaluated for impairment	\$ 22	\$ 31			22	31
Loans acquired with deteriorated credit quality			8	45	8	45
Total	\$ 22	\$ 31	\$ 32	\$ 69	\$ 54	\$ 100

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

	As of June 30, 2011		Three Months Ended June 30, 2011		Six Months Ended June 30, 2011		As of December 31, 2010	
	Recorded Investment	Unpaid Principal Balance	Recorded Investment	Average Interest Recognized	Recorded Investment	Average Interest Recognized	Recorded Investment	Unpaid Principal Balance
(In millions)								
With no related allowance recorded:								
CRE property development	\$ 201	\$ 231	\$ 201	\$ 4	\$ 203	\$ 8	\$ 209	\$ 240
CRE property development acquired credit-impaired		34						34
CRE other acquired credit-impaired	16	48	16		16		16	47
CRE other	2	3	2		8	1	27	29
With an allowance recorded:								
CRE property development	74	114	\$ 24	79	79		79	113
CRE property development acquired credit-impaired					10		42	47
CRE other acquired credit - impaired	48	84	8	75	1	75	1	100
							83	26

Edgar Filing: STATE STREET Corp - Form 10-Q

CRE other	7	9		7		7		7	9	
Total CRE	\$ 348	\$ 523	\$ 32	\$ 380	\$ 5	\$ 398	\$ 10	\$ 463	\$ 619	\$ 69

(1) As of June 30, 2011 and December 31, 2010, we maintained an additional allowance for loan losses of \$22 million and \$31 million, respectively, associated with loans and leases that were not impaired.

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

As of June 30, 2011, we held an aggregate of approximately \$284 million of CRE loans which were modified in troubled debt restructurings, compared to \$307 million as of December 31, 2010. No impairment loss was recognized upon restructuring of the loans, as the discounted cash flows of the modified loans exceeded the carrying amount of the original loans as of the modification date.

No institutional loans or leases were 90 days or more contractually past-due as of June 30, 2011 or December 31, 2010. Although a portion of the CRE loans was 90 days or more contractually past-due as of June 30, 2011 and December 31, 2010, we do not report them as past-due loans pursuant to specialized GAAP.

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

(In millions)	June 30, 2011	December 31, 2010
Commercial Real Estate:		
Property development	\$ 74	\$ 79
Property development acquired credit-impaired		42
Other acquired credit-impaired	13	22
Other		15
Total	\$ 87	\$ 158

The loans presented in the table above were placed on non-accrual status by management because the yield associated with those loans was deemed to be non-accretable, based on the expected future collection of principal and interest from the loans. The acquired credit-impaired property development loan presented in the table was foreclosed upon in March 2011, as described previously in this note.

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

(In millions)	Institutional	Three Months Ended June 30, 2011 Commercial Real Estate	Total Loans and Leases	2010 Total Loans and Leases
Allowance for loan losses:				
Beginning balance	\$ 31	\$ 49	\$ 80	\$ 91
Charge-offs		(28)	(28)	
Provisions	(9)	11	2	10
Other				1
Ending balance	\$ 22	\$ 32	\$ 54	\$ 102

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

(In millions)	Six Months Ended June 30, 2011			2010
	Institutional	Commercial Real Estate	Total Loans and Leases	Total Loans and Leases
Allowance for loan losses:				
Beginning balance	\$ 31	\$ 69	\$ 100	\$ 79
Charge-offs		(47)	(47)	(3)
Provisions	(9)	10	1	25
Other				1
Ending balance	\$ 22	\$ 32	\$ 54	\$ 102

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

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

Note 5. Goodwill and Other Intangible Assets

The following table presents changes in the carrying amount of goodwill for the six months ended June 30:

(In millions)	2011			2010		
	Investment Servicing	Investment Management	Total	Investment Servicing	Investment Management	Total
Beginning balance	\$ 5,591	\$ 6	\$ 5,597	\$ 4,544	\$ 6	\$ 4,550
Acquisitions of Intesa and Mourant International Finance Administration (MIFA)				899		899
Acquisition of BIAM		31	31			
Foreign currency translation, net	118	2	120	(69)		(69)
Ending balance	\$ 5,709	\$ 39	\$ 5,748	\$ 5,374	\$ 6	\$ 5,380

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

The following table presents changes in the net carrying amount of other intangible assets for the six months ended June 30:

(In millions)	2011			2010		
	Investment Servicing	Investment Management	Total	Investment Servicing	Investment Management	Total
Beginning balance	\$ 2,559	\$ 34	\$ 2,593	\$ 1,760	\$ 50	\$ 1,810
Acquisitions of Intesa and MIFA				1,026		1,026
Acquisition of BIAM		27	27			
Amortization	(94)	(4)	(98)	(73)	(4)	(77)
Foreign currency translation, net	91	1	92	(29)	(2)	(31)
Other		2	2		3	3
Ending balance	\$ 2,556	\$ 60	\$ 2,616	\$ 2,684	\$ 47	\$ 2,731

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

(In millions)	June 30, 2011		Net Carrying Amount	December 31, 2010 Net Carrying Amount
	Gross Carrying Amount	Accumulated Amortization		
Customer relationships	\$ 2,447	\$ (605)	\$ 1,842	\$ 1,821
Core deposits	728	(101)	627	627
Other	225	(78)	147	145
Total	\$ 3,400	\$ (784)	\$ 2,616	\$ 2,593

Note 6. Other Assets

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

(In millions)	June 30, 2011	December 31, 2010
Unrealized gains on derivative financial instruments	\$ 4,675	\$ 5,255
Collateral deposits	6,241	3,251
Receivable for securities sold	2,717	9
Accounts receivable	729	403

Edgar Filing: STATE STREET Corp - Form 10-Q

Deferred tax assets, net of valuation allowance	1,470	1,786
Investments in joint ventures and other unconsolidated entities	1,008	927
Income taxes receivable	497	530
Prepaid expenses	363	382
Other	2,054	1,257
Total	\$ 19,754	\$ 13,800

Table of Contents

STATE STREET CORPORATION

Condensed Notes to Consolidated Financial Statements (Continued)

(Unaudited)

Note 7. Long-Term Debt

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

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

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

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

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

Note 8. Commitments and Contingencies

Off-Balance Sheet Commitments and Contingencies

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

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

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

(In millions)	June 30, 2011	December 31, 2010
Aggregate fair value of indemnified securities financing	\$ 357,854	\$ 334,235
Aggregate fair value of cash and securities held as collateral for indemnified securities financing	367,471	343,410
Aggregate fair value of collateral for indemnified securities financing invested in indemnified repurchase agreements ⁽¹⁾	95,277	89,069
Aggregate fair value of cash and securities held as collateral for indemnified repurchase agreements	99,834	93,294

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

Legal Proceedings

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

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

Table of Contents

STATE STREET CORPORATION

Condensed Notes to Consolidated Financial Statements (Continued)

(Unaudited)

Note 8. Commitments and Contingencies (Continued)

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

As previously reported, two related participants in our agency securities lending program have brought suit against us challenging actions taken by us in response to their withdrawal from the program. We believe that certain withdrawals by these participants were inconsistent with the redemption policy applicable to the agency lending collateral pools and, consequently, redeemed their remaining interests through an in-kind distribution that reflected the assets these participants would have received had they acted in accordance with the collateral pools' redemption policy. The participants have asserted damages of \$120 million, an amount that plaintiffs have stated was the difference between the amortized cost and market value of the assets that State Street proposed to distribute to the plans in-kind in or about August 2009. While management does not believe that such difference is an appropriate measure of damages, as of September 30, 2010, the last date on which State Street acted as custodian for the participants, the difference between the amortized cost and market value of the in-kind distribution was approximately \$49 million, and if such securities were still held by the participants on such date, would have been approximately \$28 million as of June 30, 2011. In taking these actions, we believe that we acted in the best interests of all participants in the collateral pools. We have not established a reserve with respect to this litigation.

