

STATE STREET CORP
Form 10-Q
May 04, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(Mark One)

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

For the quarterly period ended March 31, 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

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

of incorporation or organization)

One Lincoln Street

02111

Boston, Massachusetts

(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 No

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

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

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

(Do not check if a smaller reporting company)

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

The number of shares of State Street's common stock outstanding on April 30, 2012 was 488,593,638

STATE STREET CORPORATION
QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTERLY PERIOD ENDED
MARCH 31, 2012

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
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GENERAL

State Street Corporation, the parent company, is a financial holding company headquartered in Boston, Massachusetts. Unless otherwise indicated or unless the context requires otherwise, all references in this Management's Discussion and Analysis to "State Street," "we," "us," "our" or similar terms mean State Street Corporation and its subsidiaries on a consolidated basis. Our principal banking subsidiary is State Street Bank and Trust Company, or State Street Bank. At March 31, 2012, we had total assets of \$187.96 billion, total deposits of \$130.18 billion, total shareholders' equity of \$20.16 billion and 29,800 employees. With \$23.21 trillion of assets under custody and administration and \$1.99 trillion of assets under management at March 31, 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 first quarter of 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. 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 our 2011 Form 10-K. 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 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 accounting policies is included in the "Significant Accounting Estimates" section of Management's Discussion and Analysis in our 2011 Form 10-K. We did not change these significant accounting policies during the first quarter 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 accordance with GAAP. Any non-GAAP, or operating-basis, financial information presented in this Management's Discussion and Analysis is reconciled to its nearest GAAP-basis measure.

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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 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 of the current sovereign debt risks in Europe and other regions;
- 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, changes in the composition of the assets on 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 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;
- 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, that may restrict or limit our growth plans, distributions to shareholders, equity purchase programs or other capital initiatives;
- 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

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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;

- 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 dysynergies 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 clients' needs and to develop products that are responsive to such trends and profitable to State Street; 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 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.

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OVERVIEW OF FINANCIAL RESULTS

(Dollars in millions, except per share amounts)	Quarters Ended March 31,		
	2012	2011	% Change
Total fee revenue	\$1,785	\$1,791	
Net interest revenue	625	577	8 %
Gains (Losses) related to investment securities, net	11	(7)	
Total revenue	2,421	2,361	3
Provision for loan losses	—	(1)	
Expenses:			
Expenses from operations	1,799	1,683	7
Acquisition costs	13	14	
Restructuring charges	8	5	
Litigation settlement costs	15	—	
Total expenses	1,835	1,702	8
Income before income tax expense	586	660	(11)
Income tax expense	159	189	
Net income	\$427	\$471	(9)
Adjustments to net income:			
Dividends on preferred stock	\$(7)		
Earnings allocated to participating securities ⁽¹⁾	(3)	\$(5)	
Net income available to common shareholders	\$417	\$466	
Earnings per common share:			
Basic	\$.86	\$.94	
Diluted	.85	.93	(9)
Average common shares outstanding (in thousands):			
Basic	484,942	497,471	
Diluted	490,454	500,980	
Cash dividends declared per common share	\$.24	\$.18	
Return on average common equity	8.8	% 10.5	%

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

Highlights

This section provides information related to notable actions we took in the first quarter of 2012, as well as highlights of our financial results for the first quarter of 2012 presented in the preceding table. Additional information about our financial results is provided under "Consolidated Results of Operations," which follows this section.

Significant Developments

In March 2012, we received the results of the Federal Reserve Board's comprehensive capital analysis and review of our 2012 capital plan. The Federal Reserve did not object to the capital actions we proposed, and as we previously announced, we declared a quarterly common stock dividend of \$0.24 per share, or approximately \$118 million, which was paid in April 2012. This dividend compares to a quarterly common stock dividend of \$0.18 per share, or approximately \$92 million, paid in April 2011. Our current dividend restores our common stock dividend to its previous split-adjusted high.

We also announced in March 2012 that our Board of Directors approved a new common stock purchase program authorizing the purchase by us of up to \$1.8 billion of our common stock through March 31, 2013. This new program follows our 2011 common stock purchase program, under which we purchased 16.31 million shares of our common

stock at an

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aggregate cost of approximately \$675 million from May 2011 through November 2011. We did not purchase any of our common stock under the new program during the first quarter of 2012. In April 2012, we purchased approximately 1.62 million shares of our common stock under the new program at an aggregate cost of approximately \$74 million.

We recorded restructuring charges of approximately \$15 million, mainly related to information technology, in connection with the continuing implementation of our business operations and information technology transformation program; the impact of these charges was partly offset by a \$7 million credit related to a previously recorded charge associated with our withdrawal from our fixed-income trading initiative, as we wound down substantially all of the trading portfolio carried in connection with that initiative.

With respect to our business operations and information technology transformation 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 2012, we expect to achieve additional annual pre-tax, run-rate expense savings 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 savings relate only to the business operations and information technology transformation program. Our actual operating expenses 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 first quarter of 2012 increased 3% compared to the same period in 2011, primarily the result of an 8% increase in net interest revenue. Total fee revenue was approximately flat compared to the same period in 2011. Servicing fees declined 2%, generally reflective of weakness in non-U.S. markets and changes in asset mix, partly offset by the impact of new business and a slight improvement in the S&P 500 index. Servicing fees generated outside the U.S. during both the first quarter of 2012 and the first quarter of 2011 were approximately 42% of total servicing fees. Management fee revenue was flat in the same comparison, as changes in equity market valuations were mixed. Management fees generated outside the U.S. during the first quarter of 2012 and the first quarter of 2011 were approximately 37% and 35%, respectively, of total management fees.

Trading services revenue declined 7%, mainly from lower currency volatility in foreign exchange, partly offset by higher foreign exchange trading volumes, and lower revenue from transition management. Securities finance revenue increased 47% as a result of higher spreads, partly offset by lower lending volumes.

During the first quarter of 2012, we recorded net interest revenue of \$625 million, an 8% increase compared to \$577 million during the first quarter of 2011. On a fully taxable-equivalent basis, net interest revenue in the first quarter of 2012 also increased 8%, to \$656 million from \$608 million. These net interest revenue amounts included \$49 million and \$62 million, 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 of \$31 million in both periods.

Discount accretion is more fully discussed in "Net Interest Revenue" under "Consolidated Results of Operations" in this Management's Discussion and Analysis.

Both increases (GAAP-basis and fully taxable-equivalent) were the result of an increase in investment portfolio securities and higher yields on U.S. floating-rate securities, due to movements in short-term LIBOR rates, partly offset by a lower yield on the fixed-rate portfolio and the above-described decline in discount accretion. Net interest margin, calculated on fully taxable-equivalent net interest revenue, declined 21 basis points to 1.64% in the first quarter of 2012 from 1.85% in the first quarter of 2011.

Total expenses of \$1.84 billion for the first quarter of 2012 increased 8% from \$1.70 billion for the first quarter of 2011. The increase primarily resulted from higher levels of compensation and employee benefits expenses, mainly the effects of equity-based compensation for a higher number of retirement-eligible employees, as well as year-over-year salary adjustments, including merit and promotional increases, and non-recurring costs associated with the continuing

implementation of our business operations and information technology transformation program.

During the first quarter of 2012, we secured mandates for approximately \$233 billion of new business in assets to be serviced; of the total, \$90 billion was installed prior to March 31, 2012, with the remaining \$143 billion expected to be installed in 2012 and later. In the first quarter of 2012, we also installed approximately \$115 billion of new business in assets to be serviced that we were awarded in 2011. The new business not installed by March 31, 2012 was not included in assets under custody and administration at that date, and had no impact on servicing fee revenue for the first quarter of 2012, as the assets

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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 first quarter of 2012, SSgA recorded net new business in managed assets of approximately \$10 billion; this amount is net of the effect of approximately \$31 billion of managed assets redeemed during the quarter from accounts we manage for the Department of the U.S. Treasury. Excluding the effect of the U.S. Treasury-related asset redemptions, net new business in managed assets for the first quarter of 2012 was approximately \$41 billion. The \$41 billion was composed of net inflows into exchange-traded funds of \$11 billion, \$8 billion into other investment management strategies and \$22 billion into managed cash, including U.S. and non-U.S. money market fund investments.

An additional \$25 billion of new business, awarded to SSgA but not installed by March 31, 2012, will be installed later in the year. The new business not installed by March 31, 2012 was not included in assets under management at that date, and had no impact on management fee revenue for the first 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 first quarter of 2012 compared to the first quarter of 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.

(Dollars in millions)	Quarters Ended March 31,		
	2012	2011	% Change
Fee revenue:			
Servicing fees	\$1,078	\$1,095	(2)%
Management fees	236	236	—
Trading services	280	302	(7)
Securities finance	97	66	47
Processing fees and other	94	92	2
Total fee revenue	1,785	1,791	—
Net interest revenue:			
Interest revenue	765	734	4
Interest expense	140	157	(11)
Net interest revenue	625	577	8
Gains (Losses) related to investment securities, net	11	(7)	
Total revenue	\$2,421	\$2,361	3
Fee Revenue			

Servicing and management fees collectively composed approximately 74% of our total fee revenue for both the first quarter of 2012 and the first quarter of 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 are 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

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administration, while management fees are affected by changes in month-end valuations of assets under management. Additional factors, such as the level of transaction volumes, changes in service level, balance credits, client minimum balances, pricing concessions and other factors, may have a significant effect on 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 March 31, 2012 and 2011 and for the quarters 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.

INDEX

	Daily Averages of Indices			Average of Month-End Indices			Quarter-End Indices					
	Quarters Ended March 31,			Quarters Ended March 31,			As of March 31,					
	2012	2011	% Change	2012	2011	% Change	2012	2011	% Change			
S&P 500®	1,349	1,303	4	% 1,362	1,313	4	% 1,408	1,326	6	%		
NASDAQ®	2,907	2,739	6	2,957	2,754	7	3,092	2,781	11			
MSCI EAFE®	1,516	1,701	(11)	1,536	1,716	(10)	1,553	1,703	(9)

Servicing Fees

The 2% decrease in servicing fees during the first quarter of 2012, compared to the same period in 2011, primarily resulted from weakness in non-U.S. markets and changes in asset mix, partly offset by the impact of new business installed on current period revenue and a slight improvement in the S&P 500 index. For the first quarter of both 2012 and 2011, servicing fees generated outside the U.S. were approximately 42% of total servicing fees.

