STATE STREET CORP
Form 10-Q
August 03, 2012
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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 June 30, 2012
or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File No. 001-07511
STATE STREET CORPORATION
(Exact name of registrant as specified in its charter)

Massachusetts	04-2456637
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
One Lincoln Street Boston, Massachusetts	02111
(Address of principal executive office)	(Zip Code)

617-786-3000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ (Do not check if a smaller reporting company) Smaller reporting company ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x
The number of shares of State Street's common stock outstanding on July 31, 2012 was 479,105,319

STATE STREET CORPORATION
QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTERLY PERIOD ENDED
JUNE 30, 2012

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

GENERAL

State Street Corporation, the parent company, is a financial holding company headquartered in Boston, Massachusetts. Unless otherwise indicated or unless the context requires otherwise, all references in this Management's Discussion and Analysis to “State Street,” “we,” “us,” “our” or similar terms mean State Street Corporation and its subsidiaries on a consolidated basis. Our principal banking subsidiary is State Street Bank and Trust Company, or State Street Bank. At June 30, 2012, we had total assets of $200.78 billion, total deposits of $143.77 billion, total shareholders' equity of $19.90 billion and 29,665 employees. With $22.42 trillion of assets under custody and administration and $1.91 trillion of assets under management at June 30, 2012, we are a leading specialist in meeting the needs of institutional investors worldwide.

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; record-keeping; 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, through State Street Global Advisors, or SSgA, provides a broad range of investment management strategies, specialized investment management advisory services and other financial services, such as securities finance, for corporations, public funds, and other sophisticated investors. Management strategies offered by SSgA include passive and active, such as enhanced indexing and hedge fund strategies, using quantitative and fundamental methods for both U.S. and non-U.S. equity and fixed-income securities. SSgA also offers exchange-traded funds.

For financial and other information about our lines of business, refer to “Line of Business Information” in this Management's Discussion and Analysis and note 14 to the consolidated financial statements included in this Form 10-Q.

This Management's Discussion and Analysis is part of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2012, and updates the Management's Discussion and Analysis in our Annual Report on Form 10-K for the year ended December 31, 2011, referred to as our 2011 Form 10-K, and in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2012. You should read the financial information contained in this Management's Discussion and Analysis and elsewhere in this Form 10-Q in conjunction with the financial and other information contained in those reports. Certain previously reported amounts presented in this Form 10-Q have been reclassified to conform to current period classifications.

We prepare our consolidated financial statements in conformity with accounting principles generally accepted in the U.S., referred to as GAAP. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions in its application of certain accounting policies that materially affect the reported amounts of assets, liabilities, equity, revenue and expenses. The significant accounting policies that require us to make estimates and assumptions that are difficult, subjective or complex about matters that are uncertain and may change in subsequent periods, are accounting for fair value measurements; interest revenue recognition and other-than-temporary impairment; and impairment of goodwill and other intangible assets. These significant accounting policies require the most subjective or complex judgments, and underlying estimates and assumptions could be subject to revision as new information becomes available. An understanding of the judgments, estimates and assumptions underlying these significant accounting policies is essential in order to understand our reported consolidated results of operations and financial condition.

Additional information about these significant accounting policies is included under “Significant Accounting Estimates” in Management’s Discussion and Analysis in our 2011 Form 10-K. We did not change these significant accounting policies during the first six months of 2012.

Certain financial information presented in this Management's Discussion and Analysis is prepared on both a GAAP, or reported, basis and a non-GAAP, or operating, basis. We measure and compare certain financial information on an operating basis, as we believe that this presentation supports meaningful comparisons from period to period and the analysis of comparable financial trends with respect to State Street's normal ongoing business operations. We believe that operating-basis financial information, which reports revenue from non-taxable sources on a fully taxable-equivalent basis and excludes the impact 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 in addition to financial information prepared and reported in conformity with GAAP. Operating-basis financial information should be considered in addition to, not as a substitute for or superior to, financial information prepared in conformity with GAAP. Any non-GAAP, or operating-basis, financial information presented in this Management’s Discussion and Analysis is reconciled to its nearest GAAP-basis measure.

