STATE STREET Corp
Form 10-Q
November 05, 2010
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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, 2010

or

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

For the transition period from to

Commission File No. 001-07511

STATE STREET CORPORATION

(Exact name of registrant as specified in its charter)

Massachusetts	**04-2456637**

(State or other jurisdiction of incorporation)	(I.R.S. Employer Identification No.)
One Lincoln Street	
Boston, Massachusetts (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 x No ¨

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

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

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

(Do not check if a smaller reporting company)

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

The number of shares of State Street s common stock outstanding on October 29, 2010 was 502,024,979

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STATE STREET CORPORATION

Quarterly Report on Form 10-Q for the Quarterly Period Ended September 30, 2010

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

GENERAL

State Street Corporation is a financial holding company headquartered in Boston, Massachusetts. Through its subsidiaries, including its principal banking subsidiary, State Street Bank and Trust Company, referred to as State Street Bank, State Street Corporation provides a full range of products and services to meet the needs of institutional investors worldwide. 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. All references in this Form 10-Q to the parent company are to State Street Corporation. At September 30, 2010, we had consolidated total assets of $172.96 billion, consolidated total deposits of $105.03 billion, consolidated total shareholders equity of $17.57 billion and employed 28,940.

Our customers include mutual funds, collective investment funds and other investment pools, corporate and public retirement plans, insurance companies, foundations, endowments and investment managers. Our two lines of business, Investment Servicing and Investment Management, provide products and services including custody, recordkeeping, daily pricing and administration, shareholder services, foreign exchange, brokerage and other trading services, securities finance, deposit and short-term investment facilities, loan and lease financing, investment manager and alternative investment operations outsourcing, performance, risk and compliance analytics, investment research services and investment management, including passive and active U.S. and non-U.S. equity and fixed-income strategies. We had $20.23 trillion of assets under custody and administration and $1.90 trillion of assets under management at September 30, 2010. Information about these assets, and financial information about our business lines, is provided in the Consolidated Results of Operations Total Revenue and Line of Business Information sections of this Management s Discussion and Analysis.

This Management s Discussion and Analysis is part of our Quarterly Report on Form 10-Q for the third quarter of 2010, which we filed with the SEC, and updates the Management s Discussion and Analysis in our Annual Report on Form 10-K for the year ended December 31, 2009, which we refer to as the 2009 Form 10-K, and in our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2010 and June 30, 2010. We previously filed these reports with the SEC. 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.

We prepare our consolidated financial statements in accordance with United States generally accepted accounting principles, which we refer to as GAAP, and which require management to make judgments in the application of its accounting policies that involve significant estimates and assumptions about the effect of matters that are inherently uncertain. Certain accounting policies are considered by management to be relatively more significant in this respect. These policies relate to the accounting for fair value measurement; the accounting for interest revenue recognition and other-than-temporary impairment; and the accounting for goodwill and other intangible assets. Additional information about these accounting policies is included in the Significant Accounting Estimates section of Management s Discussion and Analysis in our 2009 Form 10-K. These accounting policies were not changed during the first nine months of 2010.

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

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ongoing business operations. Management believes that operating-basis financial information, which reports revenue from non-taxable sources on a fully taxable-equivalent basis and excludes the effect of revenue and expenses outside of the normal course of our business, facilitates an investor s understanding and analysis of State Street s underlying financial performance and trends. Operating-basis financial information should be considered in addition to, not as a substitute for or superior to, financial information prepared in accordance with GAAP.

FORWARD-LOOKING STATEMENTS

This Form 10-Q, including this Management s Discussion and Analysis, contains forward-looking statements as defined by U.S. securities laws, including statements about industry trends, management s future expectations and other matters that do not relate strictly to historical facts and are based on assumptions by management. Forward-looking statements are often, but not always, identified by such forward-looking terminology as plan, expect, look, believe, anticipate, estimate, seek, may, will, trend, target and goal, or similar terms o terms. Forward-looking statements include, among other things, statements about our confidence in our strategies and our expectations about our financial performance, market growth, acquisitions and divestitures, new technologies, services and opportunities, the outcome of legal proceedings and our earnings.

Forward-looking statements are subject to various risks and uncertainties, which change over time, are based on management s expectations and assumptions at the time the statements are made, and are not guarantees of future results. Management s expectations and assumptions, and the continued validity of the forward-looking statements, are subject to change due to a broad range of factors affecting the national and global economies, the equity, debt, currency and other financial markets, as well as factors specific to State Street and its subsidiaries, including State Street Bank. Factors that could cause changes in the expectations or assumptions on which forward-looking statements are based include, but are not limited to:

- 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, 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, and monetary and other governmental actions, including regulation, taxes and fees, designed to address or otherwise be responsive to such disruptions and recession, including actions taken in the U.S. and internationally to address the financial and economic disruptions that began in 2007;

- increases in the volatility of, or declines in the levels of, our net interest revenue, changes in the composition of the assets on our consolidated balance sheet 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 liquidity of the U.S. and international securities markets, particularly the markets for fixed-income securities, and the liquidity requirements of our clients;

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;

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

the performance 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 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 or 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 other closing conditions;

the possibility of our clients incurring substantial losses in investment pools where we act as agent, and the possibility of further general 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 on our consolidated balance sheet;

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

adverse publicity or other reputational harm;

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

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

- 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 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 2009 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

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our businesses. We cannot anticipate all potential economic, operational and financial 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[1]

(Dollars in millions, except per share amounts)	Quarters Ended September 30, 2010	2009	% Change	Nine Months Ended September 30, 2010	2009	% Change
Total fee revenue	**$ 1,569**	$ 1,471	7%	**$ 4,805**	$ 4,409	9%
Net interest revenue	**724**	723		**2,043**	1,867	9
Gains related to investment securities, net	**17**	42		**62**	84	
Total revenue	**2,310**	2,236	3	**6,910**	6,360	9
Provision for loan losses	**1**	16		**26**	114	
Expenses:						
Expenses from operations	**1,518**	1,472	3	**4,552**	4,111	11
Securities lending charge				**414**		
Provision for legal exposure		250			250	
Merger and integration costs and U.K. bonus tax, net	**9**	11		**84**	40	
Total expenses	**1,527**	1,733	(12)	**5,050**	4,401	15
Income before income tax expense and extraordinary loss	**782**	487	61	**1,834**	1,845	
Income tax expense	**236**	160		**361**	540	
Income before extraordinary loss	**546**	327	67	**1,473**	1,305	13
Extraordinary loss, net of taxes					(3,684)	
Net income (loss)	**$ 546**	$ 327		**$ 1,473**	$ (2,379)	
Adjustments to net income (loss):						
Preferred stock dividends and accretion/prepayment of discount[2]					(163)	
Earnings allocated to participating securities[3]	**(6)**			**(14)**		
Net income before extraordinary loss available to common shareholders	**$ 540**	$ 327		**$ 1,459**	$ 1,142	
Net income (loss) available to common shareholders	**$ 540**	$ 327		**$ 1,459**	$ (2,542)	
Earnings per common share before extraordinary loss:						
Basic	**$ 1.09**	$ .66		**$ 2.94**	$ 2.48	
Diluted	**1.08**	.66		**2.93**	2.45	
Earnings (Loss) per common share:						

Basic	**$ 1.09**	$ .66	**$ 2.94**	$ (5.47)
Diluted	**1.08**	.66	**2.93**	(5.45)
Average common shares outstanding (in thousands):				
Basic	**495,729**	493,453	**495,312**	462,900
Diluted	**498,159**	498,290	**497,715**	466,234
Cash dividends declared	**.01**	.01	**.03**	.03
Return on common shareholders equity[4]	**12.9%**	10.2%	**12.4%**	12.8%

(1) Financial results for the quarter and nine months ended September 30, 2010 included those of acquired businesses from their respective dates of acquisition, as described in the following Financial Highlights section.

(2) Adjustments related to preferred stock issued in connection with the U.S. Treasury s TARP program in 2008 and redeemed in June 2009. See note 15 to the consolidated financial statements in this Form 10-Q.

(3) Adjustments for the third quarter and first nine months of 2010 represent allocation of earnings to participating securities using the two-class method. See note 15 to the consolidated financial statements in this Form 10-Q.

(4) Return on common shareholders equity for the nine months ended September 30, 2009 was determined by dividing annualized net income before extraordinary loss available to common shareholders by average common shareholders equity for the respective period.

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Financial Highlights

This section provides highlights with respect to our financial results for the third quarter of 2010 presented in the preceding table. Additional information, including information with respect to our year-to-date results, is provided under Consolidated Results of Operations, which follows this section.

During the second quarter of 2010, we completed our acquisitions of Intesa Sanpaolo s securities services business (May 17, 2010) and Mourant International Finance Administration (April 1, 2010). For the third quarter of 2010, these acquired businesses added approximately $120 million of revenue and $90 million of expenses, excluding merger and integration costs, to our consolidated statement of income, and $180 million of revenue and $140 million of expenses, excluding merger and integration costs, from the respective acquisition dates through September 30, 2010. We also recorded aggregate merger and integration costs of about $8 million in connection with these acquisitions during the third quarter of 2010 and $42 million from the respective acquisition dates through September 30, 2010.

Total revenue for the third quarter of 2010 increased 3% compared to the same period in 2009, with total fee revenue up 7% in the same comparison. Servicing fee revenue increased 19% compared to the third quarter of 2009, primarily the result of the addition of revenue from the acquired Intesa and Mourant businesses, the impact of new business won and installed in the current quarter and prior periods on current-period revenue and increases in equity market valuations. Management fee revenue declined 3% compared to the third quarter of 2009, primarily as a result of the impact of changes in business mix, as reflected in assets under management, partly offset by improvement in equity market valuations.

Trading services revenue declined 15% compared to the third quarter of 2009, primarily as a result of a 30% decline in foreign exchange trading services, related to lower spreads on foreign exchange trading and lower trading volumes, as the weakness in the trading markets continued. This decline was slightly offset by a 3% increase in brokerage and other fees, due to strength in electronic trading and transition management, the latter overseas. Securities finance revenue declined 35% compared to the third quarter of 2009, primarily as a result of lower spreads and lower levels of client demand in the securities lending market. The average balance of securities on loan for the third quarter of 2010 was $382 billion, compared to $399 billion for the third quarter of 2009. Processing fees and other revenue increased 58%, from $45 million to $71 million, primarily as a result of higher levels of net revenue related to structured products and income from joint ventures in the third quarter of 2010.

Net interest revenue was essentially flat for the third quarter of 2010 compared to the third quarter of 2009, on both a GAAP and fully taxable-equivalent basis (the latter $757 million compared to $754 million, reflecting increases from tax-equivalent adjustments of $33 million and $31 million, respectively). Generally, the impact of a larger investment securities portfolio, as we continued our re-investment strategy, combined with the full-quarter impact of the deposits added by the acquired Intesa business, was largely offset by a lower level of discount accretion ($189 million in the third quarter of 2010 compared to $279 million in the third quarter of 2009). This accretion was generated by the assets added to our consolidated balance sheet in connection with the May 2009 commercial paper conduit consolidation, which is discussed under Total Revenue Net Interest Revenue in this Management s Discussion and Analysis.

Net interest margin, computed on fully taxable-equivalent net interest revenue, decreased 11 basis points from 2.47% in the third quarter of 2009 to 2.36% in the third quarter of 2010. The above-mentioned $189 million of discount accretion accounted for 59 basis points of net interest margin for the third quarter of 2010, compared to 91 basis points for the third quarter of 2009. Excluding the effect of accretion, fully taxable-equivalent net

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interest revenue for the third quarter of 2010 would have been $568 million ($757 million less $189 million), an increase of 20% from $475 million ($754 million less $279 million) for the third quarter of 2009, and net interest margin for the third quarter of 2010 would have been 1.77% compared to 1.56% for the third quarter of 2009.

We recorded net realized gains of $91 million from sales of available-for-sale securities during the third quarter of 2010, compared to net realized gains of $141 million during the third quarter of 2009. Separately, we recorded net other-than-temporary impairment of $74 million during the third quarter of 2010, largely related to non-agency mortgage-backed securities, compared to $99 million during the third quarter of 2009. The aggregate net realized gains and net impairment losses resulted in net gains related to investment securities of $17 million for the third quarter of 2010, compared to net gains of $42 million for the same period in 2009.

Total expenses for the third quarter of 2010 declined 12% compared to the third quarter of 2009, from $1.73 billion to $1.53 billion. If the third-quarter 2009 provision of $250 million for legal exposure related to certain active fixed-income strategies managed by State Street Global Advisors, or SSgA, is excluded, total expenses in the quarterly comparison increased 3%, from $1.48 billion ($1.73 billion less $250 million) to $1.53 billion, primarily reflective of the addition of salaries and employee benefits and information systems and communication expenses from the acquired Intesa and Mourant businesses, as well as higher expenses related to transaction processing, partly offset by a decline in other expenses associated with a $50 million insurance recovery related to legal proceedings.

We recorded income tax expense of $236 million for the third quarter of 2010, compared to $160 million for the third quarter of 2009. Our effective tax rate for the third quarter of 2010 was 30.1%, compared to 32.8% for the same period in 2009.

At September 30, 2010, we had aggregate assets under custody and administration of $20.23 trillion, which increased $1.43 trillion, or 8%, from $18.79 trillion at December 31, 2009, and increased $2.29 trillion, or 13%, from $17.94 trillion at September 30, 2009. At September 30, 2010, we had aggregate assets under management of $1.90 trillion, which decreased $7 billion from $1.91 trillion at December 31, 2009, and increased $169 billion, or 10%, from $1.74 trillion at September 30, 2009. The increases in assets under custody and administration from September 30, 2009 and December 31, 2009 to September 30, 2010 reflected the addition of servicing assets from the Intesa and Mourant acquisitions and the installation of new business, as well as higher asset valuations associated with the improvement in the global financial markets. The increase in assets under management from September 30, 2009 to September 30, 2010 primarily reflected increases in asset valuations and net new business. The decrease in assets under management from December 31, 2009 to September 30, 2010 reflected net lost business partly offset by asset appreciation.

During the third quarter and first nine months of 2010, we won mandates for approximately $477 billion and $1.07 trillion, respectively, in assets to be serviced; $114 billion of the $477 billion and $286 billion of the aggregate of $1.07 trillion was installed prior to September 30, 2010, with the remainder expected to be installed during the fourth quarter of 2010 and in 2011. The new business not installed by September 30, 2010 was not included in assets under custody and administration at that date, and had no impact on servicing fee revenue for the third quarter or first nine months of 2010, as the assets are not included until their installation is complete and we begin to service them. Once installed, the assets generate servicing fee revenue in subsequent periods. 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.

