SOUTHWESTERN ENERGY CO
Form 10-Q
May 01, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)
[X] Quarterly Report pursuant to Section 13 or 15(d) of the Securities

Exchange Act of 1934

For the quarterly period ended March 31, 2014

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 number: 1-08246

Southwestern Energy Company
(Exact name of registrant as specified in its charter)

Delaware	71-0205415
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2350 North Sam Houston Parkway East, Suite 125, Houston, Texas	77032
(Address of principal executive offices)	(Zip Code)

(281) 618-4700
(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)
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. Yesx 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). Yesx 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.
Large accelerated filer x Accelerated filer Non-accelerated filer Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No x
Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

Class	Outstanding as of April 28, 2014
Common Stock, Par Value $0.01	353,073,499

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SOUTHWESTERN ENERGY COMPANY

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FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2014

PART I – FINANCIAL INFORMATION

PART II – OTHER INFORMATION

CAUTIONARY STATEMENT ABOUT FORWARD-LOOKING STATEMENTS

All statements, other than historical fact or present financial information, may be deemed to be forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, ("Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended. All statements that address activities, outcomes and other matters that should or may occur in the future, including, without limitation, statements regarding the financial position, business strategy, production and reserve growth and other plans and objectives for our future operations, are forward-looking statements. Although we believe the expectations expressed in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance. We have no obligation and make no undertaking to publicly update or revise any forward-looking statements, except as may be required by law.

Forward-looking statements include the items identified in the preceding paragraph, information concerning possible or assumed future results of operations and other statements in this Form 10-Q identified by words such as “anticipate,” “project,” “intend,” “estimate,” “expect,” “believe,” “predict,” “budget,” “projection,” “goal,” “plan,” “forecast,” “target” or si

You should not place undue reliance on forward-looking statements. They are subject to known and unknown risks, uncertainties and other factors that may affect our operations, markets, products, services and prices and cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. In addition to any assumptions and other factors referred to specifically in connection with forward-looking statements, risks, uncertainties and factors that could cause our actual results to differ materially from those indicated in any forward-looking statement include, but are not limited to:

- the timing and extent of changes in market conditions and prices for natural gas and oil (including regional basis differentials);
- our ability to fund our planned capital investments;
- our ability to transport our production to the most favorable markets or at all;
- the timing and extent of our success in discovering, developing, producing and estimating reserves;

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- the economic viability of, and our success in drilling, our large acreage position in the Fayetteville Shale and the Marcellus Shale overall as well as relative to other productive shale gas plays and our competitors;
- the impact of government regulation, including any increase in severance or similar taxes, legislation relating to hydraulic fracturing, the climate and over the counter derivatives;
- the costs and availability of oilfield personnel, services and drilling supplies, raw materials, and equipment, including pressure pumping equipment and crews;
- our future property acquisition or divestiture activities;
- the impact of the adverse outcome of any material litigation against us;
- the effects of weather;
- increased competition and regulation;
- the financial impact of accounting regulations and critical accounting policies;
- the comparative cost of alternative fuels;
- the different risks and uncertainties associated with Canadian exploration and production;
- conditions in capital markets, changes in interest rates and the ability of our lenders to provide us with funds as agreed;
- credit risk relating to the risk of loss as a result of non-performance by our counterparties; and
- any other factors listed in the reports we have filed and may file with the Securities and Exchange Commission (“SEC”).

We caution you that forward-looking statements contained in this Form 10-Q are subject to all of the risks and uncertainties, many of which are beyond our control, incident to the exploration for and development, production and sale of natural gas and oil. These risks include, but are not limited to, commodity price volatility, third-party interruption of sales to market, inflation, lack of availability of goods and services, environmental risks, drilling and other operating risks, regulatory changes, the uncertainty inherent in estimating proved natural gas and oil reserves and in projecting future rates of production and timing of development expenditures and the other risks described in our Annual Report on Form 10-K for the year ended December 31, 2013 (the “2013 Annual Report on Form 10-K”), and all quarterly reports on Form 10-Q filed subsequently thereto, including this Form 10-Q (“Form 10-Qs”).