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

FORWARD-LOOKING STATEMENTS

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

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

- 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, including, for example, the direct and indirect effects on counterparties to the current sovereign debt risks in Europe and other regions and of their actual or perceived creditworthiness, as reflected in recent credit downgrades of many major banks;
- financial market disruptions or economic recession, whether in the U.S., Europe or other regions internationally;
- increases in the volatility of, or declines in the level of, our net interest revenue, the impact of a prolonged period of low interest rates on our net interest margin and operating model, changes in the composition of the assets recorded in our consolidated statement of condition and the possibility that we may be required to change the manner in which we fund those assets;
- the liquidity of the U.S. and international securities markets, particularly the markets for fixed-income securities and inter-bank credits, and the liquidity requirements of our clients;
- 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;
- 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;
- our ability to attract deposits and other low-cost, short-term funding, and our ability to deploy deposits in a profitable manner consistent with our liquidity requirements and risk profile;
- the manner in which the Federal Reserve and other regulators implement the Dodd-Frank Act, Basel III, European directives with respect to banking and financial instruments and other regulatory initiatives in the U.S. and internationally, including regulatory developments that result in changes to our operating model, increased costs or other changes to the provision of our services;
- adverse changes in required regulatory capital ratios, whether arising under the Dodd-Frank Act, Basel II or Basel III, or due to changes in regulatory positions or regulations in jurisdictions in which we engage in banking activities;
- our ability to obtain approvals required by the Federal Reserve or other regulators for the use, allocation or distribution of our capital or other specific capital actions or programs, including acquisitions, dividends and equity repurchases or redemptions, that may restrict or limit our growth plans, distributions to shareholders, equity purchase programs or other capital initiatives, which approvals with respect to certain matters, such as capital plans, are subject

to reconsideration by regulators in light of changes in market conditions or developments specific to us;

- our ability to implement our regulatory capital plans submitted to, with no objection raised by, the Federal Reserve, and the effects of market conditions or other factors on the results of the stress tests underlying those capital plans,

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particularly if the Federal Reserve determines that our consolidated results of operations or financial prospects or our intended uses of our regulatory capital change our regulatory capital outlook, to the extent that such outlook does not permit us to continue to return capital to shareholders at the levels contemplated by our capital plans;

- changes in law or regulation that may adversely affect our, our clients' or our counterparties' business activities and the products or services that we sell, including additional or increased taxes or assessments thereon, capital adequacy requirements and changes that expose us to risks related to compliance;
- the maintenance of credit agency ratings for our debt and depository obligations as well as the level of credibility of credit agency ratings;
- delays or difficulties in the execution of our previously announced business operations and information technology transformation program, which could lead to changes in our estimates of the charges, expenses or savings associated with the planned program, resulting in increased volatility of our earnings;
- the results of, and costs associated with, government investigations, litigation, and similar claims, disputes, or proceedings, including results requiring the payment of multiple, punitive, consequential or other damages that may substantially exceed the amount of direct damages;
- the possibility that our clients will incur substantial losses in investment pools where we act as agent, and the possibility of significant reductions in the valuation of assets;
- adverse publicity or other reputational harm;
- dependencies on information technology, complexities and costs of protecting the security of our systems and difficulties with protecting our intellectual property rights;
- our ability to grow revenue, attract and/or retain and compensate highly skilled people, control expenses and attract the capital necessary to achieve our business goals and comply with regulatory requirements;
- potential changes to the competitive environment, including changes due to regulatory and technological changes, the effects of consolidation, and perceptions of State Street as a suitable service provider or counterparty;
- potential changes in how clients compensate us for our services, and the mix of services that clients choose from us;
- the risks that acquired businesses and joint ventures will not achieve their anticipated financial and operational benefits or will not be integrated successfully, or that the integration will take longer than anticipated, that expected synergies will not be achieved or unexpected disynergies will be experienced, that client and deposit retention goals will not be met, that other regulatory or operational challenges will be experienced and that disruptions from the transaction will harm relationships with clients, employees or regulators;
- the ability to complete acquisitions, divestitures and joint ventures, including the ability to obtain regulatory approvals, the ability to arrange financing as required and the ability to satisfy closing conditions;
- our ability to recognize emerging needs of clients and to develop products that are responsive to such trends and profitable to the company; the performance of and demand for the products and services we offer, including the level and timing of redemptions and withdrawals from our collateral pools and other collective investment products; and the potential for new products and services to impose additional costs on us and expose us to increased operational risk;
- our ability to measure the fair value of the investment securities recorded in our consolidated statement of condition;
- our ability to control operating risks, data security breach risks, information technology systems risks and outsourcing risks, and our ability to protect our intellectual property rights, the possibility of errors in the quantitative models we use to manage our business and the possibility that our controls will prove insufficient, fail or be circumvented;
- changes in accounting standards and practices; and
- changes in tax legislation and in the interpretation of existing tax laws by U.S. and non-U.S. tax authorities that affect the amount of taxes due.