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

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

As previously reported, the Attorney General of the State of California has commenced an action under the California False Claims Act and California Business and Professional Code related to services State Street provides to California state pension plans. The California Attorney General asserts that the pricing of certain foreign exchange transactions for these pension plans was governed by the custody contracts for these plans and that our pricing was not consistent with the terms of those contracts and related disclosures to the plans, and that, as a result, State Street made false claims and engaged in unfair competition. The Attorney General asserts actual damages of \$56 million for periods from 2001 to 2007 and seeks additional penalties.

We provide custody and principal foreign exchange services to government pension plans in other jurisdictions, and attorneys general from a number of these other jurisdictions, as well as U.S. Attorney's offices, the SEC and other regulators, have made inquiries or issued subpoenas concerning our foreign exchange pricing. During the third quarter of 2010, we entered into a \$12 million settlement with the State of Washington. This settlement resolves a contract dispute related to the manner in which we priced some foreign exchange

Table of Contents

STATE STREET CORPORATION

Condensed Notes to Consolidated Financial Statements (Continued)

(Unaudited)

Note 8. Commitments and Contingencies (Continued)

transactions during our ten-year relationship with the State of Washington that ended in 2007. Our contractual obligations to the State of Washington were significantly different from those presented in our ongoing litigation in California. In addition, we are responding to information requests from other clients with respect to our foreign exchange services. A putative class action was filed in February 2011 in federal court in Boston that seeks unspecified damages, including treble damages, on behalf of all custodial clients that executed foreign exchange transactions through State Street. The putative class action alleges, among other things, that the rates at which State Street executed foreign currency trades constituted an unfair and deceptive practice and a breach of the duty of loyalty.

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

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

We have claims against Lehman entities, referred to as Lehman, in bankruptcy proceedings in the U.S. and the U.K. We also have amounts that we owe, or return obligations, to Lehman. The various claims and amounts owed have arisen from transactions that existed at the time Lehman entered bankruptcy, including foreign exchange transactions, securities lending arrangements and repurchase agreements. Subsequent to the end of the second quarter of 2011, we reached agreement with certain Lehman bankruptcy estates in the U.S., subject to court approval, to resolve the value of deficiency claims arising out of indemnified repurchase transactions in the U.S. We are in discussions with other Lehman bankruptcy administrators and would expect over time to resolve or obtain greater clarity on the other outstanding claims. We continue to believe that our realizable claims against Lehman exceed our potential return obligations, but the ultimate outcomes of these matters cannot be predicted with certainty. In addition, given the complexity of these matters, it remains likely that the resolution of these matters could occur in different periods.

Table of Contents

STATE STREET CORPORATION

Condensed Notes to Consolidated Financial Statements (Continued)

(Unaudited)

Note 8. Commitments and Contingencies (Continued)

Tax Contingencies

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

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

Unrecognized tax benefits as of June 30, 2011 totaled approximately \$234 million, compared to approximately \$419 million as of December 31, 2010. Substantially all of the change was associated with the impact of our agreement with the IRS concerning our treatment of SILO transactions and the related closing of the IRS audit of tax years 2000–2003. It is reasonably possible that unrecognized tax benefits will further decrease by up to \$158 million over the next 12 months as a result of the closing of the IRS audit of tax years 2004–2006 and related state filings.

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

Other Contingencies

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

As of June 30, 2011 and December 31, 2010, the aggregate notional amount of the contingencies associated with these products, which are individually accounted for as derivative financial instruments, totaled \$43.15 billion and \$46.76 billion, respectively. The notional amounts of these contingencies are presented as derivatives not designated as hedging instruments in the table of aggregate notional amounts of derivative financial instruments provided in note 12. As of June 30, 2011, we have not made a payment under these contingencies that we consider material to our consolidated financial condition, and management believes that the probability of payment under these contingencies in the future that we would consider material to our consolidated financial condition is remote.

Table of Contents

STATE STREET CORPORATION

Condensed Notes to Consolidated Financial Statements (Continued)

(Unaudited)

Note 9. Variable Interest Entities

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

Tax-Exempt Investment Program

In the normal course of our business, we structure and sell certificated interests in pools of tax-exempt investment-grade assets, principally to our mutual fund clients. We structure these pools as partnership trusts, and the assets and liabilities of the trusts are recorded in our consolidated statement of condition as investment securities available for sale and other short-term borrowings. We may also provide liquidity and re-marketing services to the trusts. As of June 30, 2011 and December 31, 2010, we carried investment securities available for sale, composed of securities related to state and political subdivisions, with a fair value of \$2.83 billion and \$2.85 billion, respectively, and other short-term borrowings of \$2.42 billion and \$2.50 billion, respectively, in our consolidated statement of condition in connection with these trusts.

We transfer assets to the trusts from our investment securities portfolio at adjusted book value, and the trusts finance the acquisition of these assets by selling certificated interests issued by the trusts to third-party investors and to State Street as residual holder. These transfers do not meet the de-recognition criteria defined by GAAP, and therefore are recorded in our consolidated financial statements. The trusts had a weighted-average life of approximately 7.5 years at June 30, 2011, compared to approximately 7.7 years at December 31, 2010.

Under separate legal agreements, we provide standby bond purchase agreements to these trusts, which obligate State Street to acquire the certificated interests at par value in the event that the re-marketing agent is unable to place the certificated interests with investors. Our obligations as provider of the standby bond purchase agreements terminate in the event of the following credit events: payment default, bankruptcy of the issuer and the credit enhancer, if any, the imposition of taxability, or the downgrade of an asset held by the trust below investment grade. Our commitments to the trusts under these standby bond purchase agreements totaled \$2.47 billion at June 30, 2011, none of which was utilized at period-end. In the event that our obligations under these agreements are triggered, no material impact to our consolidated results of operations or financial condition is expected to occur, because the securities are already recorded at fair value in our consolidated statement of condition.