Should one or more of the risks or uncertainties described above or elsewhere in this Form 10-Q occur, or should underlying assumptions prove incorrect, our actual results and plans could differ materially from those expressed in any forward-looking statements. We specifically disclaim all responsibility to publicly update any information contained in a forward-looking statement or any forward-looking statement in its entirety and therefore disclaim any resulting liability for potentially related damages.

All forward-looking statements attributable to us are expressly qualified in their entirety by this cautionary statement.

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

SOUTHWESTERN ENERGY COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	For the three months ended March 31,	
	2014	2013
	(in thousands, except share/per share amounts)	
Operating Revenues:		
Gas sales	$ 793,352	$ 504,496
Gas marketing	272,161	179,841
Oil sales	2,048	5,350
Gas gathering	45,216	43,962
	1,112,777	733,649
Operating Costs and Expenses:		
Gas purchases – midstream services	271,120	179,956
Operating expenses	100,153	64,224
General and administrative expenses	56,387	37,215
Depreciation, depletion and amortization	225,076	179,467
Taxes, other than income taxes	25,422	20,827
	678,158	481,689
Operating Income	434,619	251,960
Interest Expense:		
Interest on debt	25,229	24,097
Other interest charges	1,062	1,110
Interest capitalized	(13,384)	(16,186)
	12,907	9,021
Other Gain (Loss), Net	1,193	(533)
Loss on Derivatives	(99,720)	(29,794)
Income Before Income Taxes	323,185	212,612
Provision for Income Taxes:		
Current	(520)	136
Deferred	129,515	84,961

	128,995	85,097
Net Income	$ 194,190	$ 127,515
Earnings Per Share:		
Basic	$ 0.55	$ 0.36
Diluted	$ 0.55	$ 0.36
Weighted Average Common Shares Outstanding:		
Basic	351,222,538	350,032,430
Diluted	351,985,821	350,738,309

The accompanying notes are an integral part of these

unaudited condensed consolidated financial statements.

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SOUTHWESTERN ENERGY COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	For the three months ended March 31,	
	2014	2013
	(in thousands)	
Net income	$ 194,190	$ 127,515
Change in derivatives:		
Settlements (1)	25,186	(47,173)
Ineffectiveness (2)	1,164	(781)
Change in fair value of derivative instruments (3)	(54,200)	(45,481)
Total change in derivatives	(27,850)	(93,435)
Change in value of pension and other postretirement liabilities:		
Amortization of prior service cost included in net periodic pension cost (4)	81	267
Change in currency translation adjustment	(2,856)	(1,029)
Comprehensive income	$ 163,565	$ 33,318

(1) Net of $16.8 and ($31.4) million in taxes for the three months ended March 31, 2014 and 2013, respectively.

(2) Net of $0.8 and ($0.5) million in taxes for the three months ended March 31, 2014 and 2013, respectively.

(3) Net of ($36.1) and ($30.3) million in taxes for the three months ended March 31, 2014 and 2013, respectively.

(4) Net of $0.1 and $0.2 million in taxes for the three months ended March 31, 2014 and 2013, respectively.

The accompanying notes are an integral part of these

unaudited condensed consolidated financial statements.

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SOUTHWESTERN ENERGY COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	March 31, 2014	December 31, 2013
ASSETS	(in thousands)	
Current assets:		
Cash and cash equivalents	$ 18,719	$ 22,938
Accounts receivable	542,037	464,045
Inventories	38,846	37,745
Derivative assets	11,444	70,871
Other current assets	72,055	48,576
Total current assets	683,101	644,175
Natural gas and oil properties, using the full cost method, including $878.7 million in 2014 and $956.5 million in 2013 excluded from amortization	13,773,604	13,293,841
Gathering systems	1,344,607	1,306,074
Other	709,856	702,544
Less: Accumulated depreciation, depletion and amortization	(8,225,394)	(8,005,836)
Total property and equipment, net	7,602,673	7,296,623
Other long-term assets	137,390	106,928
TOTAL ASSETS	$ 8,423,164	$ 8,047,726
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 642,744	$ 507,468
Taxes payable	55,156	68,019
Interest payable	14,109	33,485
Current deferred income taxes	–	24,353
Other current liabilities	123,146	54,686
Total current liabilities	835,155	688,011
Long-term debt	1,827,426	1,950,096
Deferred income taxes	1,694,196	1,532,329
Pension and other postretirement liabilities	16,413	15,823
Other long-term liabilities	249,534	239,437
Total long-term liabilities	3,787,569	3,737,685
Commitments and contingencies (Note 11)		
Equity:		
Common stock, $0.01 par value; authorized 1,250,000,000 shares; issued 353,083,763 shares in 2014 and 352,938,584 in 2013	3,531	3,529
Additional paid-in capital	985,396	970,524
Retained earnings	2,846,843	2,652,653
Accumulated other comprehensive loss	(34,967)	(4,342)