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CONSOLIDATED RESULTS OF OPERATIONS

This section discusses our consolidated results of operations for the third quarter and first nine months of 2010 compared to the same periods in 2009, and should be read in conjunction with the consolidated financial statements and accompanying condensed notes included in this Form 10-Q.

TOTAL REVENUE

(Dollars in millions)	Quarters Ended September 30, 2010	2009	% Change	Nine Months Ended September 30, 2010	2009	% Change
Fee revenue:						
Servicing fees	**$ 989**	$ 833	19%	**$ 2,826**	$ 2,394	18%
Management fees	**213**	219	(3)	**656**	593	11
Trading services	**228**	269	(15)	**796**	824	(3)
Securities finance	**68**	105	(35)	**249**	487	(49)
Processing fees and other	**71**	45	58	**278**	111	150
Total fee revenue	**1,569**	1,471	7	**4,805**	4,409	9
Net interest revenue:						
Interest revenue	**904**	898	1	**2,628**	2,409	9
Interest expense	**180**	175	3	**585**	542	8
Net interest revenue	**724**	723		**2,043**	1,867	9
Gains related to investment securities, net	**17**	42		**62**	84	
Total revenue	**$ 2,310**	$ 2,236	3	**$ 6,910**	$ 6,360	9

Fee Revenue

Servicing and management fees collectively comprised approximately 77% and 72%, respectively, of our total fee revenue for the third quarter and first nine months of 2010 compared to approximately 72% and 68%, respectively, for the corresponding periods in 2009. These fees are a function of several factors, including 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 customers, 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, customer 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. Performance fees are generated when the performance of certain managed funds exceeds benchmarks specified in the management agreements. Generally, we experience more volatility with performance fees compared with more traditional management fees.

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

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

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corresponding change of approximately 1% in our total revenue. We would expect the foregoing relationships to exist in normalized financial markets, which we have not experienced since mid-2007. The disrupted conditions that began during the second half of 2007 have adversely affected our market-driven revenues, particularly foreign exchange trading services and securities finance. Even though the financial markets began to improve during the second half of 2009, the effect of the disrupted conditions on our total revenue, particularly our market-driven revenue, has been more significant than we would anticipate in normalized markets.

The following tables present selected equity market indices for the quarters and nine months ended September 30, 2010 and 2009. Daily averages and the averages of month-end indices demonstrate worldwide changes in equity market valuations that affect servicing and management fee revenue, respectively. Quarter-end indices are indicative of the factors influencing the values of assets under custody and administration and assets under management as of those dates. The index names listed in the table are service marks of their respective owners.

INDEX

	Daily Averages of Indices For the Quarter Ended September 30,			Average of Month-End Indices For the Quarter Ended September 30,			Quarter-End Indices As of September 30,		
	2010	**2009**	**% Change**	**2010**	**2009**	**% Change**	**2010**	**2009**	**% Change**
S&P 500®	**1,096**	996	10%	**1,097**	1,022	7%	**1,141**	1,057	8%
NASDAQ®	**2,237**	1,984	13	**2,246**	2,037	10	**2,369**	2,122	12
MSCI EAFE®	**1,472**	1,440	2	**1,487**	1,492		**1,561**	1,553	1

	Daily Averages of Indices For the Nine Months Ended September 30,			Average of Month-End Indices For the Nine Months Ended September 30,		
	2010	**2009**	**% Change**	**2010**	**2009**	**% Change**
S&P 500®	**1,118**	900	24%	**1,105**	904	22%
NASDAQ®	**2,286**	1,737	32	**2,261**	1,758	29
MSCI EAFE®	**1,493**	1,256	19	**1,480**	1,273	16

Servicing Fees

Servicing fees include fee revenue from U.S. mutual funds, collective investment funds worldwide, corporate and public retirement plans, insurance companies, foundations, endowments, and other investment pools. Products and services include custody; product- and participant-level accounting; daily pricing and administration; recordkeeping; investment manager and alternative investment manager operations outsourcing services; master trust and master custody; and performance, risk and compliance analytics.

The 19% increase in servicing fees in the quarterly comparison reflected the addition of revenue from the acquired Intesa and Mourant businesses, the impact of new business won and installed in the current quarter and prior periods on current-period revenue and increases in daily average equity market valuations. The 18% increase in the nine-month comparison reflected the impact of new business won and installed in the current quarter and prior periods on current-period revenue, increases in daily average equity market valuations and the addition of revenue from the acquired Intesa and Mourant businesses. For the third quarter and first nine months of 2010, servicing fees generated from customers outside the U.S. were approximately 44% and 41% of total servicing fees compared to approximately 37% for both the third quarter and first nine months of 2009. The following tables set forth the composition of assets under custody and administration.

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ASSETS UNDER CUSTODY AND ADMINISTRATION

(In billions)	September 30, 2010	December 31, 2009	September 30, 2009
Mutual funds	**$ 5,018**	$ 4,734	$ 4,582
Collective funds	**4,000**	3,580	3,455
Pension products	**4,539**	4,395	4,160
Insurance and other products	**6,669**	6,086	5,738
Total	**$ 20,226**	$ 18,795	$ 17,935

FINANCIAL INSTRUMENT MIX OF ASSETS UNDER CUSTODY AND ADMINISTRATION

(In billions)	September 30, 2010	December 31, 2009	September 30, 2009
Equities	**$ 9,950**	$ 8,828	$ 7,916
Fixed-income	**7,607**	7,236	7,077
Short-term and other investments	**2,669**	2,731	2,942
Total	**$ 20,226**	$ 18,795	$ 17,935

Management Fees

Management fees declined 3% in the third quarter of 2010 compared to the third quarter of 2009 and increased 11% for the first nine months of 2010 compared to the first nine months of 2009. The quarterly decrease resulted primarily from changes in business mix, discussed below, partly offset by increases in average month-end equity market valuations. The increase in the nine-month comparison was due to the effect of net new business on current-period revenue and increases in equity market valuations. Average month-end equity market valuations, individually presented in the preceding INDEX tables, were up an average of 6% for the third quarter of 2010 compared to the third quarter of 2009, and were up an average of 23% in the nine-month comparison. The relative percentage of our assets under management at September 30, 2010 related to passive equity and fixed-income strategies, which generally earn management fees at lower rates compared with active strategies, increased compared to September 30, 2009 and December 31, 2009. For the third quarter and first nine months of 2010, management fees generated from customers outside the U.S. were approximately 31% and 32%, respectively, of total management fees compared to approximately 35% and 33% for the third quarter and first nine months of 2009, respectively.

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AND RESULTS OF OPERATIONS (Continued)

ASSETS UNDER MANAGEMENT

(In billions)	September 30, 2010	December 31, 2009	September 30, 2009
Equities:			
Passive	**$ 860**	$ 787	$ 730
Active and other	**74**	88	93
Company stock/ESOP	**50**	49	48
Total equities	**984**	924	871
Fixed-income:			
Passive	**445**	445	324
Active	**24**	25	24
Cash and money market	**451**	517	516
Total fixed-income and cash/money market	**920**	987	864
Total	**$ 1,904**	$ 1,911	$ 1,735

The following table presents activity in assets under management for the twelve months ended September 30, 2010:

ASSETS UNDER MANAGEMENT

(In billions)	
September 30, 2009	$ 1,735
Net new business	142
Market appreciation	34
December 31, 2009	$ 1,911
Net new business	**(63)**
Market appreciation	**56**
September 30, 2010	**$ 1,904**

Trading Services

Trading services revenue, which includes foreign exchange trading services revenue and brokerage and other trading fees, was down 15% in the third quarter of 2010 compared to the third quarter of 2009 and down 3% in the nine-month comparison. Foreign exchange trading services revenue for the third quarter and the first nine months of 2010 totaled $107 million and $426 million, respectively, down 30% and 20% from $152 million and $533 million, respectively, compared to the corresponding prior-year periods. The quarterly decrease was primarily the result of reduced spreads, a 6% decrease in aggregate customer volumes, substantially foreign exchange trading and sales, and a slight decrease in currency volatility. The nine-month decrease was primarily the result of the effect of reduced spreads and a 24% decline in currency volatility partly offset by a 10% increase in customer volumes, with volumes up in both custody foreign exchange services and foreign exchange trading and sales.

Brokerage and other trading fees totaled $121 million for the third quarter of 2010, up 3% from $117 million for the third quarter of 2009, and for the first nine months of 2010 totaled $370 million, up 27% from

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

$291 million for the first nine months of 2009. The increases in both comparisons were primarily the result of higher electronic trading volumes and increased levels of transition management revenue, particularly non-U.S. transitions.

Securities Finance

Our securities finance business consists of two components: investment funds with a broad range of investment objectives which are managed by SSgA and engage in agency securities lending, which we refer to as the SSgA lending funds; and an agency lending program for third-party investment managers and asset owners, which we refer to as the agency lending funds. Additional information with respect to the SSgA lending funds is also provided under Line of Business Information Investment Management in this Management s Discussion and Analysis.

Securities finance revenue for the third quarter of 2010 decreased 35% compared to the third quarter of 2009, primarily the result of lower spreads across all lending programs as well as a 4% decline in the average volume of securities on loan, from $399 billion for the third quarter of 2009 to $382 billion for the third quarter of 2010. For the first nine months of 2010, securities finance revenue declined 49% compared to the first nine months of 2009, principally the result of lower spreads, as average lending volume ($405 billion for both periods) was flat compared to the first nine months of 2009.

Market influences are expected to continue to affect our revenue from, and the profitability of, our securities lending activities for the remainder of 2010. While the average volume of securities on loan has generally stabilized over the past six quarters, spreads have declined significantly compared to those earned in late 2007 and throughout 2008 (which were extraordinarily high), reflecting prevailing interest rates and the effects of government actions taken to stimulate the economy.

In August 2010, SSgA removed the redemption restrictions from the SSgA lending funds, and we anticipate providing participants in the collateral pools underlying certain agency lending funds with greater control over their use of liquidity within such pools by the end of 2010 or in early 2011. These actions are expected to provide an opportunity for increased securities lending volumes, although their effect will be influenced by overall market and customer-specific factors and could, particularly in the short-term, result in decreased lending volumes. As long as securities lending spreads remain below the more normal levels generally experienced prior to late 2007, customer demand is likely to remain at a reduced level and our revenues from our securities lending activities will be adversely affected relative to the revenues we earned over the past two years.

During the disruption in the global financial markets that began in mid-2007, we have been able to manage the outflows from the cash collateral pools supporting the agency lending funds, as well as the effect of the disruptions in the credit markets, in a manner that substantially reduced the risk of loss to our clients. We imposed in 2008 and 2009, and continued to impose during the first nine months of 2010, restrictions on participant redemptions from the agency lending collateral pools in order to manage the liquidity in those pools. The net asset value of the agency lending collateral pools, determined using pricing information from independent third parties, fell, and has remained, below $1.00 per unit since 2007. As of September 30, 2010, the net asset value per unit, based on the market value of the agency lending collateral pools, ranged from $0.96 to $1.00, with the weighted-average net asset value per unit as of that date equal to $0.993, compared to a weighted-average net asset value per unit of $0.986 as of December 31, 2009.

At September 30, 2010, the aggregate net asset value of the agency lending collateral pools, assuming a constant net asset value of $1.00 per unit, would have been approximately $63 billion, which exceeded the aggregate market value of those collateral pools as of the same date by approximately $423 million. However, we

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continue to transact purchases into and redemptions out of these pools at $1.00 per unit. We continue this practice for a number of reasons, including the fact that none of the securities in the cash collateral pools is currently in default or considered to be materially impaired, and the fact that there are restrictions on withdrawals from the agency lending collateral pools, which, absent a substantial reduction in the lending program, should permit the securities in the collateral pools to be held until they recover to their par value.

As of September 30, 2010, approximately 48% of the aggregate assets in the agency lending collateral pools had expected maturities of greater than 90 days. During the third quarter of 2010, as referenced earlier in this section, we announced plans to increase our agency lending clients ability to manage their access to liquidity in the agency lending collateral pools. We intend to separate certain agency lending collateral pools into two separate funds, one with complete liquidity and the other which will hold only longer-dated securities and which will only transact in-kind redemptions. We currently anticipate that such split will occur by the end of 2010 or in early 2011. This approach is intended to provide participants in these agency lending collateral pools with greater ability to manage their level of participation in the lending program and their access to liquidity.

As previously disclosed, in 2009, we determined that withdrawals by two related participants in one of the agency lending collateral pools were inconsistent with our redemption restrictions. In response, we redeemed in-kind the remaining units of such participants, effectively distributing, together with prior cash withdrawals, the same amount of cash and longer-dated securities that the participants would have received under the redemption restrictions. We remain in litigation with these participants; see note 7 to the consolidated financial statements included in this Form 10-Q. We also undertook a review of our implementation of the redemption restrictions with respect to other participants in the agency lending collateral pools. This review identified potential inconsistencies in connection with our implementation of the redemption policy. As a result of this review, and based on our assessment of the amount required to compensate clients for the dilutive effect of redemptions which may not have been consistent with the intent of the policy, we recorded a pre-tax charge of $75 million in our second-quarter 2010 consolidated statement of income to establish a reserve to address these potential inconsistencies.

Processing Fees and Other

Processing fees and other revenue was $71 million and $278 million for the third quarter and first nine months of 2010, respectively, compared to $45 million and $111 million, respectively, for the same periods in 2009. The increase in the quarterly comparison was due primarily to higher net revenue from structured products, including fees from our tax-exempt investment program, and an increase in income from joint ventures. In the nine-month comparison, the increase primarily resulted from higher net revenue from structured products, including fees from our tax-exempt investment program, net revenue related to certain tax-advantaged investments and an increase in income from joint ventures.