As of March 31, 2012, our total assets under custody and administration, presented in the following tables, were \$23.21 trillion, compared to \$21.81 trillion as of December 31, 2011 and \$22.61 trillion as of March 31, 2011. The increase in the March-to-December comparison primarily resulted from net increases in equity market valuations and the impact of foreign exchange, as well as the installation of new servicing business prior to March 31, 2012 and net client subscriptions. The increase in the March-to-March comparison primarily resulted from net new business installed. Servicing asset levels as of March 31, 2012 did not reflect \$143 billion of new business awarded to us during the first quarter of 2012 that had not been installed prior to March 31, 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 and geographic mix of assets under custody and administration as of March 31, 2012, December 31, 2011 and March 31, 2011:

ASSETS UNDER CUSTODY AND ADMINISTRATION

(In billions)	March 31, 2012	December 31, 2011	March 31, 2011
Mutual funds	\$5,681	\$ 5,265	\$5,717
Collective funds	4,792	4,437	4,586
Pension products	5,116	4,837	5,005
Insurance and other products	7,619	7,268	7,301
Total	\$23,208	\$ 21,807	\$22,609

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FINANCIAL INSTRUMENT MIX OF ASSETS UNDER CUSTODY AND ADMINISTRATION

(In billions)	March 31, 2012	December 31, 2011	March 31, 2011
Equities	\$12,004	\$ 10,849	\$12,420
Fixed-income	8,384	8,317	7,319
Short-term and other investments	2,820	2,641	2,870
Total	\$23,208	\$ 21,807	\$22,609

GEOGRAPHIC MIX OF ASSETS UNDER CUSTODY AND ADMINISTRATION⁽¹⁾

(In billions)	March 31, 2012	December 31, 2011	March 31, 2011
United States	\$16,757	\$ 15,745	\$16,599
Other Americas	673	622	640
Europe/Middle East/Africa	4,659	4,400	4,358
Asia/Pacific	1,119	1,040	1,012
Total	\$23,208	\$ 21,807	\$22,609

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

Management Fees

Management fees were \$236 million for both the first quarter of 2012 and the first quarter of 2011. Average month-end equity market valuations, individually presented in the foregoing "INDEX" table, increased an average of 1% compared to 2011. Compared to the fourth quarter of 2011, management fees were up 17%, from \$202 million, the result of higher month-end equity market valuations and the impact of net new business on current period revenue. For the first quarter of 2012, management fees generated outside the U.S. were approximately 37% of total management fees, up from 35% for the first quarter of 2011.

As of March 31, 2012, assets under management, presented in the following tables, were \$1.99 trillion, compared to \$1.86 trillion as of December 31, 2011 and \$2.12 trillion as of March 31, 2011. Such amounts include assets of the SPDR[®] Gold Fund, for which we act as distribution agent rather than investment manager, and 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 who use multiple services.

The overall increase in assets under management as of March 31, 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 first quarter in the values of the assets managed, as well as net new business of \$41 billion, excluding the planned redemptions of assets in connection with the Department of the U.S. Treasury's portfolio of agency-guaranteed mortgage-backed securities. Including these asset redemptions of approximately \$31 billion, net new business for the first quarter of 2012 was \$10 billion. In the first quarter of 2012, exchange-traded funds, or ETFs, increased 12% due partly to \$11 billion in net inflows, and passive equities and managed cash balances increased 13% and 5%, respectively. These increases were partly offset by an 11% decline in passive fixed-income assets under management, mainly reflective of the above-described U.S. Treasury asset redemptions.

The net new business of \$10 billion described above does not reflect \$25 billion of new business awarded to SSgA that had not been installed prior to March 31, 2012. This new business will be reflected 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 March 31, 2011, reflected in the table of activity in assets under management that follows this discussion, mainly reflected net lost business, with approximately \$113 billion of the net lost business of \$169 billion due to the above-described U.S. Treasury asset redemptions, as well as net market depreciation during the period in the values of the assets managed.

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The following tables present the components and geographic mix of assets under management as of March 31, 2012, December 31, 2011 and March 31, 2011:

ASSETS UNDER MANAGEMENT

(In billions)	March 31, 2012	December 31, 2011	March 31, 2011
Passive:			
Equities	\$ 723	\$ 638	\$ 702
Fixed-income	220	246	356
Exchange-traded funds ⁽¹⁾	308	274	260
Other	221	208	239
Total Passive	1,472	1,366	1,557
Active:			
Equities	53	50	56
Fixed-income	17	19	17
Other	53	45	44
Total Active	123	114	117
Cash	398	378	446
Total	\$1,993	\$ 1,858	\$2,120

⁽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)	March 31, 2012	December 31, 2011	March 31, 2011
United States	\$1,380	\$ 1,298	\$1,490
Other Americas	34	30	31
Europe/Middle East/Africa	349	320	376
Asia/Pacific	230	210	223
Total	\$1,993	\$ 1,858	\$2,120

⁽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 March 31, 2012:

ASSETS UNDER MANAGEMENT

(In billions)		
March 31, 2011		\$2,120
Net new (lost) business ⁽¹⁾		(169)
Market depreciation		(93)
December 31, 2011		\$1,858
Net new business ⁽¹⁾		10
Market appreciation		125
March 31, 2012		\$1,993

⁽¹⁾ Amounts for the last nine months of 2011 and the first quarter of 2012 included redemptions of approximately \$113 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.

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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 decreased 7% during the first quarter of 2012 compared to the first quarter of 2011. In the same comparison, foreign exchange trading revenue decreased 7% to \$149 million from \$160 million, the result of an 8% decline in currency volatility, partly offset by a 13% increase in client volumes.

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 quarters ended March 31, 2012 and 2011, our indirect FX revenue was approximately \$75 million and \$86 million, respectively, a decline of 13%. All other FX revenue not included in this indirect FX revenue, and unrelated to electronic trading, is considered by us to be direct FX revenue. For both the first quarter of 2012 and the first quarter of 2011, our direct FX revenue was approximately \$74 million. Comparing the two first quarters, the proportion of total foreign exchange revenue represented by indirect FX revenue declined to approximately 50% for the first quarter of 2012 from approximately 54% for the first quarter of 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 quarter ended March 31, 2012 compared to the quarter ended March 31, 2011, our revenue from electronic FX trading platforms, recorded in brokerage and other trading services revenue, declined 7% to \$55 million from \$59 million, mainly due to lower volumes.

During the first quarter 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.

Brokerage and other trading services revenue declined 8% to \$131 million for the first quarter of 2012 compared to \$142 million for the first quarter of 2011, with the decrease largely related to lower levels of revenue from transition management. Our transition management revenue in 2011 was adversely affected by compliance issues in our U.K. business, the reputational impact of which may adversely affect our revenue from transition management in 2012.

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 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-

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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 first quarter of 2012, securities finance revenue increased 47% from the first quarter of 2011, substantially the result of higher spreads across all lending programs, partly offset by an 8% decrease in average lending volumes. Average spreads increased 58% for the first quarter of 2012 compared to the same period in 2011; securities on loan averaged approximately \$331 billion for the first quarter of 2012 compared to approximately \$359 billion for the same period in 2011.

Market influences continued to affect our revenue from, and the profitability of, our securities lending activities during the first quarter of 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 first quarter of 2012 was flat compared to the first quarter of 2011.

Generally, favorable fair-value adjustments related to positions in our fixed-income trading initiative were offset by the absence of first-quarter 2011 gains from commercial real estate loan sales and lower first-quarter 2012 net revenue from joint ventures.

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.

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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:

(Dollars in millions; fully taxable-equivalent basis)	Quarters Ended March 31, 2012			2011				
	Average Balance	Interest Revenue/Expense	Rate	Average Balance	Interest Revenue/Expense	Rate		
Interest-bearing deposits with banks	\$25,561	\$42	.67	% \$14,057	\$27	.79	%	
Securities purchased under resale agreements	7,485	9	.52	4,877	10	.83		
Trading account assets	719	—	—	2,136	—	—		
Investment securities	109,740	689	2.51	95,703	647	2.74		
Loans and leases	10,762	55	2.08	12,738	81	2.56		
Other interest-earning assets	6,937	1	.05	3,818	—	.02		
Total average interest-earning assets	\$161,204	\$796	1.99	\$133,329	\$765	2.32		
Interest-bearing deposits:								
U.S.	\$2,455	\$3	.40	% \$5,151	\$6	.44	%	
Non-U.S.	87,029	50	.23	78,721	52	.27		
Securities sold under repurchase agreements	7,439	—	.02	9,053	2	.10		
Federal funds purchased	808	—	.04	1,175	—	.04		
Other short-term borrowings	4,673	18	1.54	5,703	25	1.73		
Long-term debt	8,141	66	3.23	8,912	71	3.20		
Other interest-bearing liabilities	6,855	3	.20	2,135	1	.25		
Total average interest-bearing liabilities	\$117,400	\$140	.48	\$110,850	\$157	.57		
Interest-rate spread			1.51	%			1.75	%
Net interest revenue—fully taxable-equivalent basis		\$656			\$608			
Net interest margin—fully taxable-equivalent basis			1.64	%			1.85	%
Tax-equivalent adjustment		(31)	)		(31))		
Net interest revenue—GAAP basis		\$625			\$577			

For the first quarter of 2012 compared to the first quarter of 2011, average interest-earning assets increased, mainly as a result of the impact of increases in interest-bearing and noninterest-bearing client deposits, as well as higher levels of investment securities. The increases in average interest-bearing deposits with banks resulted from the additional deposits placed with us by clients amid market and public concerns related to various economic events; the growth in investment securities resulted from our ongoing re-investment strategy.

The incremental client deposits were invested with the Federal Reserve and other central banks and were used to reduce our U.S. interest-bearing deposits, specifically term wholesale certificates of deposit, and other short-term borrowings. The investment of the incremental noninterest-bearing client deposits generated net interest revenue, but because the invested deposits increased our average interest-earning assets, they negatively affected our net interest margin. Securities purchased under resale agreements increased as we reduced our U.S. Treasury holdings, given the extremely low yields offered for such investments.