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 2011 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 our forward-looking statements after the time they are made. The factors discussed above are

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not intended to be a complete summary of all risks and uncertainties that may affect our businesses. We cannot anticipate all 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.

OVERVIEW OF FINANCIAL RESULTS

	Quarters Ended June 30,			Six Months Ended June 30,		
(Dollars in millions, except per share amounts)	2012	2011	% Change	2012	2011	% Change
Total fee revenue	$1,778	$1,892	(6)%	$3,563	$3,683	(3)%
Net interest revenue	672	572	17	1,297	1,149	13
Gains (Losses) related to investment securities, net	(27)	27		(16)	20	
Total revenue	2,423	2,491	(3)	4,844	4,852	—
Provision for loan losses	(1)	2		(1)	1	
Expenses:						
Expenses from operations	1,728	1,757	(2)	3,527	3,440	3
Acquisition costs	15	13		28	27	
Restructuring charges	22	4		30	9	
Litigation settlement costs	7	—		22	—	
Total expenses	1,772	1,774	—	3,607	3,476	4
Income before income tax expense	652	715	(9)	1,238	1,375	(10)
Income tax expense	162	202		321	391	
Net income	$490	$513	(4)	$917	$984	(7)
Adjustments to net income:						
Dividends on preferred stock	$(7)	$(7)		$(14)	$(7)	
Earnings allocated to participating securities[(1)]	(3)	(4)		(6)	(9)	
Net income available to common shareholders	$480	$502		$897	$968	
Earnings per common share:						
Basic	$1.00	$1.01		$1.86	$1.95	
Diluted	.98	1.00	(2)	1.83	1.93	(5)
Average common shares outstanding (in thousands):						
Basic	481,404	496,806		483,165	497,137	
Diluted	488,518	501,044		489,145	500,753	
Cash dividends declared per common share	$.24	$.18		$.48	$.36	
Return on average common equity	10.0%	10.6%		9.4%	10.6%	

(1) Refer to note 13 to the consolidated financial statements included in this Form 10-Q.

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Highlights

On July 17, 2012, we announced an agreement to acquire Goldman Sachs Administration Services, or GSAS, a global hedge fund administrator with approximately $200 billion in hedge fund assets under administration, in a cash transaction with a total purchase price of approximately $550 million, subject to certain adjustments. Pending regulatory approvals and other customary closing conditions, we expect to complete the acquisition in the fourth quarter of 2012. As of June 30, 2012, we had hedge fund assets under administration of approximately $497 billion and aggregate alternative assets under administration of approximately $877 billion. GSAS hedge fund assets under administration are not included in these amounts.

The following "Significant Developments" and "Financial Results" sections provide information related to notable actions we took in the second quarter of 2012, as well as highlights of our financial results for the second quarter of 2012 presented in the preceding table. Additional information about our financial results is provided under "Consolidated Results of Operations," which follows these sections.

Significant Developments

During the second quarter, we declared a quarterly common stock dividend of $0.24 per share, or approximately $115 million, which was paid in July 2012. This dividend, together with a dividend of $0.24 per share, or approximately $118 million, declared in the first quarter of this year and paid in April 2012, totals $0.48 per share, or approximately $233 million, for the first half of 2012, compared to aggregate dividends of $0.36 per share, or approximately $181 million, for the first six months of 2011. We also purchased approximately 11.1 million shares of our common stock under the program approved by the Board of Directors in March 2012, under which we are authorized to purchase up to $1.8 billion of our common stock through March 31, 2013. The shares were purchased at an average and aggregate cost of $43.26 and $480 million, respectively. This new program follows our 2011 common stock purchase program, under which we purchased 16.31 million shares of our common stock at an average and aggregate cost of $41.38 and $675 million, respectively, from May 2011 through November 2011.

During the second quarter, we continued the implementation of our business operations and information technology transformation program. With respect to this program, in 2011 we achieved approximately $86 million of annual pre-tax, run-rate expense savings compared to our 2010 run-rate expense base, previously disclosed in our 2011 Form 10-K, of approximately $6.18 billion of expenses from operations, all else being equal. In addition to the $86 million of annual pre-tax, run-rate expense savings already achieved in 2011, we expect to achieve additional annual pre-tax, run-rate expense savings in 2012 in the range of approximately $90 million to $100 million compared to our above-described 2010 run-rate expense base, all else being equal. These annual pre-tax, run-rate expense savings relate only to the business operations and information technology transformation program. Our actual expenses from operations may increase or decrease as a result of other factors.