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NET INTEREST REVENUE

	For the Quarters Ended September 30,					
	2010			2009		
(Dollars in millions; fully taxable-equivalent basis)	Average Balance	Interest Revenue/ Expense	Rate	Average Balance	Interest Revenue/ Expense	Rate
Interest-bearing deposits with banks	**$ 13,024**	**$ 22**	**.68%**	$ 20,139	$ 29	.56%
Securities purchased under resale agreements	**3,211**	**7**	**.85**	4,424	6	.55
Federal funds sold				16		
Trading account assets	**427**			157		
Investment securities	**98,169**	**837**	**3.39**	84,811	827	3.87
Investment securities purchased under AMLF(1)				18		.55
Loans and leases	**12,083**	**70**	**2.29**	10,131	66	2.60
Other interest-earning assets	**711**	**1**	**.28**	1,140	1	.15
Total interest-earning assets	**$ 127,625**	**$ 937**	**2.91**	$ 120,836	$ 929	3.05
Interest-bearing deposits:						
U.S	**$ 9,841**	**$ 14**	**.56%**	$ 6,085	$ 8	.47%
Non-U.S	**70,512**	**48**	**.27**	63,411	28	.18
Securities sold under repurchase agreements	**8,000**	**1**	**.08**	11,972	1	.02
Federal funds purchased	**2,121**	**1**	**.08**	1,368		.07
Short-term borrowings under AMLF(1)				18		.48
Other short-term borrowings	**12,892**	**42**	**1.29**	15,699	54	1.39
Long-term debt	**8,566**	**72**	**3.33**	8,949	82	3.67
Other interest-bearing liabilities	**1,013**	**2**	**.89**	961	2	.73
Total interest-bearing liabilities	**$ 112,945**	**$ 180**	**.63**	$ 108,463	$ 175	.64
Interest-rate spread			**2.28%**			2.41%
Net interest revenue fully taxable-equivalent basis(2)		**$ 757**			$ 754	
Net interest margin fully taxable-equivalent basis			**2.36%**			2.47%
Net interest revenue GAAP basis		**$ 724**			$ 723	

(1) Amounts represent averages of asset-backed commercial paper purchases under the Federal Reserve s AMLF, and associated borrowings. The AMLF expired in February 2010.

(2) Amounts include tax-equivalent adjustments of $33 million for 2010 and $31 million for 2009.

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	For the Nine Months Ended September 30,					
	2010			2009		
(Dollars in millions; fully taxable-equivalent basis)	Average Balance	Interest Revenue/ Expense	Rate	Average Balance	Interest Revenue/ Expense	Rate
Interest-bearing deposits with banks	**$ 12,500**	**$ 63**	**.67%**	$ 27,404	$ 133	.65%
Securities purchased under resale agreements	**2,826**	**17**	**.81**	4,170	20	.64
Federal funds sold	**1**		**.30**	89		.30
Trading account assets	**249**			2,509	19	1.02
Investment securities	**96,111**	**2,386**	**3.32**	76,862	2,134	3.71
Investment securities purchased under AMLF[1]				1,180	25	2.86
Loans and leases	**11,710**	**256**	**2.92**	9,310	170	2.45
Other interest-earning assets	**959**	**2**	**.32**	1,396	2	.19
Total interest-earning assets	**$ 124,356**	**$ 2,724**	**2.93**	$ 122,920	$ 2,503	2.72
Interest-bearing deposits:						
U.S	**$ 8,707**	**$ 27**	**.41%**	$ 8,218	$ 54	.88%
Non-U.S	**65,832**	**114**	**.23**	61,070	101	.22
Securities sold under repurchase agreements	**8,292**	**4**	**.07**	11,760	3	.03
Federal funds purchased	**1,861**	**1**	**.06**	946		.05
Short-term borrowings under AMLF[1]				1,173	18	2.02
Other short-term borrowings	**14,875**	**220**	**1.98**	15,208	137	1.21
Long-term debt	**8,719**	**215**	**3.28**	7,602	225	3.95
Other interest-bearing liabilities	**820**	**4**	**.71**	1,163	4	.41
Total interest-bearing liabilities	**$ 109,106**	**$ 585**	**.72**	$ 107,140	$ 542	.67
Interest-rate spread			**2.21%**			2.05%
Net interest revenue fully taxable-equivalent basis[2]		**$ 2,139**			$ 1,961	
Net interest margin fully taxable-equivalent basis			**2.30%**			2.13%
Net interest revenue GAAP basis		**$ 2,043**			$ 1,867	

(1) Amounts represent averages of asset-backed commercial paper purchases under the Federal Reserve s AMLF, and associated borrowings. The AMLF expired in February 2010.

(2) Amounts include tax-equivalent adjustments of $96 million for 2010 and $94 million for 2009.

Net interest revenue is defined as the total of interest revenue earned on interest-earning assets less interest expense incurred on interest-bearing liabilities. Interest-earning assets, which principally consist of investment securities, interest-bearing deposits with banks, repurchase agreements, loans and leases and other liquid assets, are financed primarily by customer deposits and short-term borrowings. Net interest margin represents the relationship between annualized fully taxable-equivalent net interest revenue and average total interest-earning assets for the period. Changes in the components of average 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 12 to the consolidated financial statements included in this Form 10-Q.

For the third quarter of 2010, on both a GAAP and fully taxable-equivalent basis, net interest revenue was essentially flat compared to the third quarter of 2009 (with fully taxable-equivalent net interest revenue of

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$757 million compared to $754 million, reflecting increases from tax-equivalent adjustments of $33 million and $31 million, respectively). For the nine months ended September 30, 2010, net interest revenue increased 9% on both a GAAP and fully taxable-equivalent basis compared to the corresponding 2009 period (with fully taxable-equivalent net interest revenue of $2.14 billion compared to $1.96 billion, reflecting increases from tax-equivalent adjustments of $96 million and $94 million, respectively). If the discount accretion related to former conduit securities, more fully described below, is excluded, fully taxable-equivalent net interest revenue for the third quarter of 2010 compared to the third quarter of 2009 increased to $568 million ($757 million less accretion of $189 million) from $475 million ($754 million less $279 million), an increase of 20%. The increase was primarily the result of the impact of a higher portfolio allocation to fixed-rate investment securities, U.S. and non-U.S. investment portfolio growth, and the impact of the Intesa deposits added in May 2010 in connection with that acquisition, partly offset by lower spreads on both floating-rate investment securities and non-U.S. transaction deposits.

The increases in the nine-month comparison referenced above were the result of a higher level of discount accretion in 2010; if the accretion ($573 million for the nine months ended September 30, 2010 and $391 million from the date of the conduit consolidation through September 30, 2009) is excluded, net interest revenue for the first nine months of 2010 was flat compared to the first nine months of 2009.

In May 2009, we elected to take action that required the consolidation onto our balance sheet, for financial reporting purposes, of the assets and liabilities of the asset-backed commercial paper conduits that we sponsored and administered. Upon consolidation, the aggregate fair value of the conduits investment securities of approximately $16.6 billion was established as their carrying amount, resulting in a $6.1 billion discount to the assets aggregate par value of approximately $22.7 billion. To the extent that the expected future cash flows from the securities exceed their carrying amount, the portion of the discount not related to credit will accrete into interest revenue over the securities remaining terms.

The timing and ultimate recognition of this accretion depends 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 accretion can also be influenced by our ongoing management of the risk and other characteristics associated with our investment portfolio, including any resulting sales of securities from which we would otherwise generate accretion. Subsequent to the May 2009 consolidation, we have recorded aggregate discount accretion in interest revenue of $1.19 billion, composed of $621 million in 2009 and $573 million in the first nine months of 2010, the latter composed of $212 million, $172 million and $189 million in the first, second and third quarters of 2010, respectively. Depending on the factors discussed above, among others, we anticipate that, until the securities mature or are sold, discount accretion will be a material component of our net interest revenue, and may increase the volatility of our net interest revenue and margin.

Interest-bearing deposits with banks, including cash balances held at the Federal Reserve to satisfy reserve requirements, averaged $13.02 billion for the third quarter of 2010, a decrease of 35% compared to $20.14 billion for the third quarter of 2009, and for the first nine months of 2010 averaged $12.50 billion, a decrease of 54% compared to $27.40 billion for the same period in 2009. An average of $3.23 billion was held at the Federal Reserve Bank during the third quarter of 2010, a decrease of 56% compared to $7.38 billion for the same period in 2009. Balances for both periods exceeded minimum reserve requirements. The overall decreases in all comparisons reflected excess liquidity held by us during 2009 due to the then-ongoing financial markets instability, that was re-allocated to higher-yielding investment securities.

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Average securities purchased under resale agreements decreased 27%, from $4.42 billion for the third quarter of 2009 to $3.21 billion in the third quarter of 2010, and decreased 32% from $4.17 billion to $2.83 billion in the nine-month comparison, mainly due to lower customer demand.

Average trading account assets decreased 90% from $2.51 billion for the first nine months of 2009 to $249 million for the first nine months of 2010. The decrease was due to the absence of conduit asset-backed commercial paper purchased by us, which was eliminated for financial reporting purposes when the conduits were consolidated onto our balance sheet in May 2009 as previously described.

Our average investment securities portfolio increased 16% from $84.81 billion for the third quarter of 2009 to $98.17 billion for the third quarter of 2010, and increased 25% in the nine-month comparison. The increases in both comparisons were due to significant improvement in the unrealized losses on our available-for-sale securities and the partial re-allocation of excess cash balances previously held at the Federal Reserve into higher-yielding investment securities as the financial markets stabilized. The year-to-date period also reflected the effect of the May 2009 conduit consolidation. During the first nine months of 2010, we continued to execute our strategy of investing primarily in AAA and AA rated securities. Securities rated AAA and AA comprised approximately 82% of our investment securities portfolio (approximately 71% AAA rated) at September 30, 2010, compared to 80% AAA and AA rated (approximately 69% AAA rated) at September 30, 2009.

Loans and leases averaged $12.08 billion for the third quarter of 2010, up 19% from $10.13 billion for the third quarter of 2009 and $11.71 billion for the nine months ended September 30, 2010, up 26% from $9.31 billion for the first nine months of 2009. The increase in the quarterly comparison was primarily related to increased customer demand for short-term liquidity. The increase in the nine-month comparison primarily reflected the structured asset-backed loans added in connection with the May 2009 conduit consolidation. For the third quarter of 2010, approximately 29% of the average loan and lease portfolio, compared to 24% for the same period in 2009, was composed of U.S. and non-U.S. short-duration advances that provide liquidity to customers in support of their transaction flows. U.S. short-duration advances averaged approximately $2.02 billion for the third quarter of 2010, up 10% compared to $1.84 billion for the third quarter of 2009, and $1.85 billion for the nine months ended September 30, 2010, down 20% from the first nine months of 2009. Non-U.S. short-duration advances increased 140% to $1.45 billion in the quarterly comparison, and 46% to $1.14 billion in the nine-month comparison, mainly due to activity associated with customers added in connection with the Intesa acquisition.

The lower average level of liquidity provided to U.S. customers during the first nine months of 2010 compared to the first nine months of 2009 was primarily the result of a decrease in customer demand and not a reduction in credit availability from, or committed lines provided by, State Street. As transaction flows returned to levels more consistent with those experienced prior to late 2007, domestic customer demand for short-term liquidity declined.

Average interest-bearing deposits increased 16% from $69.50 billion for the third quarter of 2009 to $80.35 billion for the third quarter of 2010. For the nine-month period, average interest-bearing deposits increased 8% to $74.54 billion from $69.29 billion in the 2009 period. For both periods, the increases reflected the deposits added in connection with the Intesa acquisition, partly offset by the return of customer deposits to levels more consistent with those experienced prior to late 2007.

Average other short-term borrowings decreased 18% to $12.89 billion for the third quarter of 2010 from the same period in 2009 and decreased 2% to $14.88 billion for the first nine months of 2010 compared to the

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corresponding period in 2009. In both comparisons, the decrease reflected the absence of borrowings under the Federal Reserve s term auction facility, which is further discussed under Liquidity in this Management s Discussion and Analysis.

Average long-term debt decreased 4% to $8.57 billion for the third quarter of 2010 compared to $8.95 billion for the third quarter of 2009 and increased 15% to $8.72 billion compared to $7.60 billion in the nine-month comparison. The decrease in the quarterly comparison resulted from a maturity of subordinated debt in the second quarter of 2010. The increase in the nine-month comparison resulted from the issuance of an aggregate of approximately $4 billion of unsecured senior notes by State Street and State Street Bank in March 2009 under the FDIC s Temporary Liquidity Guarantee Program, as well as the May 2009 issuance of unsecured senior notes, partly offset by the subordinated debt maturity.

Several factors could affect future levels of our net interest revenue and margin, including the mix of customer liabilities, actions of the various central banks, changes in U.S. and non-U.S. interest rates, the shapes of the various yield curves around the world and the amount of discount accretion generated by the former conduit securities in our investment portfolio (discussed earlier in this section). In the second half of 2009, based on market conditions, we re-initiated our strategy of re-investing proceeds from amortizing and maturing securities into 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

In connection with our ongoing management of the investment portfolio, we may, from time to time, sell available-for-sale securities, including former conduit 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 $91 million from sales of approximately $4 billion of available-for-sale securities in the third quarter of 2010, and net realized gains of $286 million from sales of approximately $18 billion of available-for-sale securities during the first nine months of 2010, compared to net realized gains of $141 million and $260 million, respectively, during the 2009 periods. Of the $91 million of net gains realized during the third quarter of 2010, none related to sales of former conduit securities, and of the $286 million of gains realized during the first nine months of 2010, $110 million related to sales of former conduit securities. For the third quarter and the period from the the conduit consolidation through September 30, 2009, gross realized gains related to sales of former conduit securities were $78 million for both periods, and gross realized losses related to sales of former conduit securities were $24 million for both periods.

The aggregate unrealized losses on securities for which other-than-temporary impairment was recorded in the third quarter and first nine months of 2010 were $132 million and $612 million, respectively. Of these totals, $58 million and $388 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. For the third quarter of 2010, we recorded the remaining $74 million (with $3 million related to former conduit securities) in our consolidated statement of income, compared to $99 million (with $18 million related to former conduit securities) for the third quarter of 2009. For the first nine months of 2010, we recorded the remaining $224 million (with $29 million related to former conduit securities) in our consolidated statement of income, compared to $176 million (with $18 million related to former conduit securities) for the first nine months of 2009.

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For the third quarter and first nine months of 2010, the substantial majority of the impairment losses related to non-agency mortgage-backed securities, which management concluded had experienced credit losses resulting from deterioration in financial performance of those securities during the period. The securities are reported as asset-backed securities in note 3 to the consolidated financial statements included in this Form 10-Q.