Common stock in treasury, 10,608 shares in 2014 and 9,924 in 2013	(363)	(334)
Total equity	3,800,440	3,622,030
TOTAL LIABILITIES AND EQUITY	$ 8,423,164	$ 8,047,726

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

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SOUTHWESTERN ENERGY COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For the three months ended March 31,	
	2014	2013
	(in thousands)	
Cash Flows From Operating Activities		
Net income	$ 194,190	$ 127,515
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	226,080	180,458
Deferred income taxes	129,515	84,961
Loss on derivatives, net of settlement	61,900	30,800
Stock-based compensation	4,490	2,994
Other	508	(476)
Change in assets and liabilities:		
Accounts receivable	(78,154)	(9,689)
Inventories	564	(1,944)
Accounts payable	94,346	7,312
Taxes payable	(12,863)	(14,177)
Interest payable	(9,512)	(7,245)
Advances from partners	56	(44,408)
Other assets and liabilities	(2,254)	16,037
Net cash provided by operating activities	608,866	372,138
Cash Flows From Investing Activities		
Capital investments	(533,787)	(483,634)
Proceeds from sale of property and equipment	16,794	–
Transfers from restricted cash	–	1,434
Other	1,309	1,038
Net cash used in investing activities	(515,684)	(481,162)
Cash Flows From Financing Activities		
Payments on revolving long-term debt	(1,131,300)	(369,700)
Borrowings under revolving long-term debt	1,008,600	404,800
Change in bank drafts outstanding	19,388	33,046
Proceeds from exercise of common stock options	5,983	4,799

Net cash (used in) provided by financing activities	(97,329)	72,945
Effect of exchange rate changes on cash	(72)	4
Decrease in cash and cash equivalents	(4,219)	(36,075)
Cash and cash equivalents at beginning of year	22,938	53,583
Cash and cash equivalents at end of period	$ 18,719	$ 17,508

The accompanying notes are an integral part of these

unaudited condensed consolidated financial statements.

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SOUTHWESTERN ENERGY COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(Unaudited)

	Common Stock Shares Issued	Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Common Stock in Treasury	Total
	(in thousands)						
Balance at December 31, 2013	352,939	$ 3,529	$ 970,524	$ 2,652,653	$ (4,342)	$ (334)	$ 3,622,030
Comprehensive income (loss):							
Net income	–	–	–	194,190	–	–	194,190
Other comprehensive loss	–	–	–	–	(30,625)	–	(30,625)
Total comprehensive income	–	–	–	194,190	(30,625)	–	163,565
Stock-based compensation	–	–	9,030	–	–	–	9,030
Exercise of stock options	177	2	5,841	–	–		5,843
Issuance of restricted stock	9	–	–	–	–	–	–
Cancellation of restricted stock	(41)	–	–	–	–	–	–
Treasury stock – non-qualified plan	–	–	1	–	–	(29)	(28)
Balance at March 31, 2014	353,084	$ 3,531	$ 985,396	$ 2,846,843	$ (34,967)	$ (363)	$ 3,800,440

The accompanying notes are an integral part of these

unaudited condensed consolidated financial statements.