Asset-Backed Commercial Paper Program

We sponsor and administer multi-seller asset-backed commercial paper programs, or conduits, which are recorded in our consolidated financial statements. These conduits were originally designed to satisfy the demand of our institutional clients, particularly mutual fund clients, for commercial paper. The conduits purchase financial assets with various asset classifications from a variety of independent third parties, and we consider the activities of the conduits in our liquidity management process. The conduits hold diversified investments, which are primarily asset-backed securities purchased from independent third parties, collateralized by student loans,

Table of Contents

STATE STREET CORPORATION

Condensed Notes to Consolidated Financial Statements (Continued)

(Unaudited)

Note 9. Variable Interest Entities (Continued)

automobile and equipment loans and credit card receivables, among other asset types. As of June 30, 2011 and December 31, 2010, we carried investment securities, composed primarily of asset-backed securities, with an aggregate carrying value of \$6.06 billion and \$6.11 billion, respectively, and loans, composed of purchased receivables, with a recorded investment of \$1.68 billion and \$2.20 billion, respectively, in our consolidated statement of condition in connection with the conduits. In addition, as of December 31, 2010 we carried aggregate short-term borrowings, composed of commercial paper, of \$1.92 billion in connection with the conduits. There was no commercial paper outstanding to third parties as of June 30, 2011 associated with the conduits.

Collateralized Debt Obligations

We serve as collateral manager for a series of collateralized debt obligations, referred to as CDOs. A CDO is a structured investment vehicle which purchases a portfolio of assets funded through the issuance of several classes of debt and equity, the repayment of and return on which are linked to the performance of the underlying assets. We have determined that we are not the primary beneficiary of these VIEs, and do not record them in our consolidated financial statements. At June 30, 2011 and December 31, 2010, the aggregate notional amount of these CDOs was \$1.0 billion. At June 30, 2011 and December 31, 2010, the carrying amount of the underlying collateral was \$292 million and \$323 million, respectively. We have not acquired or transferred any investment securities to a CDO since 2005.

Note 10. Shareholders Equity

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

In March 2011, our Board of Directors approved a new program authorizing the purchase by us of up to \$675 million of our common stock in 2011. This new program supersedes the Board's prior authorization under which 13.25 million common shares were available for purchase as of December 31, 2010. During the three months ended June 30, 2011, we purchased and recorded as treasury stock a total of approximately 4.9 million shares of our common stock, at an average historical cost per share of approximately \$46.18. We may employ third-party broker/dealers to acquire shares on the open market in connection with our common stock purchase programs.

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

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

(In millions)	June 30, 2011	December 31, 2010
Foreign currency translation	\$ 688	\$ 216
Net unrealized loss on hedges of net investments in non-U.S. subsidiaries	(14)	(14)
Net unrealized gain (loss) on available-for-sale securities portfolio	192	(90)
Net unrealized loss related to reclassified available-for-sale securities	(247)	(317)
Net unrealized loss on available-for-sale securities	(55)	(407)
Net unrealized loss on available-for-sale securities designated in fair value hedges	(127)	(135)
Expected losses from other-than-temporary impairment on available-for-sale securities related to factors other than credit	(11)	(17)
Expected losses from other-than-temporary impairment on held-to-maturity securities related to factors other than credit	(98)	(111)
Minimum pension liability	(215)	(210)
Net unrealized loss on cash flow hedges	(8)	(11)
Total	\$ 160	\$ (689)

For the six months ended June 30, 2011, we realized net gains of \$66 million from sales of available-for-sale securities. Unrealized pre-tax gains of \$76 million were included in other comprehensive income, or OCI, at December 31, 2010, net of deferred taxes of \$30 million, related to these sales. For the six months ended June 30, 2010, we realized net gains of \$195 million from sales of available-for-sale securities. Unrealized pre-tax gains of \$131 million were included in OCI at December 31, 2009, net of deferred taxes of \$52 million, related to these sales.

The following table presents total comprehensive income for the three and six months ended June 30, 2011 and 2010.

(In millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Net income	\$ 513	\$ 432	\$ 984	\$ 927
Other comprehensive income	398	178	849	558
Total comprehensive income	\$ 911	\$ 610	\$ 1,833	\$ 1,485

Table of Contents

STATE STREET CORPORATION

Condensed Notes to Consolidated Financial Statements (Continued)

(Unaudited)

Note 11. Fair Value

Fair Value Measurements

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

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

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

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

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

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

Table of Contents

STATE STREET CORPORATION

Condensed Notes to Consolidated Financial Statements (Continued)

(Unaudited)

Note 11. Fair Value (Continued)

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

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

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

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

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

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

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

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

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

(In millions)	Fair Value Measurements on a Recurring Basis as of June 30, 2011				Total Net Carrying Value in Consolidated Statement of Condition
	Quoted Market Prices in Active Markets (Level 1)	Pricing Methods with Significant Observable Market Inputs (Level 2)	Pricing Methods with Significant Unobservable Market Inputs (Level 3)	Impact of Netting ⁽¹⁾	
Assets:					
Trading account assets	\$ 2,282	\$ 145			\$ 2,427
Investment securities available for sale:					
U.S. Treasury and federal agencies:					
Direct obligations	6,271	1,110	\$ 17		7,398
Mortgage-backed securities		24,603	932		25,535
Asset-backed securities:					
Student loans		14,674	1,246		15,920
Credit cards		9,789	79		9,868
Sub-prime		1,645			1,645
Other		613	700		1,313
Total asset-backed securities		26,721	2,025		28,746
Non-U.S. debt securities		16,157	3,989		20,146
State and political subdivisions		6,693	54		6,747
Collateralized mortgage obligations		2,481	173		2,654
Other U.S. debt securities		2,802	2		2,804
U.S. equity securities		563			563
Non-U.S. equity securities	7	183			190
Total investment securities available for sale	6,278	81,313	7,192		94,783
Other assets	235	8,529	209	\$ (4,067)	4,906
Total assets carried at fair value	\$ 8,795	\$ 89,987	\$ 7,401	\$ (4,067)	\$ 102,116
Liabilities:					
Accrued expenses and other liabilities	\$ 2,169	\$ 8,786	\$ 228	\$ (4,067)	\$ 7,116

Edgar Filing: STATE STREET Corp - Form 10-Q

Total liabilities carried at fair value	\$ 2,169	\$	8,786	\$	228	\$ (4,067)	\$	7,116
---	----------	----	-------	----	-----	------------	----	-------

(1) Represents counterparty netting against level 2 financial assets and liabilities, where a legally enforceable master netting agreement exists between State Street and the counterparty.

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

(In millions)	Fair Value Measurements on a Recurring Basis as of December 31, 2010				Total Net Carrying Value in Consolidated Statement of Condition
	Quoted Market Prices in Active Markets (Level 1)	Pricing Methods with Significant Observable Market Inputs (Level 2)	Pricing Methods with Significant Unobservable Market Inputs (Level 3)	Impact of Netting ⁽¹⁾	
Assets:					
Trading account assets	\$ 357	\$ 122			\$ 479
Investment securities available for sale:					
U.S. Treasury and federal agencies:					
Direct obligations	6,529	1,048			7,577
Mortgage-backed securities		22,967	\$ 673		23,640
Asset-backed securities:					
Student loans		12,764	1,165		13,929
Credit cards		7,560	43		7,603
Sub-prime		1,818			1,818
Other		563	491		1,054
Total asset-backed securities		22,705	1,699		24,404
Non-U.S. debt securities		11,295	2,723		14,018
State and political subdivisions		6,554	50		6,604
Collateralized mortgage obligations		1,502	359		1,861
Other U.S. debt securities		2,533	3		2,536
U.S. equity securities		1,115			1,115
Non-U.S. equity securities	7	119			126
Total investment securities available for sale	6,536	69,838	5,507		81,881
Other assets	168	7,971	254	\$ (2,970)	5,423
Total assets carried at fair value	\$ 7,061	\$ 77,931	\$ 5,761	\$ (2,970)	\$ 87,783
Liabilities:					
Accrued expenses and other liabilities	\$ 723	\$ 8,557	\$ 269	\$ (2,970)	\$ 6,579
Total liabilities carried at fair value	\$ 723	\$ 8,557	\$ 269	\$ (2,970)	\$ 6,579

⁽¹⁾ Represents counterparty netting against level 2 financial assets and liabilities, where a legally enforceable master netting agreement exists between State Street and the counterparty.