Additional information about our business operations and information technology transformation program is provided under "Consolidated Results of Operations – Expenses" in this Management's Discussion and Analysis.

Financial Results

Total revenue for the second quarter of 2012 decreased 3% compared to the same period in 2011, primarily the result of a 6% decrease in fee revenue, partly offset by a 17% increase in net interest revenue.

Servicing fees declined 3% from last year's second quarter, generally reflective of weakness in non-U.S. markets and the impact of the weaker Euro, as well as changes in asset mix, partly offset by the impact of new business installed and slight improvement in the S&P 500 index. Servicing fees generated outside the U.S. during the second quarter of 2012 and the second quarter of 2011 were approximately 42% and 43%, respectively, of total servicing fees.

Management fees declined 2% in the same comparison, as changes in worldwide equity market valuations were mixed. Average month-end equity valuations for the S & P 500 Index were up 1%, and for the MSCI® EAFE Index[es] were down approximately 18%, from the second quarter of 2011. Management fees generated outside the U.S. during the second quarter of 2012 and the second quarter of 2011 were approximately 36% and 45%, respectively, of total management fees.

Trading services revenue declined 18% from last year's second quarter, mainly from lower currency volatility in foreign exchange, reflective of weak capital markets, partly offset by higher foreign exchange trading volumes, and lower revenue from both transition management and sales and trading. Securities finance revenue increased 4% as a result of higher spreads, partly offset by lower lending volumes associated with reduced demand.

During the second quarter of 2012, we recorded net interest revenue of $672 million, a 17% increase compared to $572 million for the second quarter of 2011. On a fully taxable-equivalent basis, net interest revenue in the second quarter of 2012 increased 16%, to $703 million from $605 million. These net interest revenue amounts included $74 million and $51 million,

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respectively, of discount accretion related to investment securities added to our consolidated statement of condition in connection with the 2009 asset-backed commercial paper conduit consolidation. Fully taxable-equivalent net interest revenue also reflected tax-equivalent adjustments for the second quarter of 2012 and 2011 of $31 million and $33 million, respectively. Discount accretion is more fully discussed in "Net Interest Revenue" under "Consolidated Results of Operations" in this Management's Discussion and Analysis.

Both increases in net interest revenue (GAAP-basis and fully taxable-equivalent) were the result of the impact of higher levels of interest-earning assets associated with the investment of a higher level of client deposits, mainly increases in interest-bearing deposits with banks and investment portfolio securities; higher yields on U.S. floating-rate securities due to movements in short-term LIBOR rates; lower funding costs; and the above-described increase in discount accretion. These increases were partly offset by lower yields on fixed-rate securities. Net interest margin, calculated on fully taxable-equivalent net interest revenue, declined 4 basis points to 1.72% in the second quarter of 2012 from 1.76% in the second quarter of 2011. The investment of the incremental client deposits increased our average interest-earning assets; however, they negatively affected our net interest margin.

Total expenses of $1.77 billion for the second quarter of 2012 were approximately flat with the second quarter of 2011. Compensation and employee benefits expenses declined 7%, or $67 million, compared to the second quarter of 2011, due to lower incentive compensation, offset by increases in other expenses and acquisition and restructuring costs. Total expenses for the second quarter of 2012 included approximately $25 million of non-recurring costs related to the business operations and information technology transformation program, $20 million of which were included in compensation and benefits expenses, compared to $16 million of non-recurring costs for the second quarter of 2011. The 2011 costs were substantially all in compensation and benefits expenses. These non-recurring costs are not expected to be incurred after the program is fully implemented.

During the second quarter of 2012, we secured mandates for approximately $133 billion of new business in assets to be serviced; of the total, $79 billion was installed prior to June 30, 2012, with the remaining $54 billion expected to be installed during the remainder of 2012 and later. In the second quarter of 2012, we also installed approximately $51 billion of new business in assets to be serviced that we were awarded in periods prior to the second quarter of 2012. The new business not installed by June 30, 2012 was not included in assets under custody and administration at that date, and had no impact on servicing fee revenue for the second quarter of 2012, 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.

During the second quarter of 2012, SSgA recorded net lost business in managed assets of approximately $6 billion; this net lost business was composed of $7 billion of net inflows into exchange-traded funds, or ETFs; approximately $1 billion of net inflows into institutional and fixed-income funds, primarily passive; approximately $12 billion of outflows from managed cash, mainly related to declines in securities lending collateral as the impact of dividend season in Europe abated; and approximately $2 billion of outflows from active and enhanced equity funds, as clients shifted their investment preferences.