SOUTHWESTERN ENERGY COMPANY AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(1) BASIS OF PRESENTATION

Southwestern Energy Company (including its subsidiaries, collectively, "we", "Southwestern" or the "Company") is an independent energy company engaged in natural gas and oil exploration, development and production. The Company engages in natural gas and oil exploration and production, natural gas gathering and natural gas marketing through its subsidiaries. Southwestern's exploration, development and production ("E&P") activities are focused within the United States. The Company is actively engaged in exploration and production activities in Arkansas, where we are targeting the unconventional gas reservoir known as the Fayetteville Shale, in Pennsylvania, where we are targeting the unconventional gas reservoir known as the Marcellus Shale, and to a lesser extent in Texas and in Arkansas and Oklahoma in the Arkoma Basin. The Company also actively seeks to find and develop new oil and natural gas plays with significant exploration and exploitation potential. Southwestern's natural gas gathering and marketing ("Midstream Services") activities primarily support the Company's E&P activities in Arkansas, Pennsylvania, Louisiana and Texas.

The accompanying unaudited condensed consolidated financial statements were prepared using accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and in accordance with the rules and regulations of the Securities and Exchange Commission. Certain information relating to the Company's organization and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been appropriately condensed or omitted in this Quarterly Report on Form 10-Q. The Company believes the disclosures made are adequate to make the information presented not misleading.

The unaudited condensed consolidated financial statements contained in this report include all normal and recurring material adjustments that, in the opinion of management, are necessary for a fair statement of the financial position, results of operations and cash flows for the interim periods presented herein. It is recommended that these unaudited condensed consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013 ("2013 Annual Report on Form 10-K").

The Company's significant accounting policies, which have been reviewed and approved by the Audit Committee of the Company's Board of Directors, are summarized in Note 1 in the Notes to the Consolidated Financial Statements included in the Company's 2013 Annual Report on Form 10-K.

Certain reclassifications have been made to the prior year financial statements to conform to the 2014 presentation. The effects of the reclassifications were not material to the Company's unaudited condensed consolidated financial statements.

(2) ACQUISITIONS AND DIVESTITURES

In March 2014, the Company signed an agreement to purchase approximately 312,000 net acres in northwest Colorado principally in the Niobrara formation for approximately $180 million, subject to closing adjustments. The Company utilized its Credit Facility to finance the acquisition. The Company closed on the acquisition on May 1, 2014 and plans to account for it as an asset acquisition.

In April 2013, the Company entered into a definitive purchase agreement to acquire natural gas properties located in Pennsylvania prospective for the Marcellus Shale for approximately $93 million, subject to closing conditions. The Company utilized its revolving credit facility to finance the acquisition. The Company closed on the acquisition during the second quarter of 2013 and accounted for it as an asset acquisition.

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(3) PREPAID EXPENSES

The components of prepaid expenses included in other current assets as of March 31, 2014 and December 31, 2013 consisted of the following:

	March 31, 2014	December 31, 2013
	(in thousands)	
Prepaid drilling costs	$ 6,362	$ 9,560
Prepaid insurance	4,766	7,619
Prepaid taxes	13,699	13,624
Total	$ 24,827	$ 30,803

(4) INVENTORY

Inventory recorded in current assets includes $2.3 million at March 31, 2014 and $3.7 million at December 31, 2013 for natural gas in underground storage owned by the Company's E&P segment, and $36.4 million at March 31, 2014 and $34.1 million at December 31, 2013 for tubular and other equipment used in the E&P segment.

Other long-term assets include $17.0 million at March 31, 2014 and $15.1 million at December 31, 2013, respectively, for inventory held by the Midstream Services segment consisting primarily of pipe that will be used to construct gathering systems.

(5) NATURAL GAS AND OIL PROPERTIES

The Company utilizes the full cost method of accounting for costs related to the exploration, development and acquisition of natural gas and oil reserves. Under this method, all such costs (productive and nonproductive), including salaries, benefits and other internal costs directly attributable to these activities are capitalized on a country by country basis and amortized over the estimated lives of the properties using the units-of-production method. These capitalized costs, less accumulated amortization and related deferred income taxes, are subject to a ceiling test that limits such pooled costs to the aggregate of the present value of future net revenues attributable to proved natural gas and oil reserves, net of taxes, discounted at 10 percent plus the lower of cost or market value of unproved properties. Any costs in excess of the ceiling are written off as a non-cash expense. The expense may not be reversed in future periods, even though higher natural gas and oil prices may subsequently increase the ceiling. Full cost companies must use the average quoted price from the first day of each month from the previous 12 months, including the impact of derivatives qualifying as cash flow hedges, to calculate the ceiling value of their reserves.