Edgar Filing: STATE STREET Corp - Form 10-Q

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

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

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

(In millions)	Fair Value at March 31, 2011	Transfers into Level 3	Transfers out of Level 3	Recorded in Revenue	Recorded in Other Comprehensive Income	Purchases	Issuances	Sales	Settlements	Fair Value at June 30, 2011	Change in Unrealized Gains (Losses) Related to Financial Instruments Held at June 30, 2011
Assets:											
Investment securities available for sale:											
U.S. Treasury and federal agencies:											
Direct obligations						\$ 17				\$ 17	
Mortgage-backed securities	\$ 898					62		\$ (28)		932	
Asset-backed securities:											
Student loans	1,265		\$ (308)	\$ 2	\$ (1)	300			(12)	1,246	
Credit cards	74		(16)	1		20				79	
Other	565	\$ 114	(20)	3		17			21	700	
Total asset-backed securities	1,904	114	(344)	6	(1)	337			9	2,025	
Non-U.S. debt securities	3,540		(680)	5	4	1,220			(100)	3,989	
State and political subdivisions	51					1	2			54	
Collateralized mortgage obligations	228		(196)	199		142			(200)	173	
Other U.S. debt securities	3								(1)	2	
Total investment securities available for sale	6,624	114	(1,220)	210	4	1,780			(320)	7,192	
Other assets	235			(38)		96		\$ (2)	(82)	209	\$ (30)
Total assets carried at fair value	\$ 6,859	\$ 114	\$ (1,220)	\$ 172	\$ 4	\$ 1,876		\$ (2)	\$ (402)	\$ 7,401	\$ (30)

(In millions)

**Fair Value Measurements Using Significant Unobservable Inputs
Three Months Ended June 30, 2011**

(In millions)	Fair Value at March 31, 2011	Transfers into Level 3	Transfers out of	Total Realized and Unrealized (Gains) Losses	Purchases	Issuances	Sales	Settlements	Fair Value at June	Change in Unrealized
---------------	---------------------------------------	---------------------------------	------------------------	---	-----------	-----------	-------	-------------	--------------------------	----------------------------

Edgar Filing: STATE STREET Corp - Form 10-Q

	2011	3	Level 3	Recorded in Revenue	Recorded in Other Comprehensive Income				30, 2011	(Gains) Losses Related to Financial Instruments Held at June 30, 2011
Liabilities:										
Accrued expenses and other liabilities	\$ 241			\$ (20)	\$ (2)	\$ 14	\$ 79	\$ (84)	\$ 228	\$ (3)
Total liabilities carried at fair value	\$ 241			\$ (20)	\$ (2)	\$ 14	\$ 79	\$ (84)	\$ 228	\$ (3)

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

(In millions)	Fair Value at December 31, 2010	Transfers into Level 3	Transfers out of Level 3	Recorded in Revenue	Recorded in Other Comprehensive Income	Purchases	Issuances	Sales	Settlements	Fair Value at June 30, 2011	Change in Unrealized Gains (Losses) Related to Financial Instruments Held at June 30, 2011
Assets:											
Investment securities available for sale:											
U.S. Treasury and federal agencies:											
Direct obligations										\$ 17	\$ 17
Mortgage-backed securities	\$ 673		\$ (404)		\$ 1	699			\$ (37)	932	
Asset-backed securities:											
Student loans	1,165		(315)	\$ 3		421			(28)	1,246	
Credit cards	43		(16)	2	(2)	51			1	79	
Other	491	\$ 114	(20)	7	10	115			(17)	700	
Total asset-backed securities	1,699	114	(351)	12	8	587			(44)	2,025	
Non-U.S. debt securities	2,723		(963)	9	50	2,361			(191)	3,989	
State and political subdivisions	50				2	2				54	
Collateralized mortgage obligations	359		(329)	333	(2)	165			(353)	173	
Other U.S. debt securities	3								(1)	2	
Total investment securities available for sale	5,507	114	(2,047)	354	59	3,831			(626)	7,192	
Other assets	254			(107)		164		\$ (3)	(99)	209	\$ (51)
Total assets carried at fair value	\$ 5,761	\$ 114	\$ (2,047)	\$ 247	\$ 59	\$ 3,995		\$ (3)	\$ (725)	\$ 7,401	\$ (51)

Fair Value Measurements Using Significant Unobservable Inputs**Six Months Ended June 30, 2011**

(In millions)	Fair Value at December 31, Level	Transfers into Level	Transfers out of	Total Realized and Unrealized (Gains) Losses	Purchases	Issuances	Sales	Settlements	Fair Value at June	Change in Unrealized

Edgar Filing: STATE STREET Corp - Form 10-Q

	2010	3	Level 3	Recorded in Revenue	Recorded in Other Comprehensive Income				30, 2011	(Gains) Losses Related to Financial Instruments Held at June 30, 2011
Liabilities:										
Accrued expenses and other liabilities	\$ 269			\$ (87)	\$ (3)	\$ 13	\$ 144	\$ (108)	\$ 228	\$ (35)
Total liabilities carried at fair value	\$ 269			\$ (87)	\$ (3)	\$ 13	\$ 144	\$ (108)	\$ 228	\$ (35)

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

Fair Value Measurements Using Significant Unobservable Inputs
Three Months Ended June 30, 2010
Total Realized and
Unrealized Gains (Losses)

(In millions)	Fair Value at March 31, 2010	Recorded in Revenue	Recorded in Other Comprehensive Income	Purchases, Issuances and Settlements, Net	Transfers Into and/or Out of Level 3	Fair Value at June 30, 2010	Change in Unrealized Gains (Losses) Related to Financial Instruments Held at June 30, 2010
Assets:							
Investment securities available for sale:							
U.S. Treasury and federal agencies:							
Mortgage-backed securities	\$ 225		\$ (2)	\$ (180)		\$ 43	
Asset-backed securities:							
Student loans	3,046	\$ 2	3	(64)	\$ (758)	2,229	
Credit cards	39	1		46	5	91	
Sub-prime	3		1			4	
Other	1,105	21	4	(61)		1,069	
Total asset-backed securities	4,193	24	8	(79)	(753)	3,393	
Non-U.S. debt securities	2,687	18	10	(54)	(2)	2,659	
State and political subdivisions					3	3	
Collateralized mortgage obligations	195	1	(4)	232		424	
Other U.S. debt securities	3					3	
Total investment securities available for sale	7,303	43	12	(81)	(752)	6,525	
Loans and leases	916				(916)		
Other assets	209	9		89		307	\$ 26
Total assets	\$ 8,428	\$ 52	\$ 12	\$ 8	\$ (1,668)	\$ 6,832	\$ 26