An additional $21 billion of new business, awarded to SSgA but not installed by June 30, 2012, was not included in assets under management at that date, and had no impact on management fee revenue for the second quarter of 2012, as the assets are not included until their installation is complete and we begin to manage them. Once installed, the assets generate management fee revenue in subsequent periods.

CONSOLIDATED RESULTS OF OPERATIONS

This section discusses our consolidated results of operations for the second quarter and first six months of 2012 compared to the same periods in 2011, and should be read in conjunction with the consolidated financial statements and accompanying condensed notes included in this Form 10-Q.

TOTAL REVENUE

Information with respect to the sources of our revenue, the products and activities that generate it, and the factors that influence the levels of revenue generated during any period is provided under "Consolidated Results of Operations – Total Revenue" in Management's Discussion and Analysis included in our 2011 Form 10-K.

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

	Quarters Ended June 30,			Six Months Ended June 30,		
(Dollars in millions)	2012	2011	% Change	2012	2011	% Change
Fee revenue:						
Servicing fees	$1,086	$1,124	(3)%	$2,164	$2,219	(2)%
Management fees	246	250	(2)	482	486	(1)
Trading services	255	311	(18)	535	613	(13)
Securities finance	143	137	4	240	203	18
Processing fees and other	48	70	(31)	142	162	(12)
Total fee revenue	1,778	1,892	(6)	3,563	3,683	(3)
Net interest revenue:						
Interest revenue	786	719	9	1,551	1,453	7
Interest expense	114	147	(22)	254	304	(16)
Net interest revenue	672	572	17	1,297	1,149	13
Gains (Losses) related to investment securities, net	(27)	27		(16)	20	
Total revenue	$2,423	$2,491	(3)	$4,844	$4,852	—

Fee Revenue

Servicing and management fees collectively composed approximately 75% and 74% of our total fee revenue for the second quarter and first six months of 2012, respectively, compared to approximately 73% of our total fee revenue for both corresponding periods in 2011. The level of these fees is influenced by 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 clients, and is generally affected by changes in worldwide equity and fixed-income security 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 asset mix, the level of transaction volumes, changes in service level, balance credits, client minimum balances, pricing concessions and other factors, may have a significant effect on our servicing fee revenue. Generally, management fee revenue is more sensitive to market valuations than servicing fee revenue. Management fees for actively managed products are generally earned at higher rates than those for passive products. Actively managed products may also involve performance fee arrangements.

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

The following table presents selected equity market indices as of June 30, 2012 and 2011, and for the quarters and six months then ended. Daily averages and the averages of month-end indices demonstrate worldwide changes in equity market valuations that affect our servicing and management fee revenue, respectively. Quarter-end indices affect the value 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.

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

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	Daily Averages of Indices Quarters Ended June 30,			Averages of Month-End Indices Quarters Ended June 30,			Quarter-End Indices As of June 30,		
	2012	2011	% Change	2012	2011	% Change	2012	2011	% Change
S&P 500®	1,350	1,318	2 %	1,357	1,343	1 %	1,362	1,321	3 %
NASDAQ®	2,926	2,765	6	2,936	2,827	4	2,935	2,774	6
MSCI EAFE®	1,427	1,710	(17)	1,424	1,746	(18)	1,423	1,708	(17)

	Daily Averages of Indices Six Months Ended June 30,			Averages of Month-End Indices Six Months Ended June 30,		
	2012	2011	% Change	2012	2011	% Change
S&P 500®	1,349	1,310	3 %	1,359	1,328	2 %
NASDAQ®	2,917	2,752	6	2,947	2,791	6
MSCI EAFE®	1,471	1,705	(14)	1,480	1,731	(15)

Servicing Fees

The decreases in servicing fees of 3% and 2% for the second quarter and first six months of 2012, respectively, compared to the same periods in 2011 primarily resulted from weakness in non-U.S. markets and the impact of the weaker Euro, as well as changes in asset mix, as clients shifted their investment preferences from equity funds to fixed-income and government funds. These factors were partly offset by the impact of new business installed on current-period revenue and slight improvement in the S&P 500 index, as presented in the foregoing "INDEX" table.

For both the second quarter and first six months of 2012, servicing fees generated outside the U.S. were approximately 42% of total servicing fees compared to approximately 43% and 42% for the second quarter and first six months of 2011, respectively.

