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

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2011

or

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

For the transition period from to

Commission File No. 001-07511

STATE STREET CORPORATION

(Exact name of registrant as specified in its charter)

Massachusetts	**04-2456637**

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

617-786-3000

(Registrant s telephone number, including area code)

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

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

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

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

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

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

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STATE STREET CORPORATION

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

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

GENERAL

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

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

We have two lines of business:

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

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

Financial information about our lines of business is provided in the Line of Business Information section of this Management s Discussion and Analysis and in note 17 to the consolidated financial statements included in this Form 10-Q.

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

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

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

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

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

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

FORWARD-LOOKING STATEMENTS

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

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

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

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

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

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

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

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

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

the financial strength and continuing viability of the counterparties with which we or our clients do business and to which we have investment, credit or financial exposure;

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

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

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

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

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

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

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

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

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

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

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

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

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

adverse publicity or other reputational harm;

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

the potential for new products and services to impose additional costs on us and expose us to increased operational risk;

changes in accounting standards and practices; and

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

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

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

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OVERVIEW OF FINANCIAL RESULTS

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

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

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

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

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Highlights

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

Significant Developments

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

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

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

Financial Results

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

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

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

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

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

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

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

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

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

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

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

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

CONSOLIDATED RESULTS OF OPERATIONS

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

TOTAL REVENUE

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

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

Fee Revenue

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

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

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

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

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

INDEX

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

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

Servicing Fees

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

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AND RESULTS OF OPERATIONS (Continued)

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

ASSETS UNDER CUSTODY AND ADMINISTRATION

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

FINANCIAL INSTRUMENT MIX OF ASSETS UNDER CUSTODY AND ADMINISTRATION

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

Management Fees

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

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

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

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

ASSETS UNDER MANAGEMENT

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

[1] Includes SPDR® Gold Fund, for which State Street is not the investment manager but acts as distribution agent.

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

ASSETS UNDER MANAGEMENT

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

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

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

Trading Services

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

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

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

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

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

Securities Finance

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

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

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

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

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