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

(In millions)	Fair Value at March 31, 2010	Total Realized and Unrealized (Gains) Losses Recorded in Revenue	Recorded in Other	Purchases, Issuances and Settlements, Net	Transfers Into and/or Out of Level 3	Fair Value at June 30, 2010	Change in Unrealized (Gains) Losses Related
---------------	---------------------------------------	--	-------------------------	---	---	-----------------------------------	---

Edgar Filing: STATE STREET Corp - Form 10-Q

Comprehensive
Income

to
Financial
Instruments
Held at
June 30,
2010

Liabilities:

Other short-term borrowings	\$ 674			\$ (674)	\$		
Accrued expenses and other liabilities	212	\$ (15)		\$ 87		284	\$ 3
Total liabilities carried at fair value	\$ 886	\$ (15)		\$ 87	\$ (674)	\$ 284	\$ 3

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

Fair Value Measurements Using Significant Unobservable Inputs
Six Months Ended June 30, 2010
Total Realized and
Unrealized Gains (Losses)

(In millions)	Fair Value at December 31, 2009	Recorded in Revenue	Recorded in Other Comprehensive Income	Purchases, Issuances and Settlements, Net	Transfers Into and/or Out of Level 3	Fair Value at June 30, 2010	Change in Unrealized Gains (Losses) Related to Financial Instruments Held at June 30, 2010
Assets:							
Investment securities available for sale:							
U.S. Treasury and federal agencies:							
Mortgage-backed securities	\$ 58	\$ (1)	\$ (2)	\$ (12)		\$ 43	
Asset-backed securities:							
Student loans	3,111	5	71	(36)	\$ (922)	2,229	
Credit cards	312	15	(15)	18	(239)	91	
Sub-prime	3		1			4	
Other	1,134	39	42	(46)	(100)	1,069	
Total asset-backed securities	4,560	59	99	(64)	(1,261)	3,393	
Non-U.S. debt securities	2,606	75	148	(53)	(117)	2,659	
State and political subdivisions	2				1	3	
Collateralized mortgage obligations	199	(208)	3	430		424	
Other U.S. debt securities	3					3	
Total investment securities available for sale	7,428	(75)	248	301	(1,377)	6,525	
Other assets	128	3		176		307	\$ 3
Total assets	\$ 7,556	\$ (72)	\$ 248	\$ 477	\$ (1,377)	\$ 6,832	\$ 3

Fair Value Measurements Using Significant Unobservable Inputs
Six Months Ended June 30, 2010

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

Edgar Filing: STATE STREET Corp - Form 10-Q

Income

Held at
June 30,
2010

Liabilities:

Accrued expenses and other liabilities	\$ 147	\$ (31)	\$ 168	\$ 284	\$ (17)
Total liabilities carried at fair value	\$ 147	\$ (31)	\$ 168	\$ 284	\$ (17)

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

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

(In millions)	Three Months Ended June 30, 2011		Three Months Ended June 30, 2010	
	Total Realized and Unrealized Gains (Losses) Recorded in Revenue	Change in Unrealized Gains (Losses) Related to Financial Instruments Held at June 30, 2011	Total Realized and Unrealized Gains (Losses) Recorded in Revenue	Change in Unrealized Gains (Losses) Related to Financial Instruments Held at June 30, 2010
Fee revenue:				
Trading services	\$ (18)	\$ (27)	\$ 24	\$ 23
Total fee revenue	(18)	(27)	24	23
Net interest revenue	210		43	
Total revenue	\$ 192	\$ (27)	\$ 67	\$ 23

(In millions)	Six Months Ended June 30, 2011		Six Months Ended June 30, 2010	
	Total Realized and Unrealized Gains (Losses) Recorded in Revenue	Change in Unrealized Gains (Losses) Related to Financial Instruments Held at June 30, 2011	Total Realized and Unrealized Gains (Losses) Recorded in Revenue	Change in Unrealized Gains (Losses) Related to Financial Instruments Held at June 30, 2010
Fee revenue:				
Trading services	\$(20)	\$ (16)	\$ 34	\$ 20
Total fee revenue	(20)	(16)	34	20
Net interest revenue	354		(75)	
Total revenue	\$ 334	\$ (16)	\$ (41)	\$ 20

Table of Contents

STATE STREET CORPORATION

Condensed Notes to Consolidated Financial Statements (Continued)

(Unaudited)

Note 11. Fair Value (Continued)

Fair Values of Financial Instruments

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

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

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

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

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

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

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

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

(In millions)	Reported Amount	Fair Value
June 30, 2011:		
Financial Assets:		
Investment securities held to maturity	\$ 11,131	\$ 11,473
Net loans (excluding leases)	11,554	11,465
Financial Liabilities:		
Long-term debt	9,544	9,648
December 31, 2010:		
Financial Assets:		
Investment securities held to maturity	\$ 12,249	\$ 12,576
Net loans (excluding leases)	10,387	10,242
Financial Liabilities:		
Long-term debt	8,550	8,498

Note 12. Derivative Financial Instruments

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

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

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

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

Derivative financial instruments involve the management of interest-rate and foreign currency risk, and involve, to varying degrees, market risk and credit and counterparty risk (risk related to repayment). Market risk is defined as the risk of adverse financial impact due to fluctuations in interest rates, foreign exchange rates and other market-driven factors and prices. We use a variety of risk management tools and methodologies

Edgar Filing: STATE STREET Corp - Form 10-Q

to measure, monitor and manage the market risk associated with our trading activities. One such risk-management measure is value-at-risk, or VaR. VaR is an estimate of potential loss for a given period within a stated statistical

Table of Contents

STATE STREET CORPORATION

Condensed Notes to Consolidated Financial Statements (Continued)

(Unaudited)

Note 12. Derivative Financial Instruments (Continued)

confidence interval. We use a risk-measurement system to estimate VaR daily. We have adopted standards for estimating VaR, and we maintain regulatory capital for market risk in accordance with federal regulatory capital guidelines.

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

We enter into master netting agreements with many of our derivative counterparties. Certain of these agreements contain credit risk-related contingent features in which the counterparty has the option to declare State Street in default and accelerate cash settlement of our net derivative liabilities with the counterparty in the event our credit rating falls below specified levels. The aggregate fair value of all derivative instruments with credit risk-related contingent features that were in a net liability position as of June 30, 2011 totaled approximately \$742 million, against which we had posted aggregate collateral of approximately \$366 million. If State Street's credit rating was downgraded below levels specified in the agreements, the maximum additional amount of payments related to termination events that could have been required pursuant to these contingent features as of June 30, 2011 was approximately \$376 million. Such accelerated settlement would not affect our consolidated results of operations.

Derivatives Not Designated as Hedging Instruments

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

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

Table of Contents

STATE STREET CORPORATION

Condensed Notes to Consolidated Financial Statements (Continued)

(Unaudited)

Note 12. Derivative Financial Instruments (Continued)

using derivative financial instruments, including foreign exchange forward contracts, foreign exchange and interest-rate options and interest-rate swaps, interest-rate forward contracts, and interest-rate futures. In the aggregate, positions are matched closely to minimize currency and interest-rate risk. Gains or losses in the fair values of trading derivatives are recorded in trading services revenue in our consolidated statement of income.