Using the average quoted price from the first day of each month from the previous 12 months for Henry Hub natural gas of $3.99 per MMBtu and $94.92 per barrel for West Texas Intermediate oil, adjusted for market differentials, the Company's net book value of its United States natural gas and oil properties did not exceed the ceiling amount and did not result in a ceiling test impairment at March 31, 2014. Cash flow hedges of natural gas production in place increased the ceiling value by $40.2 million, net of tax, at March 31, 2014. Decreases in average quoted prices from March 31, 2014 levels as well as changes in production rates, levels of reserves, capitalized costs, the evaluation of costs excluded from amortization, future development costs, service costs and taxes could result in future ceiling test impairments.

Using the average quoted price from the first day of each month from the previous 12 months for Henry Hub natural gas of $2.95 per MMBtu and $89.17 per barrel for West Texas Intermediate oil, adjusted for market differentials, the Company's net book value of its United States natural gas and oil properties did not exceed the ceiling amount and did not result in a ceiling test impairment at March 31, 2013. Cash flow hedges of natural gas production in place increased the ceiling by $185.8 million at March 31, 2013.

All of the Company's costs directly associated with the acquisition and evaluation of properties in Canada relating to its exploration program at March 31, 2014 were unproved and did not exceed the ceiling amount. If the exploration program in Canada is unsuccessful on all or a portion of these properties, a ceiling test impairment may result in the future.

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(6) EARNINGS PER SHARE

Basic EPS is computed by dividing net income (the numerator) by the weighted-average number of common shares outstanding for the period (the denominator). Diluted EPS is similarly calculated except that the denominator is increased using the treasury stock method to reflect the potential dilution that could occur if outstanding stock options were exercised and unvested restricted stock and performance unit awards were vested at the end of the applicable period.

The following table presents the computation of earnings per share for the three month period ended March 31, 2014 and 2013:

	For the three months ended March 31,	
	2014	2013
Net income (in thousands)	$ 194,190	$ 127,515
Number of common shares:		
Weighted average outstanding	351,222,538	350,032,430
Issued upon assumed exercise of outstanding stock options	348,798	579,022
Effect of issuance of nonvested restricted common stock	349,608	126,857
Effect of issuance of nonvested performance units	64,877	–
Weighted average and potential dilutive outstanding(1)	351,985,821	350,738,309
Earnings (loss) per share:		
Basic	$ 0.55	$ 0.36
Diluted	$ 0.55	$ 0.36

(1) Options for 1,179,914 shares and 29,688 shares of restricted stock were excluded from the calculation for the three months ended March 31, 2014 because they would have had an antidilutive effect. Options for 2,112,679 shares and 271,674 shares of restricted stock were excluded from the calculation for the three months ended March 31, 2013 because they would have had an antidilutive effect.

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(7) DERIVATIVES AND RISK MANAGEMENT

The Company is exposed to volatility in market prices and basis differentials for natural gas and crude oil which impacts the predictability of its cash flows related to the sale of natural gas and oil, and is exposed to volatility in interest rates. These risks are managed by the Company's use of certain derivative financial instruments. At March 31, 2014 and December 31, 2013, the Company's derivative financial instruments consisted of fixed price swaps, basis swaps, fixed price call options, and interest rate swaps. A description of the Company's derivative financial instruments is provided below:

Fixed price swaps	The Company receives a fixed price for the contract and pays a floating market price to the counterparty.
Basis swaps	Arrangements that guarantee a price differential for natural gas from a specified delivery point. The Company receives a payment from the counterparty if the price differential is greater than the stated terms of the contract and pays the counterparty if the price differential is less than the stated terms of the contract.
Fixed price call options	The Company sells fixed price call options in exchange for a premium. At the time of settlement, if the market price exceeds the fixed price of the call option, the Company pays the counterparty such excess on sold fixed price call options. If the market price settles below the fixed price of the call option, no payment is due from either party.
Interest rate swaps	Interest-rate swaps are used to fix or float interest rates on existing or anticipated indebtedness. The purpose of these instruments is to manage the Company's existing or anticipated exposure to unfavorable interest-rate changes.