(In millions)	Quarters Ended September 30, 2010	2009	Nine Months Ended September 30, 2010	2009
Net realized gains from sales of available-for-sale securities	**$ 91**	$ 141	**$ 286**	$ 260
Gross losses from other-than-temporary impairment	**(132)**	(828)	**(612)**	(1,008)
Losses not related to credit[1]	**58**	729	**388**	832
Net impairment losses	**(74)**	(99)	**(224)**	(176)
Gains related to investment securities, net	**$ 17**	$ 42	**$ 62**	$ 84
Impairment associated with expected credit losses	**$ (71)**	$ (63)	**$ (201)**	$ (110)
Impairment associated with management s intent to sell the impaired securities prior to their recovery in value	**(1)**	(23)	**(1)**	(53)
Impairment associated with adverse changes in timing of expected future cash flows	**(2)**	(13)	**(22)**	(13)
Net impairment losses	**$ (74)**	$ (99)	**$ (224)**	$ (176)

(1) Pursuant to new accounting standards adopted on April 1, 2009, these losses were not recorded in our consolidated statement of income, but were recognized as a component of other comprehensive income, net of related taxes, in our consolidated balance sheet; refer to the following discussion and to note 9 to the consolidated financial statements included in this Form 10-Q.

Management regularly reviews the investment securities portfolio to identify other-than-temporary impairment of individual securities. Impairment related to expected losses represents the difference between the discounted values of the expected future cash flows from the securities compared to their current amortized cost basis, with each discount rate commensurate with the effective yield on the underlying security. For debt securities held to maturity, other-than-temporary impairment remaining after credit-related impairment (which credit-related impairment is recorded in our consolidated statement of income) is recognized, net of related taxes, as a component of other comprehensive income in the shareholders equity section of our consolidated balance sheet, and is accreted prospectively over the remaining terms of the securities based on the timing of their estimated future cash flows. For other-than-temporary impairment of debt securities that results from management s decision to sell the security prior to its recovery in value, the entire difference between the security s fair value and its amortized cost basis is recorded in our consolidated statement of income.

The accounting for other-than-temporary impairment was adopted by us, pursuant to new accounting standards, on April 1, 2009. Prior to that date, we recognized losses from other-than-temporary impairment of debt and equity securities for either a change in management s intent to hold the securities or expected credit losses, and such impairment losses, which reflected the entire difference between the fair value and amortized cost basis of each individual security, were recorded in our consolidated statement of income.

Additional information about investment securities, the gross realized gains and losses that compose the net realized sale gains 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.

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PROVISION FOR LOAN LOSSES

We recorded provisions for loan losses of $1 million during the third quarter of 2010 and $26 million during the first nine months of 2010, compared to $16 million during the third quarter of 2009 and $114 million during the first nine months of 2009. The majority of the provision recorded in 2010 resulted from a revaluation of the collateral supporting certain of the commercial real estate loans acquired in 2008 in connection with indemnified repurchase agreements with an affiliate of Lehman.

The commercial real estate loans are reviewed on a quarterly basis, and any provisions for loan losses that are recorded reflect management s current expectations with respect to future cash flows from these loans, based on an assessment of economic conditions in the commercial real estate market and other factors. Future changes in expectations with respect to these loans could result in additional provisions for loan losses.

EXPENSES

	Quarters Ended September 30,			Nine Months Ended September 30,		
(Dollars in millions)	**2010**	**2009**	**% Change**	**2010**	**2009**	**% Change**
Salaries and employee benefits	**$ 857**	$ 819	5%	**$ 2,589**	$ 2,246	15%
Information systems and communications	**181**	165	10	**522**	493	6
Transaction processing services	**165**	148	11	**482**	425	13
Occupancy	**112**	118	(5)	**346**	360	(4)
Securities lending charge				**414**		
Provision for legal exposure		250			250	
Merger and integration costs	**23**	11	109	**77**	40	93
Other:						
Professional services	**58**	76	(24)	**224**	184	22
Amortization of other intangible assets	**52**	36	44	**132**	104	27
Regulator fees and assessments	**9**	9		**35**	61	(43)
Securities processing	**24**	16	50	**68**	35	94
Other	**46**	85	(46)	**161**	203	(21)
Total other	**189**	222	(15)	**620**	587	6
Total expenses	**$ 1,527**	$ 1,733	(12)	**$ 5,050**	$ 4,401	15
Number of employees at quarter end	**28,940**	27,130				

Salaries and employee benefits expenses increased in the third-quarter and nine-month comparisons, primarily in connection with the addition of employees and associated expenses of the acquired Intesa and Mourant businesses, the impact of higher staffing levels in other units and, with respect to the nine-month comparison, the effect of our reinstatement of cash incentive compensation accruals. In addition, the nine-month comparison was affected by higher benefits requirements in payroll taxes, medical insurance and pensions. During the first nine months of 2009, salaries and employee benefits expenses were abnormally low, as we did not accrue cash incentive compensation for the first six months of 2009 as part of our plan to increase our tangible common equity.

Information systems and communications expenses for the third quarter and first nine months of 2010 reflected higher levels of spending on telecommunications hardware and software for our global infrastructure, as

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well as the addition of expenses from the acquired Intesa and Mourant businesses. The increase in transaction processing services expense resulted from higher external contract services costs, as well as higher levels of sub-custody expenses.

As previously reported, on June 30, 2010, we recorded an aggregate pre-tax charge of $414 million, which included $9 million of associated legal costs. In connection with the charge, we made a one-time cash contribution of $330 million to the cash collateral pools underlying the SSgA lending funds. The cash contribution reflected the cost to us to restore the net asset value per unit of such collateral pools to $1.00 as of June 30, 2010. As a result of this contribution, SSgA removed the redemption restrictions from these SSgA lending funds in August 2010. We also established a $75 million reserve to address potential inconsistencies in connection with our implementation of redemption restrictions applicable to the collateral pools underlying our agency lending program.

Our decision with respect to the one-time cash contribution was based on many factors, including our assessment with respect to previously disclosed asserted and unasserted claims and our evaluation of the ultimate resolution of such claims, as well as the effect of the redemption restrictions originally imposed by SSgA on the lending funds. The contribution was not the result of any obligation by State Street to support the SSgA lending funds or the underlying collateral pools. State Street has no obligation to provide cash or other support to the SSgA lending funds or the collateral pools underlying the SSgA lending funds at any future date, and has no intention to provide any such support associated with realized or unrealized losses in the collateral pools that may arise in the future.

The $75 million reserve was based on the results of a review of our implementation of the redemption restrictions with respect to participants in the agency lending collateral pools, and our assessment of the amount required to compensate clients for the dilutive effect of redemptions which may not have been consistent with the intent of the policy.

Other expenses declined in the quarterly comparison, primarily due to a $50 million insurance recovery related to legal proceedings, partly offset by higher securities processing costs and a higher level of other intangible assets amortization associated with the Intesa and Mourant acquisitions. Other expenses increased in the nine-month comparison, primarily due to higher legal costs, higher other intangible assets amortization related to the acquisitions and higher securities processing costs, partly offset by reduced FDIC assessments and the insurance recoveries.

Income Tax Expense

We recorded income tax expense of $236 million for the third quarter of 2010, compared to income tax expense of $160 million for the third quarter of 2009. For the first nine months of 2010, income tax expense was $361 million, compared to $540 million for the corresponding 2009 period. Our effective tax rates for the third quarter and first nine months of 2010 were 30.1% and 19.7%, respectively, compared to 32.8% and 29.3%, respectively, for the third quarter and first nine months of 2009. Our effective tax rate for the first nine months of 2010 included a discrete tax benefit of $180 million, recorded in the second quarter of 2010, generated by the restructuring of former non-U.S. conduit assets. Excluding the discrete tax benefit, the effective tax rate for the first nine months of 2010 was 29.5%.

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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 revenues, expenses and capital allocation methodologies with respect to these lines of business is provided in note 23 to the consolidated financial statements included in our 2009 Form 10-K.

The following is a summary of our line of business results. The amounts presented in the Other column for 2010 represent merger and integration costs recorded in connection with acquisitions. The amounts presented in the Other column for 2009 represent merger and integration costs recorded in connection with our acquisition of Investors Financial, and, for the nine months ended September 30, 2009, also include net interest revenue earned in connection with our participation in the AMLF. The amounts presented in both Other columns were not allocated to State Street s business lines.

(Dollars in millions, except where otherwise noted)	For the Quarters Ended September 30, Investment Servicing		Investment Management		Other		Total	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
Fee revenue:								
Servicing fees	**$ 989**	$ 833					**$ 989**	$ 833
Management fees			**$ 213**	$ 219			**213**	219
Trading services	**228**	269					**228**	269
Securities finance	**62**	67	**6**	38			**68**	105
Processing fees and other	**39**	18	**32**	27			**71**	45
Total fee revenue	**1,318**	1,187	**251**	284			**1,569**	1,471
Net interest revenue	**707**	704	**17**	19			**724**	723
Gains related to investment securities, net	**17**	42					**17**	42
Total revenue	**2,042**	1,933	**268**	303			**2,310**	2,236
Provision for loan losses	**1**	16					**1**	16
Expenses from operations	**1,327**	1,268	**177**	204			**1,504**	1,472
Provision for legal exposure				250				250
Merger and integration costs					**$ 23**	$ 11	**23**	11
Total expenses	**1,327**	1,268	**177**	454	**23**	11	**1,527**	1,733
Income (Loss) from continuing operations before income taxes	**$ 714**	$ 649	**$ 91**	$ (151)	**$ (23)**	$ (11)	**$ 782**	$ 487
Pre-tax margin	**35%**	34%	**34%**	nm				
Average assets (in billions)	**$ 150.3**	$ 141.7	**$ 3.7**	$ 3.4			**$ 154.0**	$ 145.1

nm - not meaningful

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

	For the Nine Months Ended September 30,							
	Investment Servicing		Investment Management		Other		Total	
(Dollars in millions, except where otherwise noted)	2010	2009	2010	2009	2010	2009	2010	2009
Fee revenue:								
Servicing fees	**$ 2,826**	$ 2,394					**$ 2,826**	$ 2,394
Management fees			**$ 656**	$ 593			**656**	593
Trading services	**796**	824					**796**	824
Securities finance	**204**	325	**45**	162			**249**	487
Processing fees and other	**192**	41	**86**	70			**278**	111
Total fee revenue	**4,018**	3,584	**787**	825			**4,805**	4,409
Net interest revenue	**1,995**	1,807	**48**	53		$ 7	**2,043**	1,867
Gains related to investment securities, net	**62**	84					**62**	84
Total revenue	**6,075**	5,475	**835**	878		7	**6,910**	6,360
Provision for loan losses	**26**	114					**26**	114
Expenses from operations	**3,937**	3,559	**622**	552			**4,559**	4,111
Securities lending charge	**75**		**339**				**414**	
Provision for legal exposure				250				250
Merger and integration costs					**$ 77**	40	**77**	40
Total expenses	**4,012**	3,559	**961**	802	**77**	40	**5,050**	4,401
Income (Loss) from continuing operations before income taxes	**$ 2,037**	$ 1,802	**$ (126)**	$ 76	**$ (77)**	$ (33)	**$ 1,834**	$ 1,845
Pre-tax margin	**34%**	33%	**nm**	9%				
Average assets (in billions)	**$ 145.5**	$ 143.6	**$ 3.9**	$ 3.3			**$ 149.4**	$ 146.9

nm - not meaningful

Investment Servicing

Total revenue for the third quarter of 2010 increased 6% compared to the third quarter of 2009, and 11% in the nine-month comparison. Total fee revenue in the same comparisons increased 11% and 12%, respectively, with the increases mainly attributable to growth in servicing fees and processing fees and other revenue. The growth in servicing fees in the quarterly comparison resulted from the addition of servicing fee revenue from the acquired Intesa and Mourant businesses, the impact of new business won and installed in the current and prior periods on current-period revenue, and increases in daily average equity market valuations. In the nine-month comparison, the growth was associated with the impact of new business won and installed, increases in equity valuations and the addition of revenue from the acquired Intesa and Mourant businesses.

Processing fees and other revenue for the third quarter and first nine months of 2010 increased compared to the 2009 periods, primarily as a result of higher net revenue from structured products and higher levels of income from joint ventures and, in the nine-month comparison, net revenue related to certain tax-advantaged investments.

The increases in servicing fees and processing fees and other revenue were partly offset by a decline in securities finance revenue in both the quarterly and nine-month comparisons, primarily due to lower spreads across all lending programs, as the comparative levels of average securities on loan were down slightly (in the quarterly comparison, $382 billion compared to $399 billion) or flat (in the nine-month comparison, $405 billion for both periods).

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

Servicing fees, trading services revenue and gains related to investment securities, net, for our Investment Servicing business line are identical to the respective consolidated results. Refer to the Servicing Fees, Trading Services and Gains (Losses) Related to Investment Securities, Net sections under Consolidated Results of Operations 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 under Processing Fees and Other in the Total Revenue section.

Net interest revenue for the third quarter of 2010 was essentially flat compared to the third quarter of 2009, and up 10% for the first nine months of 2010 compared to the corresponding 2009 period. In the quarterly comparison, higher levels of investment securities and the impact of the deposits added in connection with the Intesa acquisition were offset by a lower level of discount accretion generated by the former conduit assets. In the nine-month comparison, the increase was generally due to a higher level of discount accretion. The discount accretion is discussed more fully under Total Revenue Net Interest Revenue in this Management s Discussion and Analysis. A portion of consolidated net interest revenue is recorded in our Investment Management business line based on the volume of customer liabilities attributable to that business.

Total expenses from operations increased 5% for the third quarter and 11% for the first nine months of 2010 compared to the corresponding periods in 2009. In the quarterly comparison, expenses were added from the acquired Intesa and Mourant businesses. The increase in the nine-month comparison resulted primarily from the absence of cash incentive compensation accruals during the first six months of 2009, as we did not accrue cash incentive compensation as part of our plan to increase our tangible common equity, and the addition of expenses from the acquired Intesa and Mourant businesses.

Investment Management

Total revenue for the third quarter of 2010 decreased 12% compared to the third quarter of 2009, and decreased 5% for the first nine months of 2010 compared to the first nine months of 2009, generally as a result of changes in management fees and securities finance revenue. In the quarterly comparison, both management fees and securities finance revenue declined; in the nine-month comparison, an 11% increase in management fees was more than offset by a 72% decline in securities finance revenue.

Management fees, which are generated by SSgA, decreased 3% in the third quarter of 2010 compared to the third quarter of 2009, and increased 11% in the nine-month comparison. The decrease in the quarterly comparison was mainly due to changes in business mix, as customers moved from active management strategies to passive strategies, partly offset by increases in average month-end equity market valuations. The year-to-date increase generally resulted from the effect of net new business on current-period revenue and increases in equity market valuations.

The declines in securities finance revenue both from the third quarter of 2009 to the third quarter of 2010 and from the first nine months of 2009 to the first nine months of 2010 generally resulted from lower spreads across all lending programs.