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

Derivatives Designated as Hedging Instruments

In connection with our asset and liability management activities, we use derivative financial instruments to manage interest-rate risk. Interest-rate risk, defined as the sensitivity of income or financial condition to variations in interest rates, is a significant non-trading market risk to which our assets and liabilities are exposed. These hedging relationships are formally designated, and qualify for hedge accounting, as fair value or cash flow hedges. We manage interest-rate risk by identifying, quantifying and hedging our exposures, using fixed-rate portfolio securities and a variety of derivative financial instruments, most frequently interest-rate swaps and options (e.g., interest rate caps and floors). Interest-rate swap agreements alter the interest-rate characteristics of specific balance sheet assets or liabilities. When appropriate, forward rate agreements, options on swaps, and exchange-traded futures and options are also used.

Fair value hedges

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

We have entered into interest rate contracts to hedge fair value changes for certain available-for-sale securities. Under one strategy, we have entered into interest-rate swap agreements to modify our interest revenue from certain available-for-sale securities from a fixed rate to a floating rate. The securities hedged have a weighted-average life of approximately 7.5 years as of June 30, 2011, compared to 7.7 years as of December 31, 2010. These securities are hedged with interest-rate swap contracts of similar maturity, repricing and fixed-rate coupons. The interest-rate swap contracts convert the interest revenue from a fixed rate to a floating rate indexed to LIBOR, thereby mitigating our exposure to fluctuations in the fair value of the securities attributable to changes in the benchmark interest rate. Under a second strategy, we have entered into U.S. Treasury note futures contracts to hedge the risk of changes in fair value for certain fixed-rate available-for-sale U.S. Treasury securities. Those U.S. Treasury securities have terms ranging from two to five years, and are hedged with U.S. Treasury note futures contracts with similar terms.

We have entered into interest-rate swap agreements to modify our interest expense on two subordinated notes from fixed rates to floating rates. The subordinated notes mature in 2018; one pays fixed interest at a

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

4.956% annual rate and the other pays fixed interest at a 5.25% annual rate. The subordinated notes are hedged with interest-rate swap contracts with notional amounts, maturities and fixed-rate coupon terms that align with the hedged subordinated notes. The interest-rate swap contracts convert the fixed-rate coupons to floating rates indexed to LIBOR, thereby mitigating our exposure to fluctuations in the fair values of the subordinated notes stemming from changes in the benchmark interest rates.

Cash flow hedges

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

We have entered into interest-rate swap agreements to modify our interest revenue from certain available-for-sale securities from a floating rate to a fixed rate. The securities hedged have a weighted-average life of approximately 3.3 years as of June 30, 2011, compared to 3.8 years as of December 31, 2010. These securities are hedged with interest-rate swap contracts of similar maturities, repricing and other characteristics. The interest-rate swap contracts convert the interest revenue from a floating rate to a fixed rate, thereby mitigating our exposure to fluctuations in the cash flows of the securities attributable to changes in the benchmark interest rate.

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

(In millions)	June 30, 2011	December 31, 2010
Derivatives not designated as hedging instruments:		
Interest-rate contracts:		
Swap agreements and forwards	\$ 192,346	\$ 52,383
Options and caps purchased	1,156	140
Options and caps written	1,344	130
Futures	126,792	25,253
Foreign exchange contracts:		
Forward, swap and spot	1,000,892	637,847
Options purchased	13,228	14,299
Options written	12,943	14,587
Credit derivative contracts:		
Credit default swap agreements	155	155
Other:		
Stable value contracts	43,150	46,758
Derivatives designated as hedging instruments:		
Interest-rate contracts:		

Edgar Filing: STATE STREET Corp - Form 10-Q

Swap agreements	2,265	1,886
Futures	2,383	

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

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

(In millions)	June 30, 2011			December 31, 2010		
	Fair Value Hedges	Cash Flow Hedges	Total	Fair Value Hedges	Cash Flow Hedges	Total
Investment securities available for sale	\$ 3,820	\$ 128	\$ 3,948	\$ 1,561	\$ 125	\$ 1,686
Long-term debt ⁽¹⁾	700		700	200		200
Total	\$ 4,520	\$ 128	\$ 4,648	\$ 1,761	\$ 125	\$ 1,886

⁽¹⁾ As of June 30, 2011 and December 31, 2010, fair value hedges of long-term debt increased the carrying value of long-term debt presented in our consolidated statement of condition by \$90 million and \$81 million, respectively.

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

	Three Months Ended June 30,			
	2011	Rate Including Impact of Hedges	2010	Rate Including Impact of Hedges
Long-term debt	Contractual Rates 3.55%	3.16%	Contractual Rates 3.73%	3.23%

	Six Months Ended June 30,			
	2011	Rate Including Impact of Hedges	2010	Rate Including Impact of Hedges
Long-term debt	Contractual Rates 3.55%	3.18%	Contractual Rates 3.74%	3.26%

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

Table of Contents

STATE STREET CORPORATION

Condensed Notes to Consolidated Financial Statements (Continued)

(Unaudited)

Note 12. Derivative Financial Instruments (Continued)

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

(In millions)	Asset Derivatives June 30, 2011		Liability Derivatives June 30, 2011	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives not designated as hedging instruments:				
Interest-rate contracts	Other assets	\$ 397	Other liabilities	\$ 471
Foreign exchange contracts	Other assets	8,278	Other liabilities	8,312
Credit derivative contracts	Other assets		Other liabilities	1
Equity derivative contracts	Other assets	1	Other liabilities	
Total		\$ 8,676		\$ 8,784
Derivatives designated as hedging instruments:				
Interest-rate contracts	Other assets	\$ 66	Other liabilities	\$ 230
Total		\$ 66		\$ 230
(In millions)	Asset Derivatives December 31, 2010		Liability Derivatives December 31, 2010	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives not designated as hedging instruments:				
Interest-rate contracts	Other assets	\$ 412	Other liabilities	\$ 423
Foreign exchange contracts	Other assets	7,779	Other liabilities	8,174
Credit derivative contracts	Other assets	1	Other liabilities	1
Equity derivative contracts	Other assets	1	Other liabilities	
Total		\$ 8,193		\$ 8,598
Derivatives designated as hedging instruments:				
Interest-rate contracts	Other assets	\$ 32	Other liabilities	\$ 228
Total		\$ 32		\$ 228

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

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

(In millions)	Location of Gain (Loss) on Derivative in Consolidated Statement of Income	Amount of Gain (Loss) on Derivative Recognized in Consolidated Statement of Income	
		Three Months Ended	
		June 30, 2011	Six Months Ended June 30, 2011
Derivatives not designated as hedging instruments:			
Interest-rate contracts	Trading services revenue	\$ (8)	\$ (18)
Foreign exchange contracts	Trading services revenue	168	327
Foreign exchange contracts	Processing fees and other revenue	(4)	1
Total		\$ 156	\$ 310