As of June 30, 2012, our total assets under custody and administration, presented in the following tables, were $22.42 trillion, compared to $21.81 trillion as of December 31, 2011 and $22.76 trillion as of June 30, 2011. The increase from December 2011 to June 2012 primarily resulted from net increases in equity market valuations, as well as the installation of new servicing business and net client subscriptions, partially offset by the impact of foreign currency translation. The slight decrease in the June-to-June comparison primarily resulted from the impact of foreign currency translation, partly offset by the installation of new servicing business. Servicing asset levels as of June 30, 2012 did not reflect $54 billion of new business in assets to be serviced that was awarded to us during the second quarter of 2012 and had not been installed prior to June 30, 2012. The value of assets under custody and administration is a broad measure of the relative size of various markets served. Changes in the values of assets under custody and administration do not necessarily result in proportional changes in our servicing fee revenue.

The following tables present the components, financial instrument mix and geographic mix of assets under custody and administration as of June 30, 2012, December 31, 2011 and June 30, 2011:

ASSETS UNDER CUSTODY AND ADMINISTRATION

(In billions)	June 30, 2012	December 31, 2011	June 30, 2011
Mutual funds	$5,572	$ 5,265	$5,584
Collective funds	4,597	4,437	4,708
Pension products	4,955	4,837	5,185
Insurance and other products	7,299	7,268	7,285
Total	$22,423	$ 21,807	$22,762

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
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FINANCIAL INSTRUMENT MIX OF ASSETS UNDER CUSTODY AND ADMINISTRATION

(In billions)	June 30, 2012	December 31, 2011	June 30, 2011
Equities	$11,242	$ 10,849	$12,601
Fixed-income	8,403	8,317	7,392
Short-term and other investments	2,778	2,641	2,769
Total	$22,423	$ 21,807	$22,762

GEOGRAPHIC MIX OF ASSETS UNDER CUSTODY AND ADMINISTRATION(1)

(In billions)	June 30, 2012	December 31, 2011	June 30, 2011
United States	$16,335	$ 15,745	$16,486
Other Americas	643	622	674
Europe/Middle East/Africa	4,445	4,400	4,553
Asia/Pacific	1,000	1,040	1,049
Total	$22,423	$ 21,807	$22,762

(1) Geographic mix is based on the location at which the assets are custodied or serviced.

Management Fees

Management fees decreased 2% and 1% during the second quarter and first six months of 2012, respectively, compared to the same periods in 2011. Both decreases were primarily the result of weaker international equity markets, partially offset by the impact of net new business installed on current-period revenue. Average month-end equity market valuations, individually presented in the foregoing "INDEX" table, were down an average of 3% for the second quarter of 2012 compared to the second quarter of 2011, and were down an average of 1% in the six-month comparison. For the second quarter and first six months of 2012, management fees generated outside the U.S. were approximately 36% and 37%, respectively, of total management fees, compared to approximately 45% and 40%, respectively, for the same periods in 2011.

As of June 30, 2012, assets under management, presented in the following tables, were $1.91 trillion, compared to $1.85 trillion as of December 31, 2011 and $2.10 trillion as of June 30, 2011. Such amounts included assets of the SPDR® Gold Fund, for which we act as distribution agent rather than investment manager. In addition, the assets under management as of December 31, 2011 and June 30, 2011 included certain assets managed for the U.S. government under programs adopted during the financial crisis. While certain management fees are directly determined by the value of assets under management and the investment strategy employed, management fees reflect other factors as well, including our relationship pricing for clients using multiple services.

The overall increase in assets under management as of June 30, 2012 compared to December 31, 2011, reflected in the table of activity in assets under management that follows this discussion, mainly reflected net market appreciation during the the six-month period in the values of the assets managed, as well as net new business of $4 billion. This net new business reflects the impact of the planned redemption of $31 billion of assets in connection with the Department of the U.S. Treasury's portfolio of agency-guaranteed mortgage-backed securities. In the first six months of 2012, exchange-traded funds, or ETFs, increased 11%, due partly to $17 billion of net inflows, and passive equities increased 8%. These increases were partly offset by a 9% decline in passive fixed-income assets under management, mainly reflective of the above-described U.S. Treasury asset redemptions.

The net new business of $4 billion described above does not include $21 billion of new business awarded to SSgA that had not been installed prior to June 30, 2012. This new business will be included in assets under management in future periods after installation, and will generate management fee revenue in subsequent periods.