GAAP requires that all derivatives be recognized in the balance sheet as either an asset or liability and be measured at fair value other than transactions for which normal purchase/normal sale is applied. Under GAAP, certain criteria must be satisfied in order for derivative financial instruments to be classified and accounted for as either a cash flow or a fair value hedge. Accounting for qualifying hedges requires a derivative's gains and losses to be recorded either in earnings or as a component of other comprehensive income. Gains and losses on derivatives that are not elected for hedge accounting treatment or that do not meet hedge accounting requirements are recorded in earnings as a component of gain (loss) on derivatives. Within the gain (loss) on derivatives component of the statement of operations are gains (losses) on derivatives, net of settlement and gains (losses) on derivatives, settled. The Company calculates gains (losses) on derivatives, settled, as the summation of gains and losses on positions which have settled within the period.

The Company utilizes counterparties for its derivative instruments that it believes are credit-worthy at the time the transactions are entered into and the Company closely monitors the credit ratings of these counterparties. Additionally, the Company performs both quantitative and qualitative assessments of these counterparties based on their credit ratings and credit default swap rates where applicable. However, the events in the financial markets in recent years demonstrate there can be no assurance that a counterparty will be able to meet its obligations to the Company.

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The balance sheet classification of the assets related to derivative financial instruments are summarized below at March 31, 2014 and December 31, 2013:

	Derivative Assets March 31, 2014 Balance Sheet Classification	Fair Value	December 31, 2013 Balance Sheet Classification	Fair Value
	(in thousands)			
Derivatives designated as hedging instruments:				
Fixed price swaps	Derivative assets	$ 1,362	Derivative assets	$ 20,631
Total derivatives designated as hedging instruments		$ 1,362		$ 20,631
Derivatives not designated as hedging instruments:				
Basis swaps	Derivative assets	$ 9,692	Derivative assets	$ 12,858
Fixed price swaps	Derivative assets	390	Derivative assets	37,382
Basis swaps	Other long-term assets	–	Other long-term assets	107
Fixed price swaps	Other long-term assets	30,245	Other long-term assets	–
Interest rate swaps	Other long-term assets	5,464	Other long-term assets	7,525
Total derivatives not designated as hedging instruments		$ 45,791		$ 57,872
Total derivative assets		$ 47,153		$ 78,503

	Derivative Liabilities March 31, 2014 Balance Sheet Classification	Fair Value	December 31, 2013 Balance Sheet Classification	Fair Value
	(in thousands)			
Derivatives designated as hedging instruments:				
Fixed price swaps	Other current liabilities	$ 32,971	Other current liabilities	$ 3,884
Total derivatives designated as hedging instruments		$ 32,971		$ 3,884
Derivatives not designated as hedging instruments:				
Basis swaps	Other current liabilities	$ 7,808	Other current liabilities	$ 1,501
Fixed price swaps	Other current liabilities	16,022	Other current liabilities	185

Fixed price call options	Other current liabilities	17,273	Other current liabilities	–
Interest rate swaps	Other current liabilities	2,177	Other current liabilities	1,520
Basis swaps	Other long-term liabilities	603	Other long-term liabilities	–
Fixed price call options	Other long-term liabilities	40,029	Other long-term liabilities	30,388
Interest rate swaps	Other long-term liabilities	2,495	Other long-term liabilities	3,012
Total derivatives not designated as hedging instruments		$ 86,407		$ 36,606
Total derivative liabilities		$ 119,378		$ 40,490

As of March 31, 2014, the Company had derivatives designated as cash flow hedges and derivatives not designated as hedges on the following volumes of natural gas production (in Bcf):

Year	Fixed price swaps	Fixed price swaps not designated for hedge accounting	Total
2014	211.8	136.8	348.6
2015	-	119.5	119.5

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Cash Flow Hedges

The reporting of gains and losses on cash flow derivative hedging instruments depends on whether the gains or losses are effective at offsetting changes in the cash flows of the hedged item. The effective portion of the gains and losses on the derivative hedging instruments are recorded in other comprehensive income until recognized in earnings during the period that the hedged transaction takes place. The ineffective portion of the gains and losses from the derivative hedging instrument is recognized in earnings immediately.