(In millions)	Location of Gain (Loss) on Derivative in Consolidated Statement of Income	Amount of Gain (Loss) on Derivative Recognized in Consolidated Statement of Income	
		Three Months Ended	
		June 30, 2010	Six Months Ended June 30, 2010
Derivatives not designated as hedging instruments:			
Interest-rate contracts	Trading services revenue	\$ (1)	\$ (2)
Interest-rate contracts	Processing fees and other revenue	3	14
Foreign exchange contracts	Trading services revenue	188	331
Foreign exchange contracts	Processing fees and other revenue	(5)	(7)
Total		\$ 185	\$ 336

Location of Gain (Loss) on Derivative in Consolidated Statement of Income	Amount of Gain (Loss) on Derivative Recognized in Consolidated Statement of Income	Hedged Item in Fair Value Hedging Relationship	Location of Gain (Loss) on Hedged Item in Consolidated Statement of	Amount of Gain (Loss) on Hedged Item Recognized in Consolidated Statement of Income
---	--	--	---	---

Edgar Filing: STATE STREET Corp - Form 10-Q

(In millions)		Six Months		Income	
		Three Months Ended June 30, 2011	Ended June 30, 2011	Three Months Ended June 30, 2011	Six Months Ended June 30, 2011
Derivatives designated as fair value hedges:					
				Long-term debt	Processing
Interest-rate contracts	Processing fees and other revenue	\$ 19	\$ 16		fees and other revenue
				Available-for-sale securities	Processing
Interest-rate contracts	Processing fees and other revenue	(16)	10		fees and other revenue
Total		\$ 3	\$ 26		
					\$ (17)
					\$ (14)
					11
					\$ (28)

Table of Contents

STATE STREET CORPORATION

Condensed Notes to Consolidated Financial Statements (Continued)

(Unaudited)

Note 12. Derivative Financial Instruments (Continued)

(In millions)	Location of Gain (Loss) on Derivative in Consolidated Statement of Income	Amount of Gain (Loss) on Derivative Recognized in Consolidated Statement of Income		Hedged Item in Fair Value Hedging Relationship	Location of Gain (Loss) on Hedged Item in Consolidated Statement of Income	Amount of Gain (Loss) on Hedged Item Recognized in Consolidated Statement of Income	
		Three Months Ended	Six Months Ended			Three Months Ended	Six Months Ended
		June 30, 2010	June 30, 2010			June 30, 2010	June 30, 2010
Derivatives designated as fair value hedges:							
Interest-rate contracts	Processing fees and other revenue	\$ 38	\$ 40	Long-term debt	Processing fees and other revenue	\$ (36)	\$ (35)
Interest-rate contracts	Processing fees and other revenue	(81)	(90)	Available-for-sale securities	Processing fees and other revenue	81	90
Total		\$ (43)	\$ (50)			\$ 45	\$ 55

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

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

Edgar Filing: STATE STREET Corp - Form 10-Q

(In millions)	Amount of Gain (Loss) on Derivative Recognized in Other Comprehensive Income		Location of Gain (Loss) Reclassified from OCI to Consolidated Statement of Income	Amount of Gain (Loss) Reclassified from OCI to Consolidated Statement of Income		Location of Gain (Loss) on Derivative Recognized in Consolidated Statement of Income	Amount of Gain (Loss) on Derivative Recognized in Consolidated Statement of Income	
	Three Months Ended	Six Months Ended		Three Months Ended	Six Months Ended		Three Months Ended	Six Months Ended
	June 30, 2010	June 30, 2010		June 30, 2010	June 30, 2010		June 30, 2010	June 30, 2010
Derivatives designated as cash flow hedges:								
Interest-rate contracts	\$ 5	\$ 5	Net interest revenue	\$ (2)	\$ (3)	Net interest revenue	\$	2
Total	\$ 5	\$ 5		\$ (2)	\$ (3)		\$	2

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

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

(In millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Interest revenue:				
Deposits with banks	\$ 28	\$ 22	\$ 55	\$ 41
Investment securities:				
U.S. Treasury and federal agencies	198	170	404	309
State and political subdivisions	55	56	111	110
Other investments	364	517	719	1,067
Securities purchased under resale agreements	6	6	16	10
Loans and leases ⁽¹⁾	67	74	147	185
Other interest-earning assets	1	1	1	2
Total interest revenue	719	846	1,453	1,724
Interest expense:				
Deposits	44	46	102	79
Short-term borrowings ⁽¹⁾	24	70	51	181
Long-term debt	76	71	147	143
Other interest-bearing liabilities	3	1	4	2
Total interest expense	147	188	304	405
Net interest revenue	\$ 572	\$ 658	\$ 1,149	\$ 1,319

⁽¹⁾ Amounts for the three and six months ended June 30, 2010 included \$14 million and \$67 million, respectively, related to the third-party asset-backed securitization trusts consolidated into our financial statements on January 1, 2010 in connection with our adoption of new GAAP. These trusts were de-consolidated during the three months ended September 30, 2010.

Note 14. Acquisition and Restructuring Costs

For the three and six months ended June 30, 2011, we recorded acquisition and restructuring costs of \$17 million and \$36 million, respectively. For the three and six months ended June 30, 2010, we recorded acquisition and restructuring costs of \$41 million and \$54 million, respectively. The costs for the three and six months ended June 30, 2011 were composed of \$13 million and \$27 million, respectively, of integration costs related to the acquired Intesa, MIFA and BIAM businesses, and \$4 million and \$9 million, respectively, of restructuring charges related to the business operations and information technology transformation program described below. The 2010 costs were composed of integration costs associated with acquisitions.

In November 2010, we announced a global multi-year 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

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

planned reductions in both staff and occupancy costs. We initiated the first reduction in force in December 2010, which we expect to be substantially completed by the end of 2011. In connection with the reduction in force, during the first six months of 2011, approximately 425 employees were involuntarily terminated and left State Street.

The following table presents activity related to restructuring-related accruals:

(In millions)	Employee- Related Costs	Real Estate Consolidation	Total
Balance at December 31, 2010	\$ 90	\$ 47	\$ 137
Additional restructuring-related accruals	6	3	9
Payments and adjustments	(49)	(4)	(53)
Balance at June 30, 2011	\$ 47	\$ 46	\$ 93

Note 15. Earnings Per Common Share

The following table presents the computation of basic and diluted earnings per common share for the three and six months ended June 30:

(Dollars in millions, except per share amounts)	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Net income	\$ 513	\$ 432	\$ 984	\$ 927
Less:				
Preferred stock dividends	(7)		(7)	
Dividends and undistributed earnings allocated to participating securities ⁽¹⁾	(4)	(5)	(9)	(8)
Net income available to common shareholders	\$ 502	\$ 427	\$ 968	\$ 919
Average shares outstanding (in thousands):				
Basic average shares	496,806	495,606	497,137	495,099
Effect of dilutive securities: stock options and stock awards	4,238	3,280	3,616	3,196
Diluted average shares	501,044	498,886	500,753	498,295
Anti-dilutive securities ⁽²⁾	1,434	14,294	1,155	10,969
Earnings per Share:				
Basic	\$ 1.01	\$.87	\$ 1.95	\$ 1.86

Edgar Filing: STATE STREET Corp - Form 10-Q

Diluted ⁽³⁾	\$ 1.00	\$.87	\$ 1.93	\$ 1.86
------------------------	---------	--------	---------	---------

- (1) Represented the portion of net income available to common equity allocated to participating securities; participating securities, composed of unvested restricted stock and director stock, have non-forfeitable rights to dividends during the vesting period on a basis equivalent to dividends paid to common shareholders.
- (2) Represented stock options, restricted stock and other securities outstanding but not included in the computation of diluted average shares because their effect was anti-dilutive.
- (3) Calculations reflect the allocation of earnings to participating securities using the two-class method, as this computation was more dilutive than the calculation using the treasury stock method.