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 third quarter of 2010 decreased 13% compared to the third quarter of 2009, and increased 13% for the first nine months of 2010 compared to the first nine months of 2009. The

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

decrease in the quarterly comparison largely resulted from reduced information systems and communications costs and an insurance recovery related to legal proceedings. The increase in the nine-month comparison was primarily associated with higher salaries and employee benefits expenses related to higher staffing levels and higher expenses for securities processing.

As previously reported, on June 30, 2010, we made a one-time cash contribution of $330 million to the collateral pools underlying the SSgA lending funds, which restored the net asset value per unit of the pools to $1.00 as of that date. The cash contribution was equal to the aggregate excess of the amortized cost of the collateral pools assets over their fair value on the date of the payment. The cash contribution, combined with continuing improvement in market conditions during 2010, enabled us to remove the redemption restrictions from the pools during the third quarter of 2010. As of June 30, 2010, subsequent to the cash contribution, and as of September 30, 2010, the net asset value per unit of the collateral pools, based on the fair value of the underlying assets, was equal to $1.00. SSgA will not have an ongoing interest in the lending funds as a result of the cash contribution. Specifically, the increase in fund liquidity will benefit the third-party investors in the funds.

Our decision with respect to the cash contribution was based on many factors, including our assessment relative to previously disclosed asserted and unasserted claims and our evaluation of the ultimate resolution of such claims, as well as the effect of the redemption restrictions originally imposed by SSgA on the lending funds. The contribution was not the result of any obligation by State Street to support the SSgA lending funds or the underlying collateral pools. State Street has no obligation to provide cash or other support to the SSgA lending fund or the collateral pools underlying the SSgA lending funds at any future date, and has no intention to provide any such support associated with realized or unrealized losses in the collateral pools that may arise in the future.

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. 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.

Our clients needs and our operating objectives determine the volume, mix and currency denomination of our consolidated balance sheet. Deposits and other liabilities generated by client activities are invested in assets that generally match the liquidity and interest-rate characteristics of the 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, federal funds sold and securities purchased under resale agreements. The actual mix of assets is determined by the characteristics of the customer liabilities and our desire to maintain a well-diversified portfolio of high-quality assets. The management of our consolidated balance sheet structure is conducted within specific Board of Directors-approved policies for interest-rate risk, credit risk and liquidity.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

(In millions)	For the Nine Months Ended September 30, 2010 Average Balance	2009 Average Balance
Assets:		
Interest-bearing deposits with banks	**$ 12,500**	$ 27,404
Securities purchased under resale agreements	**2,826**	4,170
Federal funds sold	**1**	89
Trading account assets	**249**	2,509
Investment securities	**96,111**	76,862
Investment securities purchased under AMLF[1]		1,180
Loans and leases	**11,710**	9,310
Other interest-earning assets	**959**	1,396
Total interest-earning assets	**124,356**	122,920
Cash and due from banks	**2,518**	2,326
Other assets	**22,493**	21,683
Total assets	**$ 149,367**	$ 146,929
Liabilities and shareholders equity:		
Interest-bearing deposits:		
U.S.	**$ 8,707**	$ 8,218
Non-U.S.	**65,832**	61,070
Total interest-bearing deposits	**74,539**	69,288
Securities sold under repurchase agreements	**8,292**	11,760
Federal funds purchased	**1,861**	946
Short-term borrowings under AMLF[1]		1,173
Other short-term borrowings	**14,875**	15,208
Long-term debt	**8,719**	7,602
Other interest-bearing liabilities	**820**	1,163
Total interest-bearing liabilities	**109,106**	107,140
Non-interest-bearing deposits	**13,223**	16,421
Other liabilities	**11,161**	10,321
Shareholders equity	**15,877**	13,047
Total liabilities and shareholders equity	**$ 149,367**	$ 146,929

(1) Amounts represent averages of asset-backed commercial paper purchases and associated borrowings in connection with our participation in the AMLF. The AMLF expired in February 2010.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

Investment Securities

The carrying values of investment securities by type were as follows as of period end:

(In millions)	September 30, 2010	December 31, 2009
Available for sale:		
U.S. Treasury and federal agencies:		
Direct obligations	**$ 7,756**	$ 11,162
Mortgage-backed securities	**18,753**	14,936
Asset-backed securities:		
Student loans[(1)]	**14,899**	11,928
Credit cards	**6,933**	6,607
Sub-prime	**3,177**	3,197
Other	**2,618**	2,797
Total asset-backed securities	**27,627**	24,529
Non-U.S. debt securities	**13,570**	10,311
State and political subdivisions	**6,597**	5,937
Collateralized mortgage obligations	**3,239**	2,409
Other U.S. debt securities	**2,516**	2,234
U.S. equity securities	**554**	1,098
Non-U.S. equity securities	**107**	83
Total	**$ 80,719**	$ 72,699
Held to maturity:		
U.S. Treasury and federal agencies:		
Direct obligations		$ 500
Mortgage-backed securities	**$ 471**	620
Asset-backed securities:		
Credit cards		20
Other	**194**	447
Total asset-backed securities	**194**	467
Non-U.S. debt securities	**9,608**	10,822
State and political subdivisions	**144**	206
Collateralized mortgage obligations	**7,160**	8,262
Total	**$ 17,577**	$ 20,877

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

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

We manage our investment securities portfolio to align with interest-rate and duration characteristics of our customer liabilities and in the context of our overall consolidated balance sheet structure, which is maintained within internally approved risk limits, 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 balance sheet. The portfolio continues to be concentrated in securities with high credit quality, with approximately 82% of the carrying value of the portfolio AAA or AA rated. The percentages of the carrying value of the investment securities portfolio by external credit rating were as follows as of September 30, 2010 and December 31, 2009:

	September 30, 2010	December 31, 2009
AAA[(1)]	**71%**	69%
AA	**11**	11
A	**6**	7
BBB	**3**	4
Below BBB	**9**	8
Non-rated		1
	100%	100%

(1) Includes U.S. Treasury securities.

As of September 30, 2010, the investment portfolio of approximately 10,180 securities was diversified with respect to asset class. Approximately 79% of the carrying value of the portfolio at September 30, 2010 was composed of mortgage-backed and asset-backed securities. The largely floating-rate asset-backed portfolio consists primarily of credit card- and student loan-backed securities. Mortgage-backed securities are split between securities of Federal National Mortgage Association, Federal Home Loan Mortgage Corporation and U.S. and non-U.S. large-issuer collateralized mortgage obligations.

Certain asset-backed and municipal (state and political subdivisions) securities have the benefit of third-party guarantees from financial guaranty insurance companies. The aggregate amortized cost of securities with underlying guarantees was approximately $4.71 billion at September 30, 2010 and $4.96 billion at December 31, 2009. Asset-backed securities comprised approximately $744 million of the total at September 30, 2010, of which approximately $190 million are currently drawing on the underlying guarantees in order to make contractual principal and interest payments to State Street. In these cases, the performance of the underlying security is highly dependent on the performance of the guarantor. Of the $190 million currently drawing on the guarantees, approximately 47% is supported by guarantors rated below investment grade or non-rated.

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 companies management deems to be under financial duress, we assume an immediate default by those guarantors (commensurate with our prior assumption of a January 1, 2010 default), 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.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

Impairment

Net unrealized losses on securities available for sale were as follows as of September 30, 2010 and December 31, 2009:

(In millions)	September 30, 2010	December 31, 2009
Fair value	**$ 80,719**	$ 72,699
Amortized cost	**80,729**	74,843
Net unrealized loss, pre-tax	**$ (10)**	$ (2,144)
Net unrealized loss, after-tax	**$ (6)**	$ (1,316)

The net unrealized loss amounts excluded the remaining net unrealized loss of $604 million, or $372 million after-tax, and $1.01 billion, or $635 million after-tax, respectively, as of September 30, 2010 and December 31, 2009, generally related to the 2008 reclassification of securities available for sale to securities held to maturity. These after-tax amounts were also recorded in other comprehensive income. The decline in the remaining after-tax unrealized loss on transferred securities resulted primarily from amortization and from the recognition of losses from other-than-temporary impairment on certain of the securities.

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 separated 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, net of related taxes, in other comprehensive income as long as management does not intend to sell the security.

The assessment of other-than-temporary impairment involves an evaluation of economic and security-specific factors, which are more fully described in note 3 to the consolidated financial statements included in this Form 10-Q. 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.

Generally, indices that measure trends in national housing prices are published in arrears. As of December 31, 2009, national housing prices, according to the Case-Shiller National Home Price Index, had declined by approximately 29% peak-to-current. Through June 30, 2010, there was an improvement of approximately 1%, resulting in a peak-to-current decline of approximately 28%. Despite increased stabilization in housing prices, management s base assumption is that by year-end 2010, the peak-to-current housing price will decline by an additional 5% to 10%.

Despite nominal improvement in the above-mentioned housing prices, the performance of certain mortgage products and vintages continues to deteriorate. In addition, management continues to believe that there will be further declines in housing prices as indicated above. The combination of these factors has led to an increase in management s overall loss expectations. Our investment portfolio continues to be sensitive to management s estimates of defaults and prepayment speeds. Ultimately, other-than-temporary impairment is based on specific cusip-level detailed analysis of the unique characteristics of each security. In addition, we perform sensitivity analysis across each significant product type within the non-agency U.S. residential mortgage-backed portfolio. For example, as it relates to our U.S. non-agency prime and Alt-A residential mortgage-backed portfolios, if we were to increase default estimates to 110% of management s current expectations with a corresponding 10%

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

slowdown of prepayment speeds to 90% of management s current expectations, we estimate that other-than-temporary impairment on these securities related to credit would increase by approximately $5 million to $15 million. This impairment would be recorded in our consolidated statement of income. As it relates to our U.S. sub-prime asset-backed portfolio, if we were to increase default estimates to 110% of management s current expectations with a corresponding 10% slowdown of prepayment speeds to 90% of management s current expectations, we estimate that other-than-temporary impairment on these securities related to credit would increase by approximately $75 million to $125 million. This impairment would be recorded in our consolidated statement of income.

The sensitivity estimates discussed above are based on a number of factors, including, but not limited to, the level of housing prices and the timing of defaults. To the extent that such factors differ substantially from management s current expectations, resulting loss estimates may differ materially from those stated. Excluding the securities for which other-than-temporary impairment was recorded, management considers the aggregate decline in fair value of the remaining securities and the resulting net unrealized losses to be temporary and not the result of any material changes in the credit characteristics of the securities. Additional information about our assessment of impairment is provided in note 3 to the consolidated financial statements included in this Form 10-Q.

Several major U.S. financial institutions are participating in a mortgage foreclosure moratorium with respect to residential mortgages. Generally, we have no direct exposure to this moratorium, since we do not originate, purchase or service residential mortgage loans. However, the rate at which existing residential mortgage foreclosure issues are resolved, which could slow due to the continuation or modification of foreclosure moratorium programs, as well as certain outcomes of the resolution of these issues, 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, and, accordingly, could also affect the amount of other-than-temporary impairment that we recognize in future periods.

Loans and Lease Financing

(In millions)	**September 30, 2010**	**December 31, 2009**
Commercial and financial:		
Institutional and corporate:		
U.S.	**$ 4,370**	$ 3,938
Non-U.S.	**137**	100
Securities settlement:		
U.S.	**2,145**	1,614
Non-U.S.	**2,757**	458
Commercial real estate:		
U.S.	**602**	600
Total commercial and financial	**10,011**	6,710
Purchased receivables:		
U.S.	**778**	786
Non-U.S.	**1,488**	1,596
Lease financing:		
U.S.	**414**	408
Non-U.S.	**1,075**	1,308
Total loans	**13,766**	10,808
Less allowance for loan losses	**(101)**	(79)

Net loans	**$ 13,665**	$ 10,729

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

Institutional and corporate balances primarily represented short-term extensions of credit pursuant to lending facilities with fund clients, as well as insurance, corporate and other borrowers. Securities settlement balances were composed of short-duration advances to our clients to provide liquidity in support of their transaction flows associated with securities settlement activities. The purchased receivables were structured asset-backed loans added in connection with the May 2009 conduit consolidation, and represent undivided interests in securitized pools of underlying third-party receivables.

The commercial real estate loans were acquired in 2008 pursuant to indemnified repurchase agreements with an affiliate of Lehman. These loans, which are primarily collateralized by direct and indirect interests in commercial real estate, were recorded at their then-current fair value, based on management s expectations with respect to future cash flows from the loans using appropriate market discount rates as of the date of acquisition. The majority of the loans is accounted for under the provisions of ASC Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality* (formerly AICPA Statement of Position No. 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer*). The provisions of ASC Topic 310-30 require management to periodically estimate the loans expected future cash flows, and if the timing and amount of cash flows expected to be collected can be reasonably estimated, these cash flows are used to record interest revenue on the loans. If the loans expected future cash flows increase, the increase is recorded over the remaining terms of the loans as an increase to the loans yield. If expected future cash flows decrease, an allowance for loan losses is established and the accretable yield on the loans is maintained. In accordance with ASC Topic 310-30 and our accounting policy with respect to non-accrual loans, we would place these acquired commercial real estate loans on non-accrual status in the future if and when we were unable to reasonably estimate their expected future cash flows.

During the second quarter of 2010, as a result of a settlement related to the Lehman-related indemnified repurchase agreements, we acquired an additional commercial real estate loan and recorded it at its then-current fair value of $16 million. This loan, prior to acquisition, had been performing in accordance with its contractual terms and had no evidence of credit deterioration as of the acquisition date, and accordingly is not accounted for under the above-described provisions of ASC Topic 310-30.

At September 30, 2010, approximately $146 million of the above-described commercial real estate loans had been placed by management on non-accrual status. This was based on management s expectations with respect to future cash flows from the loans. Future changes in expectations with respect to the aggregate commercial real estate loan portfolio could result in additional non-accrual loans and provisions for loan losses.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

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

(In millions)	Quarters Ended September 30, 2010	Quarters Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Beginning balance	**$ 102**	$ 108	**$ 79**	$ 18
Provision for loan losses:				
Commercial real estate loans	**3**		**23**	98
Other	**(2)**	16	**3**	16
Charge-offs:				
Commercial real estate loans	**(1)**	(61)	**(4)**	(69)
Other		(10)		(10)
Other	**(1)**			
Total	**$ 101**	$ 53	**$ 101**	$ 53

The majority of the provision for loan losses recorded in 2010 was related to commercial real estate loans, primarily the result of a revaluation of the collateral supporting certain of the commercial real estate loans acquired in 2008. The charge-offs recorded in 2010 related to the commercial real estate loans, as management considered certain of these loans no longer collectible.