For the first quarter of 2012, on both a GAAP and a fully taxable-equivalent basis, net interest revenue increased 8% compared to the same period in 2011. If conduit-related discount accretion were excluded, fully taxable-equivalent net interest revenue for the first quarter of 2012 would have been \$607 million (\$656 million presented in the preceding table less accretion of \$49 million) compared to \$546 million (\$608 million presented in the preceding table less accretion of \$62 million) for the first quarter of 2011. This increase was driven by growth in the investment portfolio and higher yields on U.S. floating-rate securities. In addition, higher levels of client deposits replaced interest-bearing

short-term funding, with the excess deposits invested with the Federal Reserve and non-U.S. central banks. Subsequent to the 2009 conduit consolidation, we have recorded aggregate discount accretion in interest revenue of \$1.60 billion (\$621 million in 2009, \$712 million in 2010, \$220 million in 2011 and \$49 million in the first quarter of 2012). The

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timing and ultimate recognition of discount accretion depends, in part, on factors that are outside of our control, including anticipated prepayment speeds and credit quality. The impact of these factors is uncertain and can be significantly influenced by general economic and financial market conditions. The timing and recognition of discount accretion can also be influenced by our ongoing management of the risks and other characteristics associated with our investment portfolio, including sales of securities which would otherwise generate accretion, such as the December 2010 investment portfolio repositioning.

Depending on the factors discussed above, among others, we anticipate that, until the former conduit securities remaining in our portfolio mature or are sold, discount accretion will continue to contribute to our net interest revenue. Assuming that we hold the remaining former conduit securities to maturity, all other things equal, we expect the remaining former conduit securities carried in our investment portfolio as of March 31, 2012 to generate aggregate discount accretion in future periods of approximately \$1.1 billion over their remaining terms, with approximately half of this aggregate discount accretion to be recorded over the next four years.

Changes in the components of interest-earning assets and interest-bearing liabilities are discussed in more detail below. Additional detail about the components of interest revenue and interest expense is provided in note 11 to the consolidated financial statements included in this Form 10-Q.

Interest-bearing deposits with banks, which include cash balances maintained at the Federal Reserve and other central banks to satisfy reserve requirements, averaged \$25.56 billion for the first quarter of 2012, compared to \$14.06 billion for the first quarter of 2011. The balances for both periods exceeded minimum reserve requirements (average aggregate excess balances were \$17.45 billion and \$4.26 billion for first quarter of 2012 and first quarter of 2011, respectively). The significant increase in the quarter-to-quarter comparison reflected the impact of higher levels of noninterest-bearing client deposits.

Average securities purchased under resale agreements increased to \$7.49 billion for the first quarter of 2012 from \$4.88 billion for the first quarter of 2011, largely due to an increase in client demand. Average trading account assets declined to \$719 million for the first quarter of 2012 from \$2.14 billion for the first quarter of 2011, the result of our withdrawal from our fixed-income trading initiative.

Our average investment securities portfolio increased to \$109.74 billion for the first quarter of 2012 from \$95.70 billion for the first quarter of 2011. The increase was generally the result of ongoing purchases of securities, partly offset by maturities and sales. As of March 31, 2012, securities rated "AAA" and "AA" comprised approximately 89% of our portfolio, compared to 90% rated "AAA" and "AA" as of March 31, 2011.

Loans and leases averaged \$10.76 billion for the first quarter of 2012, compared to \$12.74 billion for the same period in 2011. The decline was mainly related to lower client demand for short-duration liquidity, particularly with respect to non-U.S. clients, as well as decreases in leveraged leases and purchased receivables, mainly from maturities and pay-downs. For the first quarters of 2012 and 2011, approximately 29% and 28%, respectively, of our average loan and lease portfolio was composed of short-duration advances that provided liquidity to clients in support of their investment activities related to securities settlement. The following table presents average U.S. and non-U.S. short-duration advances for the periods indicated:

(In millions)	Quarters Ended March 31,	
	2012	2011
Average U.S. short-duration advances	\$1,802	\$1,835
Average non-U.S. short-duration advances	1,267	1,723
Total average short-duration advances	\$3,069	\$3,558

The decrease in average non-U.S. short-duration advances for the first quarter of 2012 compared to the 2011 quarter was mainly due to lower levels of advances to clients associated with the acquired Intesa securities services business. Average other interest-earning assets increased to \$6.94 billion for the first quarter of 2012 from \$3.82 billion for same period in 2011. The increase was primarily the result of higher levels of cash collateral provided in connection with our role as principal in certain securities borrowing activities.

Average interest-bearing deposits increased to \$89.48 billion for the first quarter of 2012 from \$83.87 billion for the first quarter of 2011. The increase reflected higher levels of non-U.S. transaction accounts associated with new and existing business in assets under custody and administration.

Average other short-term borrowings declined to \$4.67 billion for the first quarter of 2012 from \$5.70 billion for the same period in 2011, as the higher levels of client deposits provided additional liquidity. Average long-term debt decreased to \$8.14 billion for the first quarter of 2012 from \$8.91 billion for the same period in 2011. The decrease primarily reflected the maturities of \$1 billion of senior notes in February 2011 and \$1.45 billion of senior notes in September 2011, both previously issued by State Street Bank under the FDIC's Temporary Liquidity Guarantee Program, partly offset by the issuance of an

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aggregate of \$2 billion of senior notes by us in March 2011.

Average other interest-bearing liabilities increased to \$6.86 billion for the first quarter of 2012 from \$2.14 billion for the same period in 2011. The increase was primarily the result of higher levels of client cash collateral received in connection with our role as principal in certain securities lending activities.

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

Based on market conditions and other factors, we have continued to re-invest the proceeds from pay-downs and maturities of securities in highly rated investment securities, such as U.S. Treasuries and federal agency mortgage-backed securities and U.S. and non-U.S. mortgage- and asset-backed securities. The pace at which we continue to re-invest and the types of securities purchased will depend on the impact of market conditions and other factors over time. These factors and the level of interest rates worldwide are expected to dictate what effect our re-investment program will have on future levels of our net interest revenue and net interest margin.

Gains (Losses) Related to Investment Securities, Net

From time to time, in connection with our ongoing management of the investment portfolio, we sell available-for-sale securities, to manage risk, to take advantage of favorable market conditions, or for other reasons. During the first quarter of 2012, we recorded net realized gains of \$19 million from sales of approximately \$1.09 billion of available-for-sale securities, compared to net realized losses of \$4 million from sales of approximately \$3.94 billion of available-for-sale securities during the first quarter of 2011.

The aggregate unrealized loss on securities for which other-than-temporary impairment was recorded during the first quarter of 2012 was \$25 million, compared to \$35 million for the first quarter of 2011. Of this total, \$17 million (\$24 million for the 2011 quarter) related to factors other than credit, and was recognized, net of taxes, as a component of other comprehensive income in our consolidated statement of condition. We recorded the remaining \$8 million of losses (\$4 million associated with expected credit losses and \$4 million associated with adverse changes in timing of expected future cash flows) in our consolidated statement of income. Such losses were \$11 million (\$5 million associated with expected credit losses and \$6 million associated with adverse changes in timing of expected future cash flows) for the first quarter of 2011.

The first-quarter 2012 and first-quarter 2011 impairment associated with expected credit losses was related to U.S. non-agency residential mortgage-backed securities. The impairment associated with adverse changes in timing of expected future cash flows for both periods was substantially related to non-U.S. mortgage-backed securities.

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

(In millions)	Quarters Ended March 31,	
	2012	2011
Net realized gains from sales of available-for-sale securities	\$19	\$4
Losses from other-than-temporary impairment	(25	) (35
Losses not related to credit	17	24
Net impairment losses	(8	) (11
Gains (Losses) related to investment securities, net	\$11	\$(7)
Impairment associated with expected credit losses	\$(4	) \$(5
Impairment associated with adverse changes in timing of expected future cash flows	(4	) (6
Net impairment losses	\$(8	) \$(11

We regularly review the investment securities portfolio to identify other-than-temporary impairment of individual securities. Additional information about investment securities, the gross gains and losses that compose the net sale gains and our process to identify other-than-temporary impairment, is provided in note 2 to the consolidated financial statements included in this Form 10-Q.

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PROVISION FOR LOAN LOSSES

We did not record a provision for loan losses for the first quarter of 2012; our provision for loan losses for the first quarter of 2011 was \$(1) million.

EXPENSES

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

(Dollars in millions)	Quarters Ended March 31,		
	2012	2011	% Change
Compensation and employee benefits	\$1,064	\$974	9 %
Information systems and communications	191	191	—
Transaction processing services	181	180	1
Occupancy	119	107	11
Acquisition costs	13	14	(7)
Restructuring charges, net	8	5	60
Other:			
Professional services	81	82	(1)
Amortization of other intangible assets	51	49	4
Securities processing recoveries	(1)	(5)	(80)
Regulator fees and assessments	13	6	117
Other	115	99	16
Total other	259	231	12
Total expenses	\$1,835	\$1,702	8
Number of employees at quarter-end	29,800	29,000	

Expenses from Operations

The increase in compensation and employee benefits expenses during the first quarter of 2012 compared to the same period in 2011 resulted from the effects of equity-based compensation for a higher number of retirement-eligible employees; year-over-year salary adjustments, including merit and promotional increases; the impact of higher staff levels; and non-recurring costs associated with the implementation of our business operations and information technology transformation program. Independent of the restructuring charges presented separately in the table above, compensation and employee benefits expenses included non-recurring costs associated with the business operations and information technology transformation program of approximately \$17 million for the first quarter of 2012 compared to \$6 million for the same period in 2011.

The increase in aggregate other expenses (professional services, amortization of other intangible assets, securities processing recoveries, regulator fees and assessments and other costs) for the first quarter of 2012 compared to the same period in 2011 resulted primarily from the impact of higher deposit insurance and costs related to litigation settlements.

Acquisition Costs

During the first quarter of 2012, we incurred acquisition costs of \$13 million, substantially related to integration costs incurred in connection with our acquisition of the Intesa securities services business. Acquisition costs incurred during the first quarter of 2011 totaled \$14 million, and related mainly to integration costs associated with the Intesa securities services business and Bank of Ireland Asset Management acquisitions.

Restructuring Charges

During the first quarter of 2012, we recorded \$15 million of restructuring charges in connection with the continuing implementation of our business operations and information technology transformation program. These charges were partly offset by a credit of \$7 million associated with our withdrawal from our fixed-income trading initiative, resulting in net restructuring charges of \$8 million for the quarter. During the first quarter of 2011, we recorded \$5 million of restructuring charges, all in connection with our business operations and information technology transformation program.

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Business Operations and Information Technology Transformation Program

In November 2010, we announced a global multi-year business operations and information technology transformation program. The program includes operational, information technology and targeted cost initiatives, including plans related to reductions in both staff and occupancy costs.