Table of Contents**STATE STREET CORPORATION****Condensed Notes to Consolidated Financial Statements (Continued)****(Unaudited)****Note 16. Line of Business Information**

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

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

(Dollars in millions, except where otherwise noted)	Three Months Ended June 30,							
	Investment Servicing		Investment Management		Other		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
Fee revenue:								
Servicing fees	\$ 1,124	\$ 973					\$ 1,124	\$ 973
Management fees			\$ 250	\$ 201			250	201
Trading services	311	326					311	326
Securities finance	116	84	21	25			137	109
Processing fees and other	53	63	17	24			70	87
Total fee revenue	1,604	1,446	288	250			1,892	1,696
Net interest revenue	519	613	53	45			572	658
Gains (Losses) related to investment securities, net	27	(50)					27	(50)
Total revenue	2,150	2,009	341	295			2,491	2,304
Provision for loan losses	2	10					2	10
Expenses from operations	1,538	1,291	219	198			1,757	1,489
Acquisition and restructuring costs					\$ 17	\$ 41	17	41
Securities lending charge		75		339				414
Total expenses	1,538	1,366	219	537	17	41	1,774	1,944
Income (Loss) from continuing operations before income taxes	\$ 610	\$ 633	\$ 122	\$ (242)	\$ (17)	\$ (41)	\$ 715	\$ 350
Pre-tax margin	28%	32%	36%	(82)%				
Average assets (in billions)	\$ 158.0	\$ 145.2	\$ 6.3	\$ 5.8			\$ 164.3	\$ 151.0

Table of Contents**STATE STREET CORPORATION****Condensed Notes to Consolidated Financial Statements (Continued)****(Unaudited)****Note 16. Line of Business Information (Continued)**

(Dollars in millions, except where otherwise noted)	Six Months Ended June 30,							
	Investment Servicing		Investment Management		Other		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
Fee revenue:								
Servicing fees	\$ 2,219	\$ 1,868					\$ 2,219	\$ 1,868
Management fees			\$ 486	\$ 412			486	412
Trading services	613	568					613	568
Securities finance	175	142	28	39			203	181
Processing fees and other	122	153	40	54			162	207
Total fee revenue	3,129	2,731	554	505			3,683	3,236
Net interest revenue	1,054	1,240	95	79			1,149	1,319
Gains related to investment securities, net	20	45					20	45
Total revenue	4,203	4,016	649	584			4,852	4,600
Provision for loan losses	1	25					1	25
Expenses from operations	2,991	2,639	449	416			3,440	3,055
Acquisition and restructuring costs					\$ 36	\$ 54	36	54
Securities lending charge		75		339				414
Total expenses	2,991	2,714	449	755	36	54	3,476	3,523
Income (Loss) from continuing operations before income taxes	\$ 1,211	\$ 1,277	\$ 200	\$ (171)	\$ (36)	\$ (54)	\$ 1,375	\$ 1,052
Pre-tax margin	29%	32%	31%	(29)%				
Average assets (in billions)	\$ 155.7	\$ 141.6	\$ 5.7	\$ 5.4			\$ 161.4	\$ 147.0

Table of Contents**STATE STREET CORPORATION****Condensed Notes to Consolidated Financial Statements (Continued)****(Unaudited)****Note 17. Non-U.S. Activities**

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

The following table presents our non-U.S. operating results for the periods indicated:

(In millions)	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2011	2010	2011	2010
Total fee revenue	\$ 792	\$ 687	\$ 1,535	\$ 1,322
Net interest revenue	159	142	314	297
Gains (Losses) related to investment securities, net	(3)	(13)	(9)	50
Total revenue	948	816	1,840	1,669
Expenses	887	770	1,676	1,425
Income before income taxes	61	46	164	244
Income tax expense	16	17	42	92
Net income	\$ 45	\$ 29	\$ 122	\$ 152

Non-U.S. revenue for the three and six months ended June 30, 2011 included \$262 million and \$498 million, respectively, in the U.K., primarily from our London operations.

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

(In millions)	June 30,	December 31,
	2011	2010
Interest-bearing deposits with banks	\$ 8,829	\$ 9,443
Non-U.S. investment securities	27,149	21,330
Other assets	18,322	16,239
Total assets	\$ 54,300	\$ 47,012

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Shareholders and Board of Directors

State Street Corporation

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

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

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

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

/s/ Ernst & Young LLP

Boston, Massachusetts

August 5, 2011

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

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

	Page
<u>PART I. FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements</u>	
<u>Consolidated Statement of Income (Unaudited) for the three months and six months ended June 30, 2011 and 2010</u>	47
<u>Consolidated Statement of Condition as of June 30, 2011 (Unaudited) and December 31, 2010</u>	48
<u>Consolidated Statement of Changes in Shareholders' Equity (Unaudited) for the six months ended June 30, 2011 and 2010</u>	49
<u>Consolidated Statement of Cash Flows (Unaudited) for the six months ended June 30, 2011 and 2010</u>	50
<u>Condensed Notes to Consolidated Financial Statements (Unaudited)</u>	52
<u>Report of Independent Registered Public Accounting Firm</u>	100
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	2
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	46
Item 4. <u>Controls and Procedures</u>	46

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

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

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

(Dollars in millions, except

per share amounts, shares in

thousands)

Period	Total Number of Shares Purchased Under Publicly Announced Program	Average Price Paid per Share	Approximate Dollar Value of Shares Purchased Under Publicly Announced Program	Approximate Dollar Value of Shares Yet to Be Purchased Under Publicly Announced Program
April 1 - April 30, 2011				\$ 675
May 1 - May 31, 2011	4,872	\$ 46.18	\$ 225	450
June 1 - June 30, 2011				450
Total	4,872	\$ 46.18	\$ 225	\$ 450

ITEM 6. EXHIBITS

The exhibits listed in the Exhibit Index on page 104 of this Form 10-Q are filed herewith or are incorporated herein by reference to other SEC filings.

Table of Contents

SIGNATURES

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

STATE STREET CORPORATION

(Registrant)

Date: August 5, 2011

By:

/s/ EDWARD J. RESCH
Edward J. Resch
*Executive Vice President and
Chief Financial Officer*

(Principal Financial Officer)

Date: August 5, 2011

By:

/s/ JAMES J. MALERBA
James J. Malerba
*Executive Vice President, Corporate Controller and
Chief Accounting Officer*

(Principal Accounting Officer)

Table of Contents

EXHIBIT INDEX

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

* Submitted electronically herewith

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

In accordance with Rule 406T of Regulation S-T, the XBRL-related information in Exhibit 101 to this Quarterly Report on Form 10-Q is deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act, is deemed not filed for purposes of section 18 of the Exchange Act, and otherwise is not subject to liability under these sections.