The commercial real estate loans are reviewed on a quarterly basis, and any provisions for loan losses that are recorded reflect management s current expectations with respect to future cash flows from these loans, based on an assessment of economic conditions in the commercial real estate market and other factors.

Capital

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

Regulatory Capital

Our objective with respect to regulatory capital management is to maintain a strong capital base in order to provide financial flexibility for our business needs, including funding corporate growth and supporting customers 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 in the Financial Condition section of Management s Discussion and Analysis in our 2009 Form 10-K.

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AND RESULTS OF OPERATIONS (Continued)

At September 30, 2010, State Street and State Street Bank met all capital adequacy requirements to which they were subject. Regulatory capital amounts and ratios at September 30, 2010, and December 31, 2009 are presented in the table below.

	Regulatory Guidelines[1]		State Street		State Street Bank	
(Dollars in millions)	Minimum	Well Capitalized	September 30, 2010	December 31, 2009	September 30, 2010	December 31, 2009
Tier 1 risk-based capital ratio	4%	6%	**15.8%**	17.7%	**15.7%**	17.3%
Total risk-based capital ratio	8	10	**17.1**	19.1	**17.3**	19.0
Tier 1 leverage ratio	4	5	**8.3**	8.5	**8.1**	8.2
Tier 1 risk-based capital			**$ 11,964**	$ 12,005	**$ 11,546**	$ 11,378
Total risk-based capital			**12,914**	12,961	**12,662**	12,482
Adjusted risk-weighted assets and market-risk equivalents:						
Balance sheet risk-weighted assets			**$ 60,864**	$ 56,780	**$ 58,648**	$ 54,832
Off-balance sheet equivalent risk-weighted assets			**13,933**	10,159	**13,933**	10,159
Market risk equivalent assets			**828**	752	**780**	703
Total			**$ 75,625**	$ 67,691	**$ 73,361**	$ 65,694
Adjusted quarterly average assets			**$ 144,824**	$ 140,978	**$ 142,298**	$ 138,914

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

At September 30, 2010, State Street s and State Street Bank s regulatory capital ratios decreased compared to December 31, 2009. The decreases in the risk-based ratios were primarily the result of the reduction of capital related to the goodwill and other intangible assets recorded in connection with the Intesa and Mourant acquisitions in the second quarter of 2010. In addition, balance sheet risk-weighted assets increased, as short-duration advances to clients to provide liquidity in support of their transaction flows increased, largely in connection with the Intesa acquisition. Finally, off-balance sheet equivalent risk-weighted assets increased, primarily the result of higher levels of foreign exchange derivative activity. At September 30, 2010, regulatory capital ratios for State Street and State Street Bank exceeded the regulatory minimum and well-capitalized thresholds.

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.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

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. In addition, in response to the current financial crisis, 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.

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, its and State Street Bank s primary U.S. banking regulator. State Street is currently in the qualification period for Basel II.

The Basel Committee has not yet published the final criteria that will constitute Basel III, and a significant implementation period is expected to be incorporated into the final accord. In addition, U.S. banking regulators will need to adopt rules to implement the final accord. Consequently, it is not possible to determine with certainty at this time how our regulatory capital and our operations will align with the regulatory capital requirements of Basel III, or when we will be expected to be compliant with the Basel regulatory capital requirements. However, we believe that we will be able to comply with the relevant Basel II and Basel III regulatory capital requirements by their implementation dates as applied to us.

Economic Capital

We define economic capital as the capital required to protect holders of our senior debt, and obligations higher in priority, against unexpected economic losses over a one-year period at a level consistent with the solvency of a firm with our target AA senior debt rating. Economic capital requirements are one of several important measures used by management and the Board of Directors to assess the adequacy of our capital levels in relation to State Street s risk profile. Our Asset, Liability and Capital Committee, or ALCCO, is responsible for overseeing our economic capital process. The framework and methodologies used to quantify economic capital for each of the risk types described below have been developed by our Enterprise Risk Management, Global Treasury and Corporate Finance groups and are designed to be generally consistent with our risk management principles and Basel II. This economic capital framework has been approved by senior management. 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.

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AND RESULTS OF OPERATIONS (Continued)

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 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 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. A capital reduction, or diversification benefit, is then applied to reflect the unlikely event of experiencing an extremely large loss in each risk type at the same time.

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 funding 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 our consolidated balance sheet asset structure.

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

Uses of liquidity result from the following: withdrawals of unsecured client deposits; draw-downs on 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,

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

and are invested in a combination of term 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 upon 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 C/Ds, and invested those funds in short-term money market assets which are recorded in our consolidated balance sheet and would be available to meet cash needs. At September 30, 2010, this wholesale C/D portfolio totaled $9.66 billion, compared to $5.74 billion at December 31, 2009. In connection with our management of liquidity where we seek to maintain access to sources of back-up liquidity at reasonable costs, we have participated in the Federal Reserve s secured lending program available to financial institutions, referred to as the term auction facility, or TAF. State Street Bank terminated its participation in the TAF in February 2010, and consequently had no TAF balance outstanding at September 30, 2010, compared to $2.0 billion at December 31, 2009. Since then, the Federal Reserve has terminated the TAF program. The highest TAF balance outstanding during the first nine months of 2010 for State Street Bank was $2.0 billion, compared to $10.0 billion during the year ended December 31, 2009. The average TAF balance outstanding for the first nine months of 2010 for State Street Bank was approximately $300 million, compared to an average TAF balance of approximately $4.9 billion for the year ended December 31, 2009.

In addition to these funding sources, at September 30, 2010, asset-backed commercial paper issued to third parties by the former conduits, which were consolidated into our financial statements in May 2009, totaled approximately $6.85 billion, compared to $12.07 billion at December 31, 2009. We continue to market the conduit commercial paper program to investors in order to fund the remaining former conduit assets.

While maintenance of our high investment-grade credit rating is of primary importance to our liquidity management program, on-balance sheet liquid assets represent significant liquidity that we can directly control, and provide a source of cash in the form of principal maturities and the ability to borrow from the capital markets using our securities as collateral. Our liquid assets consist primarily of cash balances at central banks in excess of regulatory requirements and other short-term liquid assets, such as federal funds sold and interest-bearing deposits with banks, the latter of which are multicurrency instruments invested with major multinational 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. At September 30, 2010, the value of our liquid assets, as defined, totaled $88.38 billion, compared to $75.98 billion as of December 31, 2009. Due to the unusual size and volatile nature of our quarter-end client deposits, we maintained approximately $20.22 billion at central banks on September 30, 2010, compared to $22.45 at December 31, 2009, both in excess of regulatory required minimums.

Aggregate investment securities carried at $46.85 billion as of September 30, 2010, compared to $40.96 billion as of December 31, 2009, 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

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AND RESULTS OF OPERATIONS (Continued)

pledged to the Federal Reserve Bank of Boston or internally between State Street affiliates. Liquid assets included securities pledged to the Federal Reserve Bank of Boston to secure State Street Bank s ability to borrow from their discount window should the need arise. This access to primary credit is an important source of back-up liquidity for State Street Bank. As of September 30, 2010, State Street Bank had no outstanding primary credit borrowings from the discount window.

Based upon our level of liquid assets and our ability to access the capital markets for additional funding when necessary, including our ability to issue debt and equity securities under our current universal shelf registration, management considers overall liquidity at September 30, 2010 to be sufficient to meet State Street s current commitments and business needs, including supporting the liquidity of the commercial paper conduits and accommodating the transaction and cash management needs of our clients.

As referenced above, our ability to maintain consistent access to liquidity is fostered by the maintenance of high investment-grade ratings on our debt, as measured by the major independent credit rating agencies. Factors essential to retaining high credit ratings include diverse and stable core earnings; strong risk management; strong capital ratios; diverse liquidity sources, including the global capital markets and customer deposits; and strong liquidity monitoring procedures. High ratings on debt minimize borrowing costs and enhance our liquidity by increasing the potential market for our debt. A downgrade or reduction of these credit ratings could have an adverse effect to our ability to access funding at favorable interest rates.

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. We have, as discussed previously, issued in the past, and we may issue in the future, securities pursuant to the 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 former conduit asset-backed commercial paper program, under which we can issue up to $3 billion with original maturities of up to 270 days from the date of issue. At September 30, 2010, we had $2.73 billion of commercial paper outstanding, compared to $2.78 billion at December 31, 2009. Corporate commercial paper issuances are recorded in other short-term borrowings in our consolidated statement of condition.

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 September 30, 2010, State Street Bank s outstanding unsecured senior notes, issued pursuant to the aforementioned Board authority, totaled $2.45 billion. These notes are guaranteed pursuant to the FDIC s Temporary Liquidity Guarantee Program.

State Street Bank currently maintains a line of credit with a financial institution of CAD $800 million, or approximately $777 million, as of September 30, 2010, to support its Canadian securities processing operations. The line of credit has no stated termination date and is cancelable by either party with prior notice. As of September 30, 2010, no balance was outstanding on this line of credit.

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Risk Management

The global scope of our business activities requires that we balance what we perceive to be the primary risks in our businesses with a comprehensive and well-integrated risk management function. The measurement, monitoring and mitigation of risks are essential to the financial performance and successful management of our businesses. These risks, if not effectively managed, can result in current losses to State Street as well as erosion of our capital and damage to our reputation. Our systematic approach also allows for a more precise assessment of risks within a framework for evaluating opportunities for the prudent use of capital.

We have a disciplined approach to risk management that involves all levels of management. The Board, through its Risk and Capital Committee, provides extensive review and oversight of our overall risk management programs, including the approval of key risk management policies and the periodic review of State Street s Risk Appetite Statement, which is an integral part of our overall Internal Capital Adequacy Assessment Process, or ICAAP. The Risk Appetite Statement outlines the quantitative limits and qualitative goals that define and constrain our risk appetite and defines responsibilities for measuring and monitoring risk against limits, which are reported regularly to the Board. In addition, State Street utilizes a variety of key risk indicators to monitor risk on a more granular level. Enterprise Risk Management, or ERM, a dedicated corporate group, provides oversight, support and coordination across business units and is responsible for the formulation and maintenance of enterprise-wide risk management policies and guidelines. In addition, ERM establishes and reviews approved limits and, in collaboration with business line management, monitors key risks. Our Chief Risk Officer meets regularly with the Board or its Risk and Capital Committee, as appropriate, and has the authority to escalate issues as necessary.

The execution of duties in the management of people, products, business operations and processes is the responsibility of business unit managers. The function of risk management is designing and directing the implementation of risk management programs and processes consistent with corporate and regulatory standards, and providing oversight of the business-owned risks. Accordingly, risk management is a shared responsibility between ERM and the business lines, and requires joint efforts in goal setting, program design and implementation, resource management, and performance evaluation between business and functional units.

Responsibility for risk management is overseen by a series of management committees, as well as the Board s Risk and Capital Committee. The Management Risk and Capital Committee, or MRAC, with our Chief Risk Officer and Chief Financial Officer acting as co-chairs, aligns State Street s strategy, budget, risk appetite and capital adequacy. The Major Risk Committee, or MRC, is responsible for the formulation, recommendation and approval of policies, guidelines and programs governing the identification, analysis, measurement and control of material risks across State Street. Co-Chaired by our Chief Risk Officer and Chief Financial Officer, the MRC focuses on the review of business activities with significant impact on risk and capital. ALCCO, chaired by our Treasurer, oversees the management of our consolidated balance sheet, the management of our global liquidity and interest-rate risk positions, our regulatory and economic capital, the determination of the framework for capital allocation and strategies for capital structure, and debt and equity issuances.

Our Fiduciary Review Committee, chaired by the head of ERM, reviews the criteria for the acceptance of fiduciary duties, and assists our business lines with their fiduciary responsibilities executed on behalf of customers. Our Credit Committee, chaired by our Chief Credit Officer, acts as the credit and counterparty risk guidelines committee for State Street. Our Operational Risk Committee, co-chaired by the head of ERM and the head of Operational Risk, provides cross-business oversight of operational risk to identify, measure, manage and control operational risk in an effective and consistent manner across State Street. Our Model Assessment

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Committee, chaired within ERM, provides recommendations concerning technical modeling issues and independently validates qualifying financial models utilized by our businesses. Several other committees with specialized risk management functions report up to the MRC.

While we believe that our risk management program is effective in managing the risks in our businesses, both internal and external factors may create risks that cannot always be prospectively identified or anticipated. 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 in the Financial Condition section of Management s Discussion and Analysis in our 2009 Form 10-K.

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 primarily engage in trading and investment activities 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 objectives and liquidity needs, our clients requirements and market volatility. Interest-rate risk, a component of market risk, is more thoroughly discussed in the Asset and Liability Management portion of this Market Risk section.

Trading Activities

Market risk associated with foreign exchange and other trading activities is managed through corporate guidelines, including established limits on aggregate and net open positions, sensitivity to changes in interest rates, and concentrations, which are supplemented by stop-loss thresholds. We use a variety of risk management tools and methodologies, including value-at-risk, to measure, monitor and manage market risk. All limits and measurement techniques are reviewed and adjusted as necessary on a regular basis by business managers, the market risk management group and the Trading and Market Risk Committee.

We use a variety of derivative financial instruments to support our clients needs, conduct trading activities and manage our interest-rate and currency risk. These activities are designed to create trading revenue and to hedge potential earnings volatility. In addition, we provide services related to derivatives in our role as both a manager and a servicer of financial assets.

Our clients use derivatives to manage the financial risks associated with their investment goals and business activities. With the growth of cross-border investing, our clients have an 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. As of September 30, 2010, the aggregate notional amount of these derivatives was $753.82 billion, of which $650.11 billion was composed of foreign exchange

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

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forward, swap and spot contracts. In the aggregate, we seek to closely match long and short foreign exchange forward positions 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 11 to the consolidated financial statements included in this Form 10-Q.

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

Like all quantitative risk measures, VaR is subject to limitations and assumptions inherent in our methodology. 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 include risk associated with intra-day changes in positions or intra-day price volatility.

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

VALUE-AT-RISK

	Nine Months Ended September 30,					
	2010			2009		
(In millions)	Annual Average	Maximum	Minimum	Annual Average	Maximum	Minimum
Foreign exchange rates	**$ 3.2**	**$ 9.4**	**$ 0.6**	$ 3.2	$ 9.7	$ 0.5
Interest-rates	**1.6**	**4.9**	**1.6**	1.6	2.9	0.6
Total VaR for trading assets	**$ 4.5**	**$ 10.2**	**$ 1.8**	$ 3.7	$ 9.2	$ 1.2

We back-test the estimated one-day VaR on a daily basis. This information is reviewed and used to confirm that all relevant trading positions are properly modeled. For the nine months ended September 30, 2010 and 2009, we did not experience any actual trading losses in excess of our end-of-day VaR estimate.