The overall decrease in assets under management as of December 31, 2011 compared to June 30, 2011, reflected in the table of activity in assets under management that follows this discussion, mainly reflected net lost business of $139 billion, which included approximately $77 billion of the above-described planned U.S. Treasury asset redemptions, as

well as net market depreciation during the six-month period in the values of the assets managed.
The following tables present the components and geographic mix of assets under management as of June 30, 2012,

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

December 31, 2011 and June 30, 2011:

ASSETS UNDER MANAGEMENT

(In billions)	June 30, 2012	December 31, 2011	June 30, 2011
Passive:			
Equities	$688	$ 638	$706
Fixed-income	223	246	325
Exchange-traded funds[1]	305	274	267
Other	195	195	218
Total Passive	1,411	1,353	1,516
Active:			
Equities	47	50	62
Fixed-income	18	19	19
Other	53	45	41
Total Active	118	114	122
Cash	379	378	459
Total	$1,908	$ 1,845	$2,097

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

GEOGRAPHIC MIX OF ASSETS UNDER MANAGEMENT[1]

(In billions)	June 30, 2012	December 31, 2011	June 30, 2011
United States	$1,324	$ 1,285	$1,465
Other Americas	36	30	34
Europe/Middle East/Africa	320	320	374
Asia/Pacific	228	210	224
Total	$1,908	$ 1,845	$2,097

(1) Geographic mix is based on the location at which the assets are managed.

The following table presents activity in assets under management during the twelve months ended June 30, 2012:

ASSETS UNDER MANAGEMENT

(In billions)	
June 30, 2011	$2,097
Net lost business[1]	(139)
Market depreciation	(113)
December 31, 2011	$1,845
Net new business[1]	4
Market appreciation	59
June 30, 2012	$1,908

(1) Amounts for the last six months of 2011 and the first six months of 2012 included redemptions of approximately $77 billion and $31 billion, respectively, of U.S. government securities associated with the Department of the U.S. Treasury's portfolio of agency-guaranteed mortgage-backed securities.

Trading Services

Trading services revenue includes revenue from foreign exchange trading, as well as brokerage and other trading services. We earn foreign exchange trading revenue by acting as a market maker. We offer a range of foreign exchange, or FX, products, services and execution models which focus on clients' global requirements for our proprietary research and the execution of trades in any time zone. Most of our FX products and execution services can be grouped into three broad categories: “direct FX,” “indirect FX,” and electronic trading. Direct and indirect FX revenue is recorded in foreign exchange trading revenue. Revenue from electronic trading is recorded in brokerage and other trading services revenue.

We also offer a range of brokerage and other trading products tailored specifically to meet the needs of the global pension community, including transition management, commission recapture and self-directed brokerage. These products are differentiated by our position as an agent of the institutional investor.

Trading services revenue was $255 million and $311 million for the second quarter of 2012 and 2011, respectively, and $535 million and $613 million for the six months ended June 30, 2012 and 2011, respectively. Such revenue declined 18% for the second quarter of 2012 compared to the second quarter of 2011 and decreased 13% in the six-month comparison. The components of these declines, composed of changes related to foreign exchange trading and brokerage and other trading services, are explained below.

Foreign exchange trading revenue of $129 million declined 24% for the second quarter of 2012 from $169 million for the second quarter of 2011 and decreased 15% to $278 million from $329 million in the six-month comparison. The decreases in the second quarter and first six months of 2012 were primarily the result of 16% and 11% declines, respectively, in currency volatility, partly offset by higher client volumes.

Brokerage and other trading services revenue of $126 million declined 11% for the second quarter of 2012 compared to $142 million for the second quarter of 2011, with the decrease largely related to lower levels of revenue from transition management. For the first six months of 2012, brokerage and other trading services revenue was $257 million, down 10% from $284 million for the first six months of 2011. Our transition management revenue and expenses in 2011 and 2012 were adversely affected by compliance issues in our U.K. business, the reputational and regulatory impact of which may continue to adversely affect our revenue from transition management in the remainder of 2012.

With respect to foreign exchange trading, we enter into FX transactions with clients and investment managers that contact our trading desk directly. These trades are all executed at negotiated rates. We refer to this activity, and our market-making activities, as "direct FX." Alternatively, clients or their investment managers may elect to route FX transactions to our FX desk through our asset servicing operation; we refer to this activity as "indirect FX." We execute indirect FX trades as a principal at rates based on a published formula. We calculate revenue for indirect FX using an attribution methodology based on estimated effective mark-ups/downs and observed client volumes.