With respect to our business operations, we are standardizing certain core business processes, primarily through our execution of the State Street Lean methodology, and driving automation of these business processes. We are currently creating a new technology platform, including transferring certain core software applications to a private cloud, and have expanded our use of service providers associated with components of our technology infrastructure and application maintenance and support. We expect the transfer of core software applications to a private cloud to occur primarily in 2013 and 2014.

To implement this program, we expect to incur aggregate pre-tax restructuring charges of approximately \$400 million to \$450 million over the four-year period ending December 31, 2014. To date, we have recorded aggregate restructuring charges of \$304 million in our consolidated statement of income, composed of \$156 million in 2010, \$133 million in 2011 and \$15 million in the first quarter of 2012. The following table presents the charges by type of cost:

(In millions)	Employee-Related Costs	Real Estate Consolidation	Information Technology Costs	Total
2010	\$ 105	\$ 51		\$ 156
2011	85	7	\$ 41	133
First Quarter 2012	—	3	12	15
Total	\$ 190	\$ 61	\$ 53	\$ 304

The employee-related costs included costs related to severance, benefits and outplacement services. Real estate consolidation costs resulted from actions taken to reduce our occupancy costs through consolidation of leases and properties. Information technology costs included transition fees related to the above-described expansion of our use of service providers.

In 2010, in connection with the program, we initiated the involuntary termination of 1,400 employees, or approximately 5% of our global workforce, which was substantially complete at the end of 2011. In addition, in 2011, in connection with the expansion of our use of service providers associated with our information technology infrastructure and application maintenance and support, we identified 530 employees who will be provided with severance and outplacement services as their roles are eliminated. As of March 31, 2012, in connection with the planned aggregate staff reductions of 1,930 employees described above, 1,381 employees had been involuntarily terminated and left State Street, composed of 550 employees in 2010, 782 employees in 2011 and 49 employees in the first quarter of 2012.

In connection with the continuing implementation of our business operations and information technology transformation program, we achieved approximately \$86 million of annual pre-tax, run-rate expense savings in 2011, 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 equal. We expect to achieve additional annual pre-tax, run-rate expense savings in the range of an additional \$90 million to \$100 million in 2012 compared to our above-described 2010 run-rate expense base, all else equal.

Excluding the expected aggregate restructuring charges of \$400 million to \$450 million described earlier, we expect the program to reduce our pre-tax expenses from operations, on an annualized basis, by approximately \$575 million to \$625 million by the end of 2014 compared to 2010, all else equal, with the full effect realized in 2015. We expect the business operations transformation component of the program to result in approximately \$440 million of these savings, with the majority of these savings expected to be achieved by the end of 2013. In addition, we expect the information technology transformation component of the program to result in approximately \$160 million of these savings.

These annual pre-tax run-rate savings relate only to the business operations and information technology transformation program. Our actual operating expenses may increase or decrease as a result of other factors. The majority of the annual savings will affect compensation and employee benefits expenses; these savings will be modestly offset by increases in information systems and communications expenses as we implement the program.

2011 Expense Control Measures

During the fourth quarter of 2011, in connection with expense control measures designed to calibrate our expenses for our capital markets-facing businesses, we took two actions. First, we withdrew from our fixed-income trading initiative, under which we traded in fixed-income securities and derivatives as principal with our custody clients and other third-parties that trade in these securities and derivatives. We undertook this withdrawal as a result of continuing market turmoil, as well as evolving regulatory changes that likely would have required us to increase our regulatory capital and expenses associated with

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this initiative. Second, we instituted targeted staff reductions. As a result of these actions, we have recorded cumulative restructuring charges of \$113 million, composed of a charge of \$120 million recorded in our 2011 consolidated statement of income and a net credit of \$7 million recorded in our first-quarter 2012 consolidated statement of income.

The following table presents the charges by type of cost:

(In millions)	Employee-Related Costs	Fixed-income trading portfolio	Asset and other write-offs	Total
2011	\$ 62	\$38	\$20	\$120
First Quarter 2012	3	(10	) —	(7
Total	\$ 65	\$28	\$20	\$113

The employee-related costs included costs related to severance, benefits and outplacement services related to both aspects of the expense control measures. In connection with these measures, we identified 442 employees who will be provided with severance and outplacement services as their roles are eliminated. As of March 31, 2012, 230 employees had been involuntarily terminated and left State Street, composed of 15 employees in 2011 and 215 employees in the first quarter of 2012. Costs for asset and other write-offs related to other asset write-downs and contract terminations.

The fixed-income trading portfolio-related costs resulted from fair-value adjustments to the initiative's trading portfolio related to our decision to withdraw from the initiative. In connection with our withdrawal, during the first quarter of 2012, we wound down substantially all of that initiative's remaining trading portfolio.

Aggregate Restructuring-Related Accrual Activity

The following table presents aggregate activity associated with accruals that resulted from the charges associated with the business operations and information technology transformation program and the 2011 expense control measures:

(In millions)	Employee- Related Costs	Real Estate Consolidation	IT Transition Costs	Fixed-Income Trading Portfolio	Asset and Other Write-offs	Total
Initial restructuring-related accrual	\$105	\$ 51				\$156
Payments	(15	) (4	)			(19
Balance at December 31, 2010	90	47				137
Additional accruals for business operations and information technology transformation program	85	7	\$41			133
Accruals for expense control measures	62	—	—	\$ 38	\$20	120
Payments and adjustments	(75	) (15	) (8	) —	(5	) (103
Balance at December 31, 2011	162	39	33	38	15	287
Additional accruals for business operations and information technology transformation program	—	3	12	—	—	15
Accruals for expense control measures	3	—	—	(10	) —	(7
Payments and adjustments	(37	) (1	) (11	) (24	) (4	) (77
Balance at March 31, 2012	\$128	\$ 41	\$34	\$ 4	\$11	\$218

INCOME TAX EXPENSE

We recorded income tax expense of \$159 million during the first quarter of 2012, compared to \$189 million for the same period in the prior year. Our effective tax rate for the first quarter of 2012 was 27.2% compared to 28.7% for the first quarter of 2011, with the decline primarily associated with changes in the geographic mix of earnings.

LINE OF BUSINESS INFORMATION

We have two lines of business: Investment Servicing and Investment Management. Given our services and management organization, the results of operations for these lines of business are not necessarily comparable with those of other companies, including companies in the financial services industry. Information about our two lines of business, as well as the revenues, expenses and capital allocation methodologies with respect to these lines of business, is provided in note 14 to the consolidated

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financial statements included in this Form 10-Q.

The following is a summary of our line of business results for the periods indicated. The "Other" column for 2012 included acquisition-related integration costs; net restructuring charges associated with our business operations and information technology transformation program and expense control measures; and litigation settlement costs. The "Other" column for 2011 included acquisition-related integration costs and restructuring charges associated with our business operations and information technology transformation program. The amounts in the "Other" columns were not allocated to State Street's business lines. Results for the 2011 periods reflect the retroactive effect of management changes in methodology related to funds transfer pricing and expense allocation in 2012.

	Quarters Ended March 31,							
	Investment Servicing		Investment Management		Other		Total	
(Dollars in millions, except where otherwise noted)	2012	2011	2012	2011	2012	2011	2012	2011
Fee revenue:								
Servicing fees	\$1,078	\$1,095					\$1,078	\$1,095
Management fees	—	—	\$236	\$236			236	236
Trading services	280	302	—	—			280	302
Securities finance	88	59	9	7			97	66
Processing fees and other	60	69	34	23			94	92
Total fee revenue	1,506	1,525	279	266			1,785	1,791
Net interest revenue	604	548	21	29			625	577
Gains (Losses) related to investment securities, net	11	(7)	—	—			11	(7)
Total revenue	2,121	2,066	300	295			2,421	2,361
Provision for loan losses	—	(1)	—	—			—	(1)
Expenses from operations	1,563	1,448	236	235			1,799	1,683
Acquisition and restructuring costs, net	—	—	—	—	\$21	\$19	21	19
Litigation settlement costs	—	—	—	—	15	—	15	—
Total expenses	1,563	1,448	236	235	36	19	1,835	1,702
Income from continuing operations before income taxes	\$558	\$619	\$64	\$60	\$(36)	\$(19)	\$586	\$660
Pre-tax margin	26	% 30	% 21	% 20	%			
Average assets (in billions)	\$184.1	\$154.0	\$4.1	\$4.6			\$188.2	\$158.6

Investment Servicing

Total revenue for the first quarter of 2012 increased 3% from the first quarter of 2011 and total fee revenue declined 1% in the same comparison. The decline in total fee revenue generally resulted from declines in servicing fees, trading services revenue and processing fees and other, partially offset by an increase in securities finance revenue.

Servicing fees declined 2% during the first quarter of 2012 compared to the same period in 2011, primarily due to weakness in non-U.S. markets and changes in asset mix, partly offset by the impact of new business installed on current period revenue and a slight improvement in the S&P 500 index. Trading services revenue decreased 7%, mainly due to a decline in currency volatility, partly offset by an increase in client volumes. Securities finance revenue increased as a result of higher spreads.

Servicing fees, trading services revenue and gains (losses) related to investment securities, net, for our Investment Servicing business line are identical to the respective consolidated results. Refer to “Servicing Fees,” “Trading Services” and “Gains (Losses) Related to Investment Securities, Net” under “Total Revenue” in this Management's Discussion and Analysis for a more in-depth discussion. A discussion of processing fees and other revenue is provided in “Processing Fees and Other” under “Total Revenue.”

The 10% increase in net interest revenue for the first quarter of 2012 compared to the first quarter of 2011 primarily resulted from growth in the investment portfolio and higher yields on U.S. floating-rate securities.

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Total expenses from operations for the first quarter of 2012 increased 8% from the first quarter of 2011, primarily due to higher compensation and employee benefits expenses from the effects of equity-based compensation for a higher number of retirement-eligible employees, year-over-year salary adjustments, including merit and promotional increases, and increased staffing levels.

Investment Management

Total revenue for the first quarter of 2012 increased 2% compared to the first quarter of 2011, mainly the result of increases in securities finance and processing fees and other revenue, partly offset by a decline in net interest revenue. Management fees were \$236 million for both the first quarter of 2012 and the first quarter of 2011. Average month-end equity market valuations, individually presented in the foregoing "INDEX" table, increased an average of 1% compared to 2011. Compared to the fourth quarter of 2011, management fees were up 17%, from \$202 million, the result of higher month-end equity market valuations and the impact of net new business on current period revenue. Management fees for the Investment Management business line are identical to the respective consolidated results. Refer to "Management Fees" under "Total Revenue" in this Management's Discussion and Analysis for a more-in depth discussion. A discussion of securities finance revenue, processing fees and other revenue and net interest revenue is provided in "Securities Finance," "Processing Fees and Other" and "Net Interest Revenue," respectively, under "Total Revenue."