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

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Total Regulatory VALUE-AT-RISK

	Nine Months Ended September 30,					
	2010			2009		
(In millions)	Annual Average	Maximum	Minimum	Annual Average	Maximum	Minimum
VaR for trading assets	**$ 4.5**	**$ 10.2**	**$ 1.8**	$ 3.7	$ 9.2	$ 1.1
VaR for non-trading assets	**3.1**	**6.7**	**2.3**	2.1	2.4	1.6
Total regulatory VaR	**$ 7.6**	**$ 13.1**	**$ 4.7**	$ 4.5	$ 9.2	$ 1.2

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 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.

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. The use of derivatives is subject to ALCCO-approved guidelines. Additional information about our use of derivatives is provided in note 11 to the consolidated financial statements included in this Form 10-Q.

As a result of growth in our non-U.S. operations, including the Intesa and Mourant acquisitions, non-U.S. dollar denominated customer liabilities are a significant portion of our consolidated balance sheet. This growth results in exposure to changes in the shape and level of non-U.S. dollar yield curves, which we include in our consolidated interest-rate risk management process.

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. Both of these measures are subject to ALCCO-approved guidelines, and are monitored regularly, along with other relevant simulations, scenario analyses and stress tests by both Global Treasury and ALCCO.

In calculating our NIR-at-risk, we start with a base amount of NIR that is projected over the next twelve months, assuming our forecasted yield curve over the period. Our existing balance sheet assets and liabilities are adjusted by the amount and timing of transactions that are forecasted to occur over the next twelve months. That yield curve is then shocked, or moved immediately, ±100 basis points in a parallel fashion, or at all points

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

along the yield curve. Two new twelve-month NIR projections are then developed using the same balance sheet and forecasted transactions, but with the new yield curves, and compared to the base scenario. We also perform the calculations using interest rate ramps, which are ±100 basis point changes in interest rates that are assumed to occur gradually over the next twelve months, rather than immediately as we do with interest-rate shocks.

EVE is based on the change in the present value of all NIR-related principal and interest cash flows for changes in market rates of interest. The present value of existing cash flows with a then-current yield curve serves as the base case. We then apply an immediate parallel shock to that yield curve of ±200 basis points and recalculate the cash flows and related present values. A large shock is used to better capture the embedded option risk in our mortgage-backed securities that results from borrowers prepayment opportunities.

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 customer 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 September 30, 2010 and December 31, 2009, 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**	
Rate change:	**September 30, 2010**	**December 31, 2009**
+100 bps shock	**$ 20**	$ (165)
-100 bps shock	**(272)**	(330)
+100 bps ramp	**(8)**	(128)
-100 bps ramp	**(147)**	(112)

The benefit to NIR-at-risk over the next 12 months for an upward-100-basis-point shock as of September 30, 2010 compared to December 31, 2009 was primarily the result of lower levels of projected short-term wholesale funding, such as C/Ds. NIR sensitivity to a downward-100-basis-point shock as of September 30, 2010 also improved compared to December 31, 2009, largely due to a lower level of forecasted liquid assets as market conditions gradually normalize.

Interest-rate ramps, compared to interest-rate shocks, delay the full effect of rate movements, as customer deposits largely begin to re-price immediately, or changes in asset yields lag modestly. Accordingly, NIR-at-risk to an upward-100-basis-point ramp as of September 30, 2010 improved compared to December 31, 2009. Due to lower levels of projected short-term wholesale funding, when rates are ramped downward as opposed to a shock, liabilities do not provide enough funding relief to offset the decline in asset yields. While asset yields declined

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

similarly in a downward-100-basis-point ramp as of September 30, 2010 compared to December 31, 2010, the projected lower level of wholesale funding did not allow funding costs to decline nearly as much as in previous periods. Accordingly, NIR-at-risk to a downward-100-basis-point ramp as of September 30, 2010 increased compared to December 31, 2009.

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

The following table presents estimated EVE exposures, calculated as of September 30, 2010 and December 31, 2009, 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	
Rate change:	September 30, 2010	December 31, 2009
+200 bps shock	**$ (1,535)**	$ (1,205)
- 200 bps shock	**311**	(434)

The increase in the exposure to EVE for an upward-200-basis-point shock as of September 30, 2010 compared to December 31, 2009 is attributable to the re-investment of investment portfolio amortization and other run-off into fixed-rate securities, as well as a continuing slowing of prepayment speeds in the mortgage-backed securities portfolio despite very low mortgage rates. These same factors account for the improvement in the exposure to EVE for a downward-200-basis-point shock as of September 30, 2010 compared to December 31, 2009.

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 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. Counterparties are evaluated on an individual basis at least annually, while significant exposures to counterparties are reviewed daily. Processes for credit approval and monitoring are in place for all credit extensions. As part of the approval and renewal process, due diligence is conducted based on the size and term of the exposure, as well as the creditworthiness of the counterparty. At any point in time, having one or more counterparties to which our exposure exceeds 10% of our consolidated total shareholders equity, exclusive of unrealized gains or losses, is not unusual. Exposure to these counterparties is regularly evaluated by ERM.

We provide, on a limited basis, traditional loan products and services to key clients and prospects 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 upon credit quality and the overall institutional relationship.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

An allowance for loan losses is maintained to absorb probable credit losses in the loan and lease portfolio that can be estimated, and is reviewed regularly by management for adequacy. 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. The provision for loan losses is a charge to current earnings to maintain the overall allowance for loan losses at a level considered adequate relative to the level of credit risk in the loan and lease portfolio. Information about provisions for loan losses is included in the Provision for Loan Losses section of this Management s Discussion and Analysis.

We purchase securities under agreements to resell, referred to as repurchase agreements. 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 we believe that additional collateral is necessary 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 our clients, we lend their securities to creditworthy banks, broker/dealers and other institutions. In most circumstances, we indemnify our clients for the fair market value of those securities against a failure of the borrower to return such securities. Though these transactions are collateralized, the substantial volume of these activities necessitates detailed credit-based underwriting and monitoring processes. The aggregate amount of indemnified securities on loan totaled $350.22 billion at September 30, 2010, and $365.25 billion at December 31, 2009. We require the borrowers to provide collateral in an amount equal to or in excess of 100% of the fair market value of the securities borrowed. State Street holds the collateral received in connection with its securities lending services as agent, and these holdings are not recorded in our consolidated statement of condition. The securities on loan and the collateral are revalued daily to determine if additional collateral is necessary. We held, as agent, cash and securities totaling $360.89 billion and $375.92 billion as collateral for indemnified securities on loan at September 30, 2010 and December 31, 2009, respectively.

The collateral held by us is invested on behalf of our clients. In certain cases, the collateral is invested in third-party repurchase agreements, for which we indemnify the client against loss of the principal invested. We require the repurchase agreement counterparty to provide collateral in an amount equal to or in excess of 100% of the amount of the repurchase agreement. The indemnified repurchase agreements and the related collateral are not recorded in our consolidated statement of condition. Of the collateral of $360.89 billion at September 30, 2010 and $375.92 billion at December 31, 2009 referenced above, $90.94 billion at September 30, 2010 and $77.73 billion at December 31, 2009 was invested in indemnified repurchase agreements. We held, as agent, $95.20 billion and $82.62 billion as collateral for indemnified investments in repurchase agreements at September 30, 2010 and December 31, 2009, respectively.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

Investments in debt and equity securities, including investments in affiliates, are monitored regularly by Corporate Finance, Global Treasury and ERM. Procedures are in place for assessing impairment of investment 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 7, 8 and 11 to the consolidated financial statements included in this Form 10-Q.

NEW ACCOUNTING PRONOUNCEMENTS

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

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information with respect to quantitative and qualitative disclosures about market risk is set forth in the Market Risk section of Management s Discussion and Analysis of Financial Condition and Results of Operations 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 relating to State Street and its subsidiaries on a consolidated basis required to be disclosed in its reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the SEC s rules and forms, and that such information is accumulated and communicated to State Street management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. For the quarter ended September 30, 2010, 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 September 30, 2010.

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 control over financial reporting by either upgrading its current systems or implementing new systems. Enhancements have been made and will be made to State Street s internal control over financial reporting as a result of these efforts. During the quarter ended September 30, 2010, no change occurred in State Street s internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, State Street s internal control over financial reporting.

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STATE STREET CORPORATION

CONSOLIDATED STATEMENT OF INCOME

(UNAUDITED)

(Dollars in millions, except per share amounts)	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Fee revenue:				
Servicing fees	**$ 989**	$ 833	**$ 2,826**	$ 2,394
Management fees	**213**	219	**656**	593
Trading services	**228**	269	**796**	824
Securities finance	**68**	105	**249**	487
Processing fees and other	**71**	45	**278**	111
Total fee revenue	**1,569**	1,471	**4,805**	4,409
Net interest revenue:				
Interest revenue	**904**	898	**2,628**	2,409
Interest expense	**180**	175	**585**	542
Net interest revenue	**724**	723	**2,043**	1,867
Gains related to investment securities, net:				
Net gains from sales of available-for-sale securities	**91**	141	**286**	260
Losses from other-than-temporary impairment	**(132)**	(828)	**(612)**	(1,008)
Losses not related to credit	**58**	729	**388**	832
Gains related to investment securities, net	**17**	42	**62**	84
Total revenue	**2,310**	2,236	**6,910**	6,360
Provision for loan losses	**1**	16	**26**	114
Expenses:				
Salaries and employee benefits	**857**	819	**2,589**	2,246
Information systems and communications	**181**	165	**522**	493
Transaction processing services	**165**	148	**482**	425
Occupancy	**112**	118	**346**	360
Securities lending charge			**414**	
Provision for legal exposure		250		250
Merger and integration costs	**23**	11	**77**	40
Professional services	**58**	76	**224**	184
Amortization of other intangible assets	**52**	36	**132**	104
Other	**79**	110	**264**	299
Total expenses	**1,527**	1,733	**5,050**	4,401
Income before income tax expense and extraordinary loss	**782**	487	**1,834**	1,845
Income tax expense	**236**	160	**361**	540
Income before extraordinary loss	**546**	327	**1,473**	1,305
Extraordinary loss, net of taxes				(3,684)
Net income (loss)	**$ 546**	$ 327	**$ 1,473**	$ (2,379)

Net income before extraordinary loss available to common shareholders	**$ 540**	$ 327	**$ 1,459**	$ 1,142
Net income (loss) available to common shareholders	**$ 540**	$ 327	**$ 1,459**	$ (2,542)
Earnings per common share before extraordinary loss:				
Basic	**$ 1.09**	$ .66	**$ 2.94**	$ 2.48
Diluted	**1.08**	.66	**2.93**	2.45
Earnings (Loss) per common share:				
Basic	**$ 1.09**	$ .66	**$ 2.94**	$ (5.47)
Diluted	**1.08**	.66	**2.93**	(5.45)
Average common shares outstanding (in thousands):				
Basic	**495,729**	493,453	**495,312**	462,900
Diluted	**498,159**	498,290	**497,715**	466,234
Cash dividends declared per share	**$ .01**	$ .01	**$ .03**	$ .03

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

STATE STREET CORPORATION

CONSOLIDATED STATEMENT OF CONDITION

(Dollars in millions, except per share amounts)	September 30, 2010 (Unaudited)	December 31, 2009
Assets		
Cash and due from banks	**$ 4,583**	$ 2,641
Interest-bearing deposits with banks	**24,560**	26,632
Securities purchased under resale agreements	**3,941**	2,387
Trading account assets	**1,485**	148
Investment securities available for sale	**80,719**	72,699
Investment securities held to maturity (fair value of $18,424 and $20,928)	**17,577**	20,877
Loans and leases (less allowance for losses of $101 and $79)	**13,665**	10,729
Premises and equipment (net of accumulated depreciation of $3,366 and $3,046)	**1,835**	1,953
Accrued income receivable	**1,767**	1,497
Goodwill	**5,521**	4,550
Other intangible assets	**2,812**	1,810
Other assets	**14,499**	12,023
Total assets	**$ 172,964**	$ 157,946
Liabilities		
Deposits:		
Noninterest-bearing	**$ 17,313**	$ 11,969
Interest-bearing U.S.	**9,823**	5,956
Interest-bearing Non-U.S.	**77,898**	72,137
Total deposits	**105,034**	90,062
Securities sold under repurchase agreements	**8,671**	10,542
Federal funds purchased	**5,308**	4,532
Other short-term borrowings	**13,657**	20,200
Accrued expenses and other liabilities	**14,152**	9,281
Long-term debt	**8,573**	8,838
Total liabilities	**155,395**	143,455
Commitments and contingencies (note 7)		
Shareholders equity		
Preferred stock, no par: 3,500,000 shares authorized; none issued		
Common stock, $1 par: 750,000,000 shares authorized; 502,029,493 and 495,365,571 shares issued	**502**	495
Surplus	**9,310**	9,180
Retained earnings	**8,556**	7,071
Accumulated other comprehensive loss	**(782)**	(2,238)
Treasury stock, at cost (437,953 and 431,832 shares)	**(17)**	(17)
Total shareholders equity	**17,569**	14,491
Total liabilities and shareholders equity	**$ 172,964**	$ 157,946

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

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STATE STREET CORPORATION

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY

(UNAUDITED)