For the second quarter and first six months of 2012, our estimated indirect FX revenue was approximately $66 million and $141 million, respectively, compared to $85 million and $171 million, respectively, for the same periods in 2011. All other FX revenue, other than this indirect FX revenue estimate and FX revenue from electronic trading, is estimated and considered by us to be direct FX revenue. For the second quarter and first six months of 2012, our estimated direct FX revenue was $63 million and $137 million, respectively, compared to $84 million and $158 million, respectively, for the same periods in 2011.

Our clients may choose to execute FX transactions through one of our electronic trading platforms. This service generates revenue through a “click” fee. For the second quarter and first six months of 2012, our revenue from electronic FX trading platforms was approximately $54 million and $109 million, respectively, compared to $61 million and $120 million, respectively, for the same periods in 2011. As described above, this revenue was recorded in brokerage and other trading services revenue.

During the first six months of 2012, some of our clients who relied on our indirect model to execute their FX transactions transitioned to other methods to conduct their FX transactions. Through State Street Global Markets, a unit of our Investment Servicing line of business, they can transition to either direct FX execution, including our

“Street FX” service which enables our clients to define their FX execution strategy and automate the foreign exchange trade execution process, where State Street continues to act as a principal market maker, or to one of our electronic trading platforms. We continue to expect that some clients may choose, over time, to reduce their level of indirect foreign exchange transactions in favor of other execution methods, including either direct foreign exchange transactions or electronic trading.

Securities Finance

Our agency securities finance business consists of two principal 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

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lending funds; and an agency lending program for third-party investment managers and asset owners, which we refer to as the agency lending funds.

We also participate in securities lending transactions as a principal rather than an agent. As a principal, we borrow securities from the lending client and then lend such securities to the subsequent borrower, either a State Street client or a broker/dealer. Our involvement as principal is utilized when the lending client is unable to, or elects not to, transact directly with the market and requires us to execute the transaction and furnish the securities. We provide our credit rating to the transaction, as well as our ability to source securities through our assets under custody and administration.

Securities finance revenue, composed of our split of both the spreads related to cash collateral and the fees related to non-cash collateral, is principally a function of the volume of securities on loan and the interest-rate spreads and fees earned on the underlying collateral. For the second quarter of 2012, securities finance revenue increased 4% from the second quarter of 2011, and for the first six months of 2012 increased 18% compared to the corresponding period in 2011. The increases were substantially the result of higher spreads across all lending programs, partly offset by 11% and 9% decreases in average lending volumes comparing the second quarter and first six months of 2012, respectively, to the same periods in 2011. Average spreads increased 26% and 37% for the second quarter and first six months of 2012, respectively, compared to the same periods in 2011. Securities on loan averaged approximately $337 billion and $334 billion for the second quarter and first six months of 2012, respectively, compared to approximately $379 billion and $369 billion, respectively, for the same periods in 2011.

Market influences will continue to affect our revenue from, and the profitability of, our securities lending activities during 2012, and may do so in future periods. As long as securities lending spreads remain below the levels generally experienced prior to late 2007, client demand is likely to remain at a reduced level and our revenues from our securities lending activities will be similarly affected. In addition, proposed or anticipated regulatory changes may affect the volume of our securities lending activity and related revenue in future periods.

Processing Fees and Other

Processing fees and other revenue for the second quarter and first six months of 2012 decreased by 31% and 12%, respectively, compared to the same periods in 2011. The decreases were primarily the result of a gain on an early termination of a lease in the second quarter of 2011 and amortization expense related to tax-advantaged investments in the second quarter of 2012.

NET INTEREST REVENUE

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

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

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

	Quarters Ended June 30,					
	2012			2011		
(Dollars in millions; fully taxable-equivalent basis)	Average Balance	Interest Revenue/ Expense	Rate	Average Balance	Interest Revenue/ Expense	Rate
Interest-bearing deposits with banks	$25,205	$35	.55 %	$10,325	$28	1.05 %
Securities purchased under resale agreements	7,944	13	.64	2,556	6	.94
Trading account assets	648	—	.14	2,421	—	—
Investment securities	112,670	697	2.48	104,570	650	2.49
Loans and leases	11,304	71	2.50	12,720	67	2.14
Other interest-earning assets	6,677	1	.04	5,346	1	.03
Total average interest-earning assets	$164,448	$817	2.00	$137,938	$752	2.18
Interest-bearing deposits:						
U.S.	$7,448	$4	.27 %	$1,605	$—	.09 %
Non-U.S.	88,048	33	.15	83,358	44	.21
Securities sold under repurchase agreements	8,288	1	.01	9,179	3	.14
Federal funds purchased	976	—	.10	1,104	—	.09
Other short-term borrowings	4,737					