Through SSgA, we acted as collateral manager for several collateralized debt obligation, or CDO, transactions structured and offered through other financial institutions. A CDO is a structured investment vehicle which purchases a portfolio of assets funded through the issuance of several classes of debt and equity, the repayment of and return on which are linked to the performance of the underlying assets. In February 2012, we entered into a settlement with the Massachusetts Secretary of State to resolve their investigation into disclosures made with respect to one CDO (Carina CDO, Ltd.).

FINANCIAL CONDITION

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

Deposits and other liabilities generated by client activities are invested in assets that generally match the liquidity and interest-rate characteristics of the liabilities, although the weighted-average maturities of our assets are significantly longer than the contractual maturities of our liabilities. Our assets consist primarily of securities held in our available-for-sale or held-to-maturity portfolios and short-duration financial instruments, such as interest-bearing deposits and securities purchased under resale agreements. The actual mix of assets is determined by the characteristics of the client liabilities and our desire to maintain a well-diversified portfolio of high-quality assets. In connection with the growth in our non-U.S. business, our cross-border outstandings have increased as we have invested in higher levels of non-U.S. assets. For additional information with respect to our non-U.S. exposures, refer to "Investment Securities" and "Cross-Border Outstandings" that follow.

The following table presents the components of our average total interest-earning and noninterest-earning assets, average total interest-bearing and noninterest-bearing liabilities, and average preferred and common shareholders' equity for the quarters ended March 31. Additional information about our average statement of condition, primarily our interest-earning assets and interest-bearing liabilities, is included under "Consolidated Results of Operations - Total Revenue - Net Interest Revenue" in this Management's Discussion and Analysis.

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(In millions)	2012 Average Balance	2011 Average Balance
Assets:		
Interest-bearing deposits with banks	\$25,561	\$14,057
Securities purchased under resale agreements	7,485	4,877
Trading account assets	719	2,136
Investment securities	109,740	95,703
Loans and leases	10,762	12,738
Other interest-earning assets	6,937	3,818
Total interest-earning assets	161,204	133,329
Cash and due from banks	2,245	2,485
Other assets	24,729	22,746
Total assets	\$188,178	\$158,560
Liabilities and shareholders' equity:		
Interest-bearing deposits:		
U.S.	\$2,455	\$5,151
Non-U.S.	87,029	78,721
Total interest-bearing deposits	89,484	83,872
Securities sold under repurchase agreements	7,439	9,053
Federal funds purchased	808	1,175
Other short-term borrowings	4,673	5,703
Long-term debt	8,141	8,912
Other interest-bearing liabilities	6,855	2,135
Total interest-bearing liabilities	117,400	110,850
Non-interest-bearing deposits	37,005	16,612
Other liabilities	13,991	12,829
Preferred shareholders' equity	500	94
Common shareholders' equity	19,282	18,175
Total liabilities and shareholders' equity	\$188,178	\$158,560

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Investment Securities

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

(In millions)	March 31, 2012	December 31, 2011
Available for sale:		
U.S. Treasury and federal agencies:		
Direct obligations	\$1,724	\$2,836
Mortgage-backed securities	32,717	30,021
Asset-backed securities:		
Student loans ⁽¹⁾	16,767	16,545
Credit cards	10,210	10,487
Sub-prime	1,379	1,404
Other	3,679	3,465
Total asset-backed securities	32,035	31,901
Non-U.S. debt securities:		
Mortgage-backed securities	11,571	10,875
Asset-backed securities	4,960	4,303
Government securities	1,703	1,671
Other	3,683	2,825
Total non-U.S. debt securities	21,917	19,674
State and political subdivisions	7,188	7,047
Collateralized mortgage obligations	4,279	3,980
Other U.S. debt securities	4,051	3,615
U.S. equity securities	673	640
Non-U.S. equity securities	120	118
Total	\$104,704	\$99,832
Held to Maturity:		
U.S. Treasury and federal agencies:		
Mortgage-backed securities	\$235	\$265
Asset-backed securities	25	31
Non-U.S. debt securities:		
Mortgage-backed securities	4,660	4,973
Asset-backed securities	439	436
Government securities	3	3
Other	176	172
Total non-U.S. debt securities	5,278	5,584
State and political subdivisions	89	107
Collateralized mortgage obligations	3,041	3,334
Total	\$8,668	\$9,321

(1) Substantially composed of securities guaranteed by the federal government with respect to at least 97% of defaulted principal and accrued interest on the underlying loans.

Additional information about our investment securities portfolio is provided in note 2 to the consolidated financial statements included in this Form 10-Q.

We manage our investment securities portfolio to align with the interest-rate and duration characteristics of our client liabilities and in the context of the overall structure of our consolidated statement of condition, and in consideration of

the global interest-rate environment. We consider a well-diversified, high-credit quality investment securities portfolio to be an

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important element in the management of our consolidated statement of condition.

The portfolio is concentrated in securities with high credit quality, with approximately 89% of the carrying value of the portfolio rated "AAA" or "AA" as of March 31, 2012. The following table presents the percentages of the carrying value of the portfolio, by external credit rating, as of the dates indicated:

	March 31, 2012	December 31, 2011	
AAA ⁽¹⁾	69	% 75	%
AA	20	14	
A	7	7	
BBB	2	2	
Below BBB	2	2	
	100	% 100	%

(1) Includes U.S. Treasury securities that are split-rated, "AAA" by Moody's Investors Service and "AA+" by Standard & Poor's.

As of March 31, 2012, the investment portfolio of approximately 11,025 securities was diversified with respect to asset class. Approximately 83% of the aggregate carrying value of the portfolio as of that date was composed of mortgage-backed and asset-backed securities. The predominantly floating-rate asset-backed portfolio consisted primarily of student loan-backed and credit card-backed securities. Mortgage-backed securities were composed of securities issued by the Federal National Mortgage Association and Federal Home Loan Mortgage Corporation, as well as U.S. and non-U.S. large-issuer collateralized mortgage obligations.

Non-U.S. Debt Securities

Approximately 24% of the aggregate carrying value of the portfolio as of March 31, 2012 was composed of non-U.S. debt securities. The following table presents our non-U.S. debt securities available for sale and held to maturity, included in the preceding table of investment securities carrying values, by significant country of issuer or collateral, as of the dates indicated:

(In millions)	March 31, 2012	December 31, 2011
Available for sale:		
United Kingdom	\$9,956	\$8,851
Australia	3,486	3,154
Netherlands	3,066	3,109
Canada	1,989	1,905
Germany	1,762	1,510
France	617	329
Spain	239	228
Italy	233	231
Other	569	357
Total	\$21,917	\$19,674
Held to maturity:		
Australia	\$2,520	\$2,572
United Kingdom	2,002	2,259
Italy	298	297
Spain	221	220
Other	237	236
Total	\$5,278	\$5,584

Approximately 88% of the aggregate carrying value of these non-U.S. debt securities was rated “AAA” or “AA” as of both March 31, 2012 and December 31, 2011. The majority of these securities comprise senior positions within the security structures, which are protected through subordination and other forms of credit protection. As of March 31, 2012, the securities

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had an aggregate pre-tax net unrealized loss of approximately \$27 million and an average market-to-book ratio of 100.1%. The majority is floating-rate securities, and accordingly the aggregate holdings are considered to have minimal interest-rate risk.

The underlying collateral primarily includes U.K. prime mortgages, Australian and Netherlands mortgages, Canadian government securities and German automobile loans. The "other" category of available-for-sale securities included approximately \$54 million and \$49 million of securities as of March 31, 2012 and December 31, 2011, respectively, related to Portugal and Ireland, all of which were mortgage-backed securities. The "other" category of held-to-maturity securities included approximately \$234 million and \$233 million of securities as of March 31, 2012 and December 31, 2011, respectively, related to Portugal, Ireland and Greece, all of which were mortgage-backed securities.

Our aggregate exposure to the peripheral European countries of Spain, Italy, Ireland, Greece and Portugal as of March 31, 2012 included no direct sovereign debt exposure to these countries. Our indirect exposure to these countries totaled approximately \$1.28 billion, including approximately \$1.09 billion of mortgage- and asset-backed securities with an aggregate pre-tax gross unrealized loss of approximately \$100 million as of March 31, 2012. We recorded no other-than-temporary impairment associated with expected credit losses on these mortgage- and asset-backed securities in the first quarter of 2012 or the first quarter of 2011.

The global economic downturn, coupled with the failure of the Eurozone countries to abide by the terms of the Eurozone stability pact, led to significant sovereign borrowing at advantageous rates, particularly by the above-mentioned peripheral countries, while some of those countries failed to address their underlying uncompetitive economies. These events led to the sovereign debt crisis when these fundamental issues caused severe stresses within the Eurozone. This sovereign crisis in Europe has deteriorated with little sign of improvement in the peripheral countries' economies.

Peripheral country risks are identified, assessed and monitored by our Country and Counterparty Exposure Committee. Country limits are defined in our credit and counterparty risk guidelines, in accordance with our credit and counterparty risk policy. These limits are monitored on a daily basis by Enterprise Risk Management. All peripheral country exposures are subject to ongoing surveillance and subjected to stress test analysis, conducted by the investment portfolio management team. The stress tests performed reflect the structure and nature of the exposure, its past and likely future performance based on macroeconomic and environmental analysis, with key underlying assumptions varied under a range of scenarios, reflecting likely downward pressure on collateral performance from the sovereign crisis and related austerity measures. The results of the stress tests are presented to senior management and Enterprise Risk Management as part of the surveillance process.

In addition, Enterprise Risk Management conducts independent stress test analyses and evaluates the structured asset exposures in European peripheral countries for the assessment of other-than-temporary impairment. The assumptions used in these evaluations reflect expected downward pressure on collateral performance from the sovereign crisis, the related austerity measures and their economic impact. Our evaluations of our exposure to Greece are based on the assumptions of that country remaining a member of the Eurozone under our base case. Stress scenarios are subject to regular review, and are updated to reflect changes in the economic environment, measures taken in response to the sovereign crisis and collateral performance, with particular attention to our peripheral country exposures.