(Dollars in millions, except per share amounts, shares in thousands)	Preferred Stock	Common Stock Shares	Common Stock Amount	Surplus	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Treasury Stock Shares	Treasury Stock Amount	Total
Balance at December 31, 2008	$ 1,883	431,976	$ 432	$ 6,992	$ 9,135	$ (5,650)	418	$ (18)	$ 12,774
Comprehensive income:									
Net loss					(2,379)				(2,379)
Change in net unrealized loss on available-for-sale securities, net of reclassification adjustment, expected losses from other-than-temporary impairment related to factors other than credit and related taxes of $1,792						2,866			2,866
Change in net unrealized loss on fair value hedges of available-for-sale securities, net of related taxes of $58						97			97
Expected losses from other-than-temporary impairment on held-to-maturity securities related to factors other than credit, net of related taxes of $(219)						(362)			(362)
Foreign currency translation, net of related taxes of $(107)						237			237
Change in net unrealized loss on cash flow hedges, net of related taxes of $5						7			7
Change in minimum pension liability, net of related taxes of $18						29			29
Total comprehensive income (loss)					(2,379)	2,874			495
Cash dividends:									
Common stock $.03 per share					(14)				(14)
Preferred stock					(46)				(46)
Prepayment of preferred stock discount	106				(106)				
Accretion of preferred stock discount	11				(11)				
Common stock issued		58,974	59	2,172					2,231
Redemption of TARP preferred stock	(2,000)								(2,000)
Redemption of TARP common stock				(60)					(60)
Common stock awards and options exercised, including related taxes of $(52)		3,702	4	55					59
Other							11	1	1
Balance at September 30, 2009	$	494,652	$ 495	$ 9,159	$ 6,579	$ (2,776)	429	$ (17)	$ 13,440
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					**1,473**				**1,473**
Change in net unrealized loss on available-for-sale securities, net of reclassification adjustment, expected losses from other-than-temporary impairment related to factors other than credit and related taxes of $1,059						**1,653**			**1,653**

Change in net unrealized loss on fair value hedges of available-for-sale securities, net of related taxes of $(56)					**(80)**			**(80)**
Expected losses from other-than-temporary impairment on held-to-maturity securities related to factors other than credit, net of related taxes of $(24)					**(31)**			**(31)**
Foreign currency translation, net of related taxes of $153					**(61)**			**(61)**
Change in net unrealized loss on cash flow hedges, net of related taxes					**6**			**6**
Change in minimum pension liability, net of related taxes of $(2)					**(4)**			**(4)**
Total comprehensive income				**1,473**	**1,483**			**2,956**
Cash dividends declared $.03 per share				**(15)**				**(15)**
Common stock awards and options exercised, including related taxes of $(11)	**6,663**	**7**	**130**					**137**
Other						**6**		
Balance at September 30, 2010	**$ 502,029**	**$ 502**	**$ 9,310**	**$ 8,556**	**$ (782)**	**438**	**$ (17)**	**$ 17,569**

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

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STATE STREET CORPORATION

CONSOLIDATED STATEMENT OF CASH FLOWS

(UNAUDITED)

(In millions)	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Operating Activities:		
Net income (loss)	**$ 1,473**	$ (2,379)
Adjustments to reconcile net income to net cash provided by operating activities:		
Non-cash adjustments for depreciation, amortization, accretion and deferred income taxes	**(23)**	(2,631)
Extraordinary loss		6,096
Gains related to investment securities, net	**(62)**	(84)
Change in trading account assets, net	**(1,337)**	364
Other, net	**941**	(5,983)
Net cash (used in) provided by operating activities	**992**	(4,617)
Investing Activities:		
Net decrease in interest-bearing deposits with banks	**2,072**	28,375
Net (increase) decrease in securities purchased under resale agreements	**(1,554)**	56
Proceeds from sales of available-for-sale securities	**17,634**	6,412
Proceeds from maturities of available-for-sale securities	**26,781**	31,199
Purchases of available-for-sale securities	**(49,443)**	(44,178)
Net decrease in securities related to AMLF		6,111
Proceeds from maturities of held-to-maturity securities	**4,223**	2,739
Purchases of held-to-maturity securities	**(426)**	(377)
Net (increase) decrease in loans and leases	**(3,117)**	106
Business acquisitions, net of cash acquired	**(2,246)**	
Purchases of equity investments and other long-term assets	**(95)**	(210)
Purchases of premises and equipment	**(157)**	(171)
Other, net	**326**	367
Net cash (used in) provided by investing activities	**(6,002)**	30,429
Financing Activities:		
Net increase in time deposits	**3,286**	1,923
Net increase (decrease) in all other deposits	**11,686**	(22,380)
Net decrease in short-term borrowings related to AMLF		(6,042)
Net decrease in short-term borrowings	**(7,638)**	(1,874)
Proceeds from issuance of long-term debt, net of issuance costs		4,435
Payments for long-term debt and obligations under capital leases	**(335)**	(27)
Proceeds from public offering of common stock, net of issuance costs		2,231
Repurchase of TARP preferred stock investment		(2,000)
Repurchase of TARP common stock warrant		(60)
Proceeds from exercises of common stock options	**8**	30
Repurchases of common stock for employee tax withholding	**(40)**	(38)
Payments for cash dividends	**(15)**	(164)
Net cash (used in) provided by financing activities	**6,952**	(23,966)

Net increase	**1,942**	1,846
Cash and due from banks at beginning of period	**2,641**	3,181
Cash and due from banks at end of period	**$ 4,583**	$ 5,027

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

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STATE STREET CORPORATION

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note 1. Summary of Significant Accounting Policies

The accounting and financial reporting policies of State Street Corporation conform to accounting principles generally accepted in the United States of America, 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 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. We have two lines of business:

Investment Servicing provides services for U.S. mutual funds, collective investment funds and other investment pools, corporate and public retirement plans, insurance companies, foundations and endowments worldwide. Products include 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; loans and lease financing; investment manager and alternative investment manager operations outsourcing; and performance, risk and compliance analytics to support institutional investors.

Investment Management offers a broad array of services for managing financial assets, including investment management and investment research services, primarily for institutional investors worldwide. These services include passive and active U.S. and non-U.S. equity and fixed-income strategies, and other related services, such as securities finance.

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 that affect the amounts reported in the accompanying consolidated financial statements and these condensed notes. Actual results could differ from those estimates. Consolidated results of operations for the three and nine months ended September 30, 2010 are not necessarily indicative of the results that may be expected for any future period or for the year ending December 31, 2010.

The consolidated statement of condition at December 31, 2009 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 2009 Form 10-K, which we previously filed with the SEC.

New Accounting Pronouncements

The FASB is currently deliberating potentially significant changes to the U.S. accounting framework as part of an overall convergence effort with the International Accounting Standards Board under a previously signed memorandum of understanding. Some of these proposed changes have been exposed for comment, while others

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STATE STREET CORPORATION

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

Note 1. Summary of Significant Accounting Policies (Continued)

are expected to be exposed for comment over the next twelve to eighteen months. These new proposals include potential changes to the accounting for financial instruments and hedging, the accounting for leases, revenue recognition and financial statement presentation. We will disclose the nature of the proposed changes and their potential effect, if any, on our consolidated financial statements in our future filings, as the proposals are issued and we evaluate them. These proposed changes, once finalized, may have a material effect on our consolidated financial statements.

In July 2010, the FASB issued an amendment to GAAP that will require new qualitative and quantitative disclosures about the credit quality of financing receivables and the allowance for loan losses. The amendment will require disclosures with respect to impaired loans, loan modifications and non-accrual and past-due receivables, as well as a roll-forward of the allowance for loan losses. The disclosures will be required to be disaggregated by class of financing receivable or portfolio segment, as defined in the amendment. The new GAAP will be effective, for State Street, as of December 31, 2010, except for the roll-forward of the allowance for loan losses, which will be required beginning on January 1, 2011.

In February 2010, the FASB issued an amendment to GAAP related to fair value measurement disclosures. The amendment requires new disclosures for significant transfers of financial assets and liabilities into and out of level 1 and level 2 of the prescribed valuation hierarchy, and requires the disaggregation of information about purchases, sales, issuances and settlements for financial assets and liabilities categorized in level 3 of the valuation hierarchy. The amendment also provides several clarifications with respect to disclosures about valuation techniques and inputs. The requirement to disclose disaggregated information about purchases, sales, issuances and settlements for financial assets and liabilities categorized in level 3 of the valuation hierarchy was deferred, with respect to State Street, to January 1, 2011. The disclosures currently required by the amendment are provided in note 10.

Note 2. Acquisitions

On May 17, 2010, we completed our acquisition of Intesa Sanpaolo s securities services business in a cash acquisition financed through available capital. We acquired the Intesa business to enhance our position as a worldwide service provider to institutional investors by expanding our business in Europe, particularly in Italy. The acquisition includes the global custody, depository banking, correspondent banking and fund administration portions of Intesa s business, with operations in Italy and Luxembourg. It also includes a long-term investment servicing agreement with Intesa for State Street to service Intesa s investment management affiliates. The acquired Intesa business added approximately $564 billion of assets under custody and administration as of June 30, 2010, which assets are not recorded in our consolidated financial statements. Results of operations of the acquired Intesa business are included in our consolidated financial statements beginning on May 17, 2010.

We accounted for the Intesa transaction using the acquisition method of accounting, and the assets acquired, liabilities assumed and consideration paid were recorded in our consolidated balance sheet at their estimated fair values on the acquisition date. Our allocation of the purchase price was preliminary as of September 30, 2010, and is subject to future adjustment over the measurement period as information needed to measure the fair values of certain assets and liabilities is obtained.

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STATE STREET CORPORATION

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

Note 2. Acquisitions (Continued)

(In millions)	
Total fair value of consideration	**$ 2,179**
Allocation of purchase price (preliminary):	
Book value of tangible net assets acquired	**841**
Adjustments to reflect assets acquired and liabilities assumed at fair value:	
Write-off of certain assets and liabilities, net	**(379)**
Contingent asset	**79**
Customer relationship intangibles	**696**
Core deposit intangible	**369**
Other intangible	**15**
Deferred tax liability, net	**(360)**
Estimated fair value of net assets acquired	**1,261**
Goodwill resulting from acquisition	**$ 918**

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

In connection with the acquisition, we may be entitled to a purchase price adjustment allowing 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 is presented in the preceding table, will be re-measured to fair value at each subsequent 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.

On April 1, 2010, we completed our acquisition of Mourant International Finance Administration, or Mourant, in a cash transaction financed through available capital. We acquired Mourant to enhance our position as an administrator of alternative investments and to expand our presence outside of the U.S. In connection with our acquisition of Mourant, a provider of fund administration services, particularly for alternative investment funds such as private equity, real estate and hedge funds with operations in Jersey in the Channel Islands, Dublin, Singapore and New York, we recorded $73 million of goodwill and $59 million of other intangible assets in our consolidated balance sheet, and added approximately $122 billion of assets under administration as of June 30, 2010. The assets under administration are not recorded in our consolidated financial statements. Our allocation of the purchase price was preliminary as of September 30, 2010, and is subject to future adjustment over the measurement period as information needed to measure the fair values of certain assets and liabilities is obtained.

During the second and third quarters of 2010, in connection with the two acquisitions, we recorded aggregate merger and integration costs in our consolidated statement of income. These costs consisted only of direct and incremental costs to integrate the acquired businesses into our operations. These costs do not include ongoing expenses of the combined organization.

(In millions)

Retention and other compensation	**$ 6**
Professional services	**32**
Other	**4**
Total merger and integration costs related to the two acquisitions	**$ 42**

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STATE STREET CORPORATION

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

Note 3. Investment Securities

(In millions)	September 30, 2010 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	December 31, 2009 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale:								
U.S. Treasury and federal agencies:								
Direct obligations	**$ 7,538**	**$ 220**	**$ 2**	**$ 7,756**	$ 11,164	$ 6	$ 8	$ 11,162
Mortgage-backed securities	**18,246**	**512**	**5**	**18,753**	14,895	94	53	14,936
Asset-backed securities:								
Student loans[1]	**15,387**	**167**	**655**	**14,899**	12,652	128	852	11,928
Credit cards	**6,880**	**84**	**31**	**6,933**	6,515	192	100	6,607
Sub-prime	**4,488**	**5**	**1,316**	**3,177**	5,054	12	1,869	3,197
Other	**2,268**	**469**	**119**	**2,618**	2,581	400	184	2,797
Total asset-backed securities	**29,023**	**725**	**2,121**	**27,627**	26,802	732	3,005	24,529
Non-U.S. debt securities	**13,292**	**395**	**117**	**13,570**	10,210	283	182	10,311
State and political subdivisions	**6,569**	**185**	**157**	**6,597**	5,954	221	238	5,937
Collateralized mortgage obligations	**3,044**	**318**	**123**	**3,239**	2,477	203	271	2,409
Other U.S. debt securities	**2,356**	**171**	**11**	**2,516**	2,161	94	21	2,234
U.S. equity securities	**556**		**2**	**554**	1,101		3	1,098
Non-U.S. equity securities	**105**	**3**	**1**	**107**	79	4		83
Total	**$ 80,729**	**$ 2,529**	**$ 2,539**	**$ 80,719**	$ 74,843	$ 1,637	$ 3,781	$ 72,699
Held to maturity:								
U.S. Treasury and federal agencies:								
Direct obligations					$ 500	$ 13		$ 513
Mortgage-backed securities	**$ 471**	**$ 30**		**$ 501**	620	33		653
Asset-backed securities:								
Credit cards					20		$ 2	18
Other	**194**		**$ 30**	**164**	447		68	379
Total asset-backed securities	**194**		**30**	**164**	467		70	397
Non-U.S. debt securities	**9,608**	**597**	**176**	**10,029**	10,822	569	245	11,146
State and political subdivisions	**144**	**5**		**149**	206	6		212
Collateralized mortgage obligations	**7,160**	**514**	**93**	**7,581**	8,262	249	504	8,007
Total	**$ 17,577**	**$ 1,146**	**$ 299**	**$ 18,424**	$ 20,877	$ 870	$ 819	$ 20,928

(1) Substantially composed of securities guaranteed by the federal government with respect to the payment of principal and interest.
Aggregate investment securities carried at $46.85 billion and $40.96 billion at September 30, 2010 and December 31, 2009, respectively, were designated as pledged for public and trust deposits, short-term borrowings and for other purposes as provided by law.

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STATE STREET CORPORATION

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

Note 3. Investment Securities (Continued)

Contractual maturities of debt securities were as follows as of September 30, 2010:

(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		$ 5,620	$ 1,602	$ 534
Mortgage-backed securities	$ 18	951	7,352	10,432
Asset-backed securities:				
Student loans[1]	126	2,778	7,860	4,135
Credit cards	494	5,127	1,312	
Sub-prime	689	1,993	31	464
Other	181	946	580	911
Total asset-backed securities	1,490	10,844	9,783	5,510
Non-U.S. debt securities	2,987	3,972	1,182	5,429
State and political subdivisions	417	2,393	2,575	1,212
Collateralized mortgage obligations	144	1,143	289	1,663
Other U.S. debt securities	280	1,404	794	38
Total	$ 5,336	$ 26,327	$ 23,577	$ 24,818
Held to maturity:				
U.S. Treasury and federal agencies:				
Mortgage-backed securities	$ 8	$ 47	$ 141	$ 275
Asset-backed securities:				
Other	20			174
Total asset-backed securities	20			