As of March 31, 2014, the Company recorded a net loss in accumulated other comprehensive income related to its hedging activities of $18.6 million net of a deferred income tax benefit of $12.4 million. The amount recorded in accumulated other comprehensive income will be relieved over time and recognized in the statement of operations as the physical transactions being hedged occur. Assuming the market prices of natural gas futures as of March 31, 2014 remain unchanged, the Company would expect to transfer an aggregate after-tax net loss of $18.6 million from accumulated other comprehensive income to earnings during the next 12 months. Gains or losses from derivative instruments designated as cash flow hedges are reflected as adjustments to natural gas sales in the consolidated statements of operations. Volatility in net income, comprehensive income and comprehensive income may occur in the future as a result of the Company's derivative activities.

The following tables summarize the before tax effect of all cash flow hedges on the unaudited condensed consolidated financial statements for the three-month period ended March 31, 2014 and 2013:

Derivative Instrument	Loss Recognized in Other Comprehensive Income (Effective Portion) For the three months ended March 31,	
	2014	2013
	(in thousands)	

Fixed price swaps		$ (90,334)	$ (73,902)

Derivative Instrument	Classification of Gain (Loss) Reclassified from Accumulated Other Comprehensive Income into Earnings (Effective Portion)	Gain (Loss) Reclassified from Accumulated Other Comprehensive Income into Earnings (Effective Portion) For the three months ended March 31, 2014	2013
		(in thousands)	
Fixed price swaps	Gas sales	$ (41,978)	$ 78,621

Derivative Instrument	Classification of Gain (Loss) Recognized in Earnings (Ineffective Portion)	Gain (Loss) Recognized in Earnings (Ineffective Portion) For the three months ended March 31, 2014	2013
		(in thousands)	
Fixed price swaps	Gas sales	$ (1,940)	$ 1,301

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Fair Value Hedges and Other Derivative Contracts

For fair value hedges, the gain or loss on the derivative instrument as well as the offsetting gain or loss on the hedged item are recognized in earnings immediately.

Although the Company’s basis swaps meet the objective of managing commodity price exposure, these trades are typically not entered into concurrent with the Company’s derivative instruments that qualify as cash flow hedges and therefore do not generally qualify for hedge accounting. Basis swap derivative instruments that are not designated for hedge accounting are recorded on the balance sheet at their fair values under derivative assets, other long-term assets, other current liabilities, and other long-term liabilities, as applicable and all gains and losses related to these contracts are recognized immediately in the consolidated statement of operations as a component of gain (loss) on derivatives.

As of March 31, 2014, the Company had basis swaps on natural gas production that were not designated for hedge accounting of 21.1 Bcf, 8.7 Bcf, and 0.9 Bcf in 2014, 2015, and 2016, respectively.

As of March 31, 2014, the Company had fixed price call options on 199.8 Bcf and 119.9 Bcf of 2015 and 2016 natural gas production, respectively, not designated for hedge accounting treatment and fixed price swaps of 136.8 Bcf and 119.5 Bcf of 2014 and 2015 natural gas production not designated for hedge accounting.

The Company is a party to interest rate swaps that were entered into in order to mitigate the Company’s exposure to volatility in interest rates related to construction of its new corporate office complex. The interest rate swaps build to a notional amount of $170.0 million and expire on June 20, 2020. The Company did not designate the interest rate swaps for hedge accounting. Changes in the fair value of the interest rate swaps are included in gain (loss) on derivatives in the consolidated statements of operations.

The following table summarizes the before tax effect of fair value hedges, fixed price call and basis swaps that were not designated for hedge accounting, and fixed price swaps and interest rate swaps not designated for hedge accounting on