Municipal Securities

We carry approximately \$7.28 billion of municipal securities, classified as state and political subdivisions in the preceding table of investment securities carrying values, in our investment portfolio. Substantially all of these securities are classified as securities available for sale, with the remainder classified as securities held to maturity. We also provide approximately \$8.05 billion of credit and liquidity facilities to municipal issuers as a form of credit enhancement. The following table presents our combined credit exposure to state and municipal obligors which represents 5% or more of our aggregate municipal credit exposure of approximately \$15.33 billion across our businesses as of March 31, 2012, grouped by state to display geographic dispersion:

(Dollars in millions)	Total Municipal Credit and	Total	% of Total Municipal
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State of Issuer:	Securities	Liquidity Facilities		Exposure	
Texas	\$1,040	\$ 1,734	\$2,774	18	%
California	177	1,331	1,508	10	
Massachusetts	842	478	1,320	9	
New York	444	821	1,265	8	
Wisconsin	461	407	868	6	
Total	\$2,964	\$ 4,771	\$7,735		

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Our total municipal securities exposure presented above is concentrated primarily with highly-rated counterparties, with approximately 85% of the obligors rated "AAA" or "AA" as of March 31, 2012. As of that date, approximately 68% and 30% of our aggregate exposure was associated with general obligation and revenue bonds, respectively. In addition, we had no exposures associated with healthcare, industrial development or land development bonds. The portfolios are also diversified geographically; the states that represent our largest exposure are widely dispersed across the U.S.

Additional information with respect to our analysis of other-than-temporary impairment of municipal securities is provided in note 2 to the consolidated financial statements included in this Form 10-Q.

Impairment

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

(In millions)	March 31, 2012	December 31, 2011
Fair value	\$104,704	\$99,832
Amortized cost	104,589	100,013
Net unrealized gain (loss), pre-tax	\$115	\$(181)
Net unrealized gain (loss), after-tax	\$71	\$(113)

The net unrealized amounts presented above excluded the remaining net unrealized losses related to reclassifications of securities available for sale to securities held to maturity. These unrealized losses related to reclassifications totaled \$267 million, or \$167 million after-tax, and \$303 million, or \$189 million after-tax, as of March 31, 2012 and December 31, 2011, respectively, and were recorded in accumulated other comprehensive income, or OCI. Refer to note 8 to the consolidated financial statements included in this Form 10-Q. The decline in these remaining after-tax unrealized losses related to reclassifications from December 31, 2011 to March 31, 2012 resulted primarily from amortization.

We conduct periodic reviews of individual securities to assess whether other-than-temporary impairment exists. Our assessment of other-than-temporary impairment involves an evaluation, more fully described in note 2, of economic and security-specific factors. Such factors are based on estimates, derived by management, which contemplate current market conditions and security-specific performance. To the extent that market conditions are worse than management's expectations, other-than-temporary impairment could increase, in particular, the credit component that would be recorded in our consolidated statement of income.

Given the exposure of our investment securities portfolio, particularly mortgage- and asset-backed securities, to residential mortgage and other consumer credit risks, the performance of the U.S. housing market continues to be a significant driver of the portfolio's credit performance. As such, our assessment of other-than-temporary impairment relies to a significant extent on our estimates of trends in national housing prices. Generally, indices that measure trends in national housing prices are published in arrears. As of December 31, 2011, national housing prices, according to the Case-Shiller National Home Price Index, had declined by approximately 33.8% peak-to-current. Overall, management's expectation, for purposes of its evaluation of other-than-temporary impairment as of March 31, 2012, was that housing prices would decline by approximately 35.8% peak-to-trough.

Our investment portfolio continues to be sensitive to management's estimates of future cumulative losses. Ultimately, other-than-temporary impairment is based on specific CUSIP-level detailed analysis of the unique characteristics of each security. In addition, we perform sensitivity analysis across each significant product type within the non-agency U.S. residential mortgage-backed portfolio. We estimate, for example, that if national housing prices were to decline by 37% to 39% peak-to-trough, compared to management's expectation of 35.8% described above, other-than-temporary impairment of the U.S. investment portfolio could increase by a range of approximately \$5 million to \$35 million. This sensitivity estimate is 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.

The residential mortgage servicing environment remains challenging, and the timeline to liquidate distressed loans continues to extend. The rate at which distressed residential mortgages are liquidated may affect, among other things, our investment securities portfolio. Such effects could include the timing of cash flows or the credit quality associated with the mortgages collateralizing certain of our residential mortgage-backed securities, which, accordingly, could result in the recognition of additional other-than-temporary impairment in future periods.

Excluding other-than-temporary impairment recorded in the first quarter of 2012, management considers the aggregate decline in fair value of the remaining securities and the resulting net unrealized losses as of March 31, 2012 to be temporary

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and not the result of any material changes in the credit characteristics of the securities. Additional information about these unrealized losses and our assessment of impairment is provided in note 2 to the consolidated financial statements included in this Form 10-Q.

Loans and Leases

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

(In millions)	March 31, 2012	December 31, 2011
Institutional:		
U.S.	\$9,226	\$7,115
Non-U.S.	2,589	2,478
Commercial real estate:		
U.S.	460	460
Total loans and leases	\$12,275	\$10,053
Allowance for loan losses	(22	) (22
Loans and leases, net of allowance for loan losses	\$12,253	\$10,031

Additional detail about these loan and lease segments, including underlying classes, is provided in note 3 to the consolidated financial statements included in this Form 10-Q, and in note 4 to the consolidated financial statements included in our 2011 Form 10-K.

Aggregate short-duration advances to our clients included in the institutional segment were \$4.50 billion and \$2.17 billion at March 31, 2012 and December 31, 2011, respectively. As of March 31, 2012 and December 31, 2011, unearned income deducted from our investment in leveraged lease financing was \$140 million and \$146 million, respectively, for U.S. leases and \$356 million and \$381 million, respectively, for non-U.S. leases.

The commercial real estate, or CRE, loans were acquired in 2008 pursuant to indemnified repurchase agreements with an affiliate of Lehman as a result of the Lehman Brothers bankruptcy. 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.

As of both March 31, 2012 and December 31, 2011, we held an aggregate of approximately \$199 million of CRE loans which were modified in troubled debt restructurings. No impairment loss was recognized upon restructuring of the loans, as the discounted cash flows of the modified loans exceeded the carrying amount of the original loans as of the modification date. No loans were modified in troubled debt restructurings in the first quarter of 2012.

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

(In millions)	Three Months Ended March 31, 2012	2011
Allowance for loan losses:		
Beginning balance	\$22	\$100
Charge-offs	—	(19
Provisions	—	(1
Ending balance	\$22	\$80

Additional information about the allowance, including underlying segments and classes, is provided in note 3 to the consolidated financial statements included in this Form 10-Q.

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

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Cross-Border Outstandings

Our cross-border outstandings consist primarily of deposits with banks; loans and lease financing, including short-duration advances; investment securities; and exposures related to foreign exchange and interest-rate contracts and securities finance. Additional information with respect to the nature of our cross-border outstandings is provided under "Financial Condition–Cross-Border Outstandings" in Management's Discussion and Analysis included in our 2011 Form 10-K.

The following table presents our cross-border outstandings in countries in which we do business, and which amounted to at least 1% of our consolidated total assets as of the dates indicated. The aggregate cross-border outstandings presented in the table represented 23% and 16% of our consolidated total assets as of March 31, 2012 and December 31, 2011, respectively.

(In millions)	Investment Securities and Other Assets	Derivatives and Securities Lending	Total Cross-border Outstandings
March 31, 2012:			
United Kingdom	\$ 14,198	\$ 1,183	\$ 15,381
Germany	10,052	941	10,993
Australia	7,199	547	7,746
Netherlands	3,189	156	3,345
Japan	2,719	454	3,173
Canada	1,887	418	2,305
December 31, 2011:			
United Kingdom	\$ 13,336	\$ 1,510	\$ 14,846
Australia	6,786	263	7,049
Germany	6,321	578	6,899
Netherlands	3,626	197	3,823
Canada	2,235	496	2,731

As of March 31, 2012, there were no aggregate cross-border outstandings in countries which amounted to between 0.75% and 1% of our consolidated total assets as of that date. As of December 31, 2011, aggregate cross-border outstandings in countries which amounted to between 0.75% and 1% of our consolidated total assets as of that date totaled approximately \$1.70 billion to Luxembourg.

Several European countries, particularly Portugal, Ireland, Italy, Greece and Spain, have experienced credit deterioration associated with weaknesses in their economic and fiscal situations. With respect to this ongoing uncertainty, we are closely monitoring our exposure to these countries. While we had no sovereign debt securities related to these countries in our investment portfolio, we had aggregate exposure of approximately \$1.28 billion, including \$1.09 billion of mortgage- and asset-backed securities, composed of \$435 million in Spain, \$371 million in Italy, \$115 million in Ireland, \$98 million in Greece and \$75 million in Portugal, as of March 31, 2012.

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The following table presents our aggregate exposure in each of these countries as of the dates indicated:

(In millions)	Investment Securities and Other Assets	Derivatives and Securities Lending	Total Cross-border Outstandings
March 31, 2012:			
Italy	\$1,132		\$ 1,132
Spain	435	\$55	490
Ireland	278	100	378
Portugal	176	—	176
Greece	98	—	98
December 31, 2011:			
Italy	\$1,049	\$11	\$ 1,060
Spain	434	53	487
Ireland	299	267	566
Portugal	176	—	176
Greece	99	—	99

As of March 31, 2012, none of the exposures in these countries was individually greater than 0.75% of our consolidated total assets. The aggregate exposures consisted primarily of interest-bearing deposits, loans, including short-duration advances, and foreign exchange contracts. We had not recorded any other-than-temporary impairment associated with expected credit losses, or provisions for loan losses, with respect to any of our exposures in these countries as of March 31, 2012.

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 clients' cash management needs, and to provide protection against loss to depositors and creditors. We strive to maintain an appropriate level of capital, commensurate with our risk profile, on which an attractive return to shareholders is expected to be realized over both the short and long term, while protecting our obligations to depositors and creditors and satisfying regulatory capital adequacy requirements. Additional information about our capital management process is provided under "Financial Condition—Capital" in Management's Discussion and Analysis included in our 2011 Form 10-K.

The following table presents regulatory capital ratios and the related components of capital and total risk-weighted assets for State Street and State Street Bank as of the dates indicated. As of March 31, 2012, State Street and State Street Bank met all capital adequacy requirements to which they were subject, and regulatory capital ratios for State Street and State Street Bank exceeded the regulatory minimum and "well capitalized" thresholds.

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(Dollars in millions)	Regulatory Guidelines ⁽¹⁾		State Street		State Street Bank	
	Minimum	Well Capitalized	March 31, 2012	December 31, 2011	March 31, 2012	December 31, 2011
Tier 1 risk-based capital ratio	4	% 6	% 19.1	% 18.8	% 17.3	% 17.6
Total risk-based capital ratio	8	10	20.7	20.5	19.2	19.6
Tier 1 leverage ratio	4	5	7.8	7.3	7.0	6.7
Tier 1 risk-based capital			\$ 14,126	\$ 13,644	\$ 12,360	\$ 12,224
Total risk-based capital			15,243	14,842	13,664	13,607
Adjusted risk-weighted assets and market-risk equivalents:						
Balance sheet risk-weighted assets			\$ 56,045	\$ 52,642	\$ 53,656	\$ 49,659
Off-balance sheet equivalent risk-weighted assets			17,144	19,115	17,139	19,109
Market risk equivalent assets			600	661	509	611
Total			\$ 73,789	\$ 72,418	\$ 71,304	\$ 69,379
Adjusted quarterly average assets			\$ 180,538	\$ 186,336	\$ 177,038	\$ 183,086

State Street Bank must comply with regulatory guidelines for “well capitalized” in order for the parent company to maintain its status as a financial holding company, including maintaining 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 comply with 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 us to maintain a minimum tier 1 risk-based capital ratio of 6% and a minimum total risk-based capital ratio of 10%.

As of March 31, 2012, State Street's regulatory capital ratios increased compared to December 31, 2011. The slight increases in the risk-based capital ratios were primarily the result of the effect of first-quarter 2012 net income on tier 1 capital, almost completely offset by an increase in total risk-weighted assets. The increase in total risk-weighted assets primarily resulted from higher balance sheet risk-weighted assets, from purchases of investment securities and increased levels of short-duration advances to clients, partly offset by declines in off-balance sheet equivalent risk-weighted assets. The latter decline was primarily associated with lower levels of unrealized gains on foreign exchange derivative contracts. The increase in State Street's tier 1 leverage ratio resulted from the above-described increase in tier 1 capital and a decline in adjusted quarterly average assets, as the size of our consolidated statement of condition decreased from year-end 2011.

As of March 31, 2012, State Street Bank's risk-based capital ratios declined compared to December 31, 2011. The slight declines resulted primarily from an increase in total risk-weighted assets. The increase resulted from higher levels of investment securities and short-duration advances, partly offset by decreases in off-balance sheet equivalent risk-weighted assets associated with lower levels of unrealized gains on foreign exchange derivative contracts. The increase in State Street Bank's tier 1 leverage ratio resulted from a decline in adjusted quarterly average assets. In March 2012, we received the results of the Federal Reserve Board's comprehensive capital analysis and review of our 2012 capital plan. The Federal Reserve did not object to the capital actions we proposed, and as we previously announced, we declared a quarterly common stock dividend of \$0.24 per share, or approximately \$118 million, which was paid in April 2012. This dividend compares to a quarterly common stock dividend of \$0.18 per share, or approximately \$92 million, paid in April 2011. Our current dividend restores our common stock dividend to its previous split-adjusted high.

We also announced in March 2012 that our Board of Directors approved a new common stock purchase program authorizing the purchase by us of up to \$1.8 billion of our common stock through March 31, 2013. This new program follows our 2011 common stock purchase program, under which we purchased approximately \$675 million of our common stock from May 2011 through November 2011. We did not purchase any of our common stock under the new program during the first quarter of 2012. In April 2012, we purchased approximately 1.62 million shares of our common stock under the new program at an aggregate cost of approximately \$74 million.

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Other

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

Basel II adopts a three-pillar framework for addressing capital adequacy-minimum capital requirements, which incorporates Pillar 1, the measurement of credit risk, market risk and operational risk; Pillar 2, 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 Pillar 3, market discipline, which imposes public disclosure requirements on a banking organization intended to allow the assessment of key information about the organization's risk profile and its associated level of regulatory capital.

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

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

In addition, in response to the recent financial crisis and ongoing global financial market dynamics, the Basel Committee has proposed new guidelines, referred to as Basel III. Basel III would establish more stringent capital and liquidity requirements, including higher minimum regulatory capital ratios, new capital buffers, higher risk-weighted asset calibrations, more restrictive definitions of qualifying capital, a liquidity coverage ratio and a net stable funding ratio. Basel III, the Dodd-Frank Act and the resulting regulations are expected to result in an increase in the minimum regulatory capital that we will be required to maintain and changes in the manner in which our regulatory capital ratios are calculated.

We are currently designated as a large bank holding company subject to enhanced supervision and prudential standards, commonly referred to as a "systemically important financial institution," or SIFI, and we are one among an initial group of 29 institutions worldwide that have been identified by the Financial Stability Board and the Basel Committee on Banking Supervision as "global systemically important banks," or G-SIBs. Both of these designations will require us to hold incrementally higher regulatory capital compared to financial institutions without such designations.

The Basel III requirements, as well as related provisions of the Dodd-Frank Act and other international regulatory initiatives, could have a material impact on our businesses and our profitability. U.S. banking regulators will be required to enact new rules specific to the U.S. banking industry to implement the final Basel III accord.

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

We believe, however, that we will be able to comply with the relevant Basel II and Basel III regulatory capital requirements when and as applied to us.

Economic Capital

We define economic capital as the capital required to protect holders of our senior debt, and obligations higher in priority, against unexpected economic losses over a one-year period at a level consistent with the solvency of a firm with our target "Aa3/AA-" senior bank debt rating. Economic capital requirements are one of several important measures used by management and the Board of Directors to assess the adequacy of our capital levels in relation to

State Street's risk profile. Due to the evolving nature of quantification techniques, we expect to periodically refine the methodologies, assumptions, and information used to estimate our economic capital requirements, which could result in a different amount of capital needed to support our business activities.

In addition, we have begun to measure returns on economic capital and economic profit (defined by us as net income available to common shareholders after deduction of State Street's cost of equity capital) by line of business. This economic profit will be used by management and the Board to gauge risk-adjusted performance over time. This in turn has become an element of our internal process for allocating resources, e.g., capital, information technology spending, etc., by line of business. In addition, return on capital and economic profit are two of several measures used in our evaluation of the viability of a new

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business or product initiative and for merger-and-acquisition analysis.

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 the assets and liabilities carried in our consolidated statement of condition;

• **Credit risk:** the risk of loss that may result from the default or downgrade of a borrower or counterparty;

• **Operational risk:** the risk of loss from inadequate or failed internal processes, people and systems, or from external events, which is consistent with the Basel II definition; and

• **Business risk:** the risk of negative earnings resulting from adverse changes in business factors, including changes in the competitive environment, changes in the operational economics of our business activities, and the effect of strategic and reputation risks.

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

Liquidity

The objective of liquidity management is to ensure that we have the ability to meet our financial obligations in a timely and cost-effective manner, and that we maintain sufficient flexibility to fund strategic corporate initiatives as they arise. Effective management of liquidity involves assessing the potential mismatch between the future cash needs of our clients and our available sources of cash under normal and adverse economic and business conditions.

Significant uses of liquidity, described more fully below, consist primarily of funding client deposit withdrawals and outstanding commitments to extend credit or commitments to purchase securities as they are drawn upon. Liquidity is provided by the maintenance of broad access to the global capital markets and by the asset structure in our consolidated statement of condition. Additional information about our liquidity is provided under "Financial Condition—Liquidity" in Management's Discussion and Analysis included in our 2011 Form 10-K.

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

Our sources of liquidity come from two primary areas: access to the global capital markets and liquid assets carried in our consolidated statement of condition. Our ability to source incremental funding at reasonable rates of interest from wholesale investors in the capital markets is the first source of liquidity we would access to accommodate the uses of liquidity described below. On-balance sheet liquid assets are also an integral component of our liquidity management strategy. These assets provide liquidity through maturities of the assets, but more importantly, they provide us with the ability to raise funds by pledging the securities as collateral for borrowings or through outright sales. State Street is also a member of the Federal Home Loan Bank of Boston. This membership allows for advances of liquidity in varying terms against high-quality collateral, which helps facilitate asset-and-liability management of depository institutions. There were no balances outstanding under this facility at March 31, 2012 or December 31, 2011. Each of these sources of liquidity is used in our management of daily cash needs and is available in a crisis scenario should we need to accommodate potential large, unexpected demand for funds.

Our uses of liquidity generally result from the following: withdrawals of unsecured client deposits; draw-downs of unfunded commitments to extend credit or to purchase securities, generally provided through lines of credit; and

short-duration advance facilities. Client deposits are generated largely from our investment servicing activities, and are invested in a combination of investment securities and short-duration financial instruments whose mix is determined by the characteristics of the deposits. Most of the client deposits are payable on demand or are short-term in nature, which means that withdrawals can potentially occur quickly and in large amounts. Similarly, clients can request disbursement of funds under commitments to extend credit, or can overdraw their deposit accounts rapidly and in large volumes. In addition, a large volume of unanticipated funding requirements, such as large draw-downs of existing lines of credit, could require additional liquidity.

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Material risks to sources of short-term liquidity could include, among other things, adverse changes in the perception in the financial markets of our financial condition or liquidity needs, and downgrades by major independent credit rating agencies of our deposits and our debt securities, which would restrict our ability to access the capital markets and could lead to withdrawals of unsecured deposits by our clients.

In managing our liquidity, we have issued term wholesale certificates of deposit, or CDs, and invested those funds in short-duration financial instruments which are carried in our consolidated statement of condition and which would be available to meet our cash needs. As of March 31, 2012, this wholesale CD portfolio totaled \$1.87 billion, compared to \$6.34 billion as of December 31, 2011.

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

As of March 31, 2012, the value of our consolidated net liquid assets, as defined, totaled \$120.68 billion, compared to \$144.15 billion as of December 31, 2011. For the quarter ended March 31, 2012, consolidated average net liquid assets were \$108.42 billion, compared to \$86.79 billion for the quarter ended March 31, 2011. Due to the unusual size and volatile nature of client deposits as of quarter-end, we maintained excess balances of approximately \$16.88 billion at central banks as of March 31, 2012, compared to \$50.09 billion as of December 31, 2011. As of March 31, 2012, the value of the parent company's net liquid assets totaled \$5.69 billion, compared with \$4.91 billion as of December 31, 2011. The parent company's liquid assets consisted primarily of overnight placements with its banking subsidiaries.

Aggregate investment securities carried at \$38.27 billion as of March 31, 2012, compared to \$44.66 billion as of December 31, 2011, were designated as pledged for public and trust deposits, borrowed funds and for other purposes as provided by law, and are excluded from the liquid assets calculation, unless pledged internally between State Street affiliates. Liquid assets included securities pledged to the Federal Reserve Bank of Boston to secure State Street Bank's ability to borrow from their discount window should the need arise. This access to primary credit is an important source of back-up liquidity for State Street Bank. As of March 31, 2012, State Street Bank had no outstanding primary credit borrowings from the discount window.

Based on our level of consolidated liquid assets and our ability to access the capital markets for additional funding when necessary, including our ability to issue debt and equity securities under our current universal shelf registration, management considers State Street's overall liquidity as of March 31, 2012 to be sufficient to meet its current commitments and business needs, including accommodating the transaction and cash management needs of its clients. We maintain an effective universal shelf registration that allows for the public offering and sale of debt securities, capital securities, common stock, depositary shares and preferred stock, and warrants to purchase such securities, including any shares into which the preferred stock and depositary shares may be convertible, or any combination thereof. 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, under which we can issue up to \$3 billion with original maturities of up to 270 days from the date of issue. As of March 31, 2012, we had \$2.43 billion of commercial paper outstanding, compared to \$2.38 billion as of December 31, 2011.

State Street Bank had initial Board authority to issue bank notes up to an aggregate of \$5 billion, including up to \$1 billion of subordinated bank notes. Approximately \$2.05 billion was available under this Board authority as of March 31, 2012. State Street Bank currently maintains a line of credit with a financial institution of CAD \$800

million, or approximately \$802 million as of March 31, 2012, to support its Canadian securities processing operations. The line of credit has no stated termination date and is cancelable by either party with prior notice. As of March 31, 2012, no balance was outstanding on this line of credit.

Risk Management

The global scope of our business activities requires that we balance what we perceive to be the primary risks in our businesses with a comprehensive and well-integrated risk management function. The identification, measurement, monitoring and mitigation of risks are essential to the financial performance and successful management of our businesses. These risks, if not effectively managed, can result in current losses to State Street as well as erosion of our capital and damage to our

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reputation. Our systematic approach allows for an assessment of risks within a framework for evaluating opportunities for the prudent use of capital that appropriately balances risk and return. Additional information about our process for managing market risk for both our trading and asset-and-liability management activities, as well as credit risk, operational risk and business risk, can be found under "Financial Condition—Risk Management" in Management's Discussion and Analysis included in our 2011 Form 10-K.

While we believe that our risk management program is effective in managing the risks in our businesses, external factors may create risks that cannot always be identified or anticipated.

Market Risk

Market risk is defined as the risk of adverse financial impact due to fluctuations in interest rates, foreign exchange rates and other market-driven factors and prices. State Street is exposed to market risk in both its trading and non-trading, or asset-and-liability management, activities. The market risk management processes related to these activities, discussed in further detail below, apply to both on- and off-balance sheet exposures.

We engage in trading and investment activities primarily to support our clients' needs and to contribute to our overall corporate earnings and liquidity. In the conduct of these activities, we are subject to, and assume, market risk. The level of market risk that we assume is a function of our overall risk appetite, objectives and liquidity needs, our clients' requirements and market volatility. Interest-rate risk, a component of market risk, is more thoroughly discussed in the "Asset and Liability Management" portion of this "Market Risk" section.

Trading Activities

Market risk associated with our foreign exchange and other trading activities is managed through corporate guidelines, including established limits on aggregate and net open positions, sensitivity to changes in interest rates, and concentrations, which are supplemented by stop-loss thresholds. We use a variety of risk management tools and methodologies, including value-at-risk, or VaR, described later in this section, to measure, monitor and manage market risk. 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 enter into a variety of derivative financial instruments to support our clients' needs and to manage our interest-rate and currency risk. These activities are generally intended to generate trading services revenue and to manage 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 derivative instruments, including foreign exchange forward contracts, foreign exchange and interest-rate options and interest-rate swaps, interest-rate forward contracts, and interest-rate futures. As of March 31, 2012, the aggregate notional amount of these derivatives was \$952.96 billion, of which \$828.44 billion was composed of foreign exchange forward, swap and spot contracts. In the aggregate, positions are matched closely to minimize currency and interest-rate risk. All foreign exchange contracts are valued daily at current market rates. Additional information about derivative instruments entered into in connection with our trading activities is provided in note 10 to the consolidated financial statements in this Form 10-Q.

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

on historically observed changes in foreign exchange rates, U.S. and non-U.S. interest rates and implied volatilities, and incorporates the resulting diversification benefits provided from the mix of our trading positions. Like all quantitative risk measures, our historical simulation VaR methodology is subject to inherent limitations and assumptions. Our methodology gives equal weight to all market-rate observations regardless of how recently the market rates

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were observed. The estimate is calculated using static portfolios consisting of trading positions held at the end of each business day. Therefore, implicit in the VaR estimate is the assumption that no intra-day actions are taken by management during adverse market movements. As a result, the methodology does not incorporate risk associated with intra-day changes in positions or intra-day price volatility.

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

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

VALUE-AT-RISK

(In millions)	Three Months Ended March 31,					
	2012			2011		
	Average	Maximum	Minimum	Average	Maximum	Minimum
Foreign exchange rates	\$2.2	\$5.0	\$0.8	\$2.7	\$6.0	\$1.1
Interest rates	1.6	2.1	1.2	6.0	9.3	3.4
Total VaR for trading assets	\$2.7	\$4.7	\$1.4	\$6.6	\$10.5	\$3.5

The year-over-year decline in the VaR associated with interest-rate risk was the result of the impact of our previously announced withdrawal from our fixed-income trading initiative.

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

Consistent with current bank regulatory market risk guidelines, our VaR measurement includes certain positions held outside of our regular sales and trading activities, but carried in trading account assets in our consolidated statement of condition and covered by those guidelines. We do not have a historical simulation VaR model that covers positions outside of our regular sales and trading activities. Consequently, we compute the VaR associated with those assets using a separate model, which we then add to the VaR associated with our sales and trading activities to derive State Street's total regulatory VaR. Although this simple addition does not give full recognition to the benefits of diversification of our business, we believe that this approach is both conservative and consistent with the way in which we manage those businesses.

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

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

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Total Regulatory VALUE-AT-RISK

(In millions)	Three Months Ended March 31,					
	2012			2011		
	Average	Maximum	Minimum	Average	Maximum	Minimum
VaR for trading assets	\$2.7	\$4.7	\$1.4	\$6.6	\$10.5	\$3.5
VaR for non-trading assets	1.6	2.0	1.4	1.7	1.9	1.4
Total regulatory VaR	\$4.3	\$6.1	\$2.9	\$8.4	\$12.4	\$5.0

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 the assets and liabilities carried in our consolidated statement of condition from the adverse effects of changes in interest rates. Most of our NIR is earned from the investment of client deposits generated by our Investment Servicing and Investment Management businesses. We structure the assets carried in our consolidated statement of condition to generally conform to the characteristics of our liabilities, but we manage our overall interest-rate risk position in the context of current and anticipated market conditions and within internally-approved risk guidelines. Non-U.S. dollar denominated client liabilities are a significant portion of our consolidated statement of condition. This exposure and the resulting changes in the shape and level of non-U.S. dollar yield curves are considered in our consolidated interest-rate risk management process.

Our investment activities and our use of derivative financial instruments are the primary tools used in managing interest-rate risk. We invest in financial instruments with currency, repricing, and maturity characteristics we consider appropriate to manage our overall interest-rate risk position. In addition to on-balance sheet assets, we use certain derivative instruments, primarily interest-rate swaps, to alter the interest-rate characteristics of specific balance sheet assets or liabilities. Our use of derivatives is subject to internal guidelines approved by our Asset, Liability and Capital Committee, or ALCCO. Additional information about our use of derivative instruments is provided in note 10 to the consolidated financial statements included in this Form 10-Q.

To measure, monitor, and report on our interest-rate risk position, we use 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 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.

Key assumptions used in the models described above include the timing of cash flows; the maturity and repricing of balance sheet assets and liabilities, especially option-embedded financial instruments like mortgage-backed securities; changes in market conditions; and interest-rate sensitivities of our client liabilities with respect to the interest rates paid and the level of balances. These assumptions are inherently uncertain and, as a result, the models cannot precisely predict future NIR or predict the impact of changes in interest rates on NIR and economic value. Actual results could differ from simulated results due to the timing, magnitude and frequency of changes in interest rates and market conditions, changes in spreads and management strategies, among other factors. Projections of potential future streams of NIR are assessed as part of our forecasting process.

The following table presents the estimated exposure of NIR for the next twelve months, calculated as of the dates indicated, due to an immediate ± 100 basis point shift in then-current interest rates. Estimated incremental exposures presented below are dependent on management's assumptions about asset and liability sensitivities under various interest-rate scenarios, such as those previously discussed, and do not reflect any additional actions management may undertake in order to mitigate some of the adverse effects of interest-rate changes on State Street's financial

performance.

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Table of ContentsMANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS (Continued)

NET INTEREST REVENUE AT RISK

(In millions)	Estimated Exposure to Net Interest Revenue	
	March 31, 2012	December 31, 2011
Rate change:		
+100 bps shock	\$225	\$235
-100 bps shock	(322	) (334
+100 bps ramp	79	79
-100 bps ramp	(151	) (158

As of March 31, 2012, NIR sensitivity to an upward-100-basis-point shock in market rates is largely unchanged compared to December 31, 2011. The impact of a larger fixed-rate investment portfolio was largely offset by higher projected levels of client deposits. The benefit to NIR for an upward-100-basis-point ramp, consistent with December 31, 2011, is less significant than a shock, since market rates are assumed to increase gradually.

NIR sensitivity to a downward-100-basis-point shock in market rates as of March 31, 2012 is also essentially consistent with December 31, 2011. Due to the exceptionally low interest-rate environment, deposit rates quickly reach their implicit floors and provide little funding relief on the liability side, while assets reset into the lower-rate environment, which continues to place downward pressure on NIR.

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

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

ECONOMIC VALUE OF EQUITY

(In millions)	Estimated Exposure to Economic Value of Equity	
	March 31, 2012	December 31, 2011
Rate change:		
+200 bps shock	\$(2,300	) \$(1,936
-200 bps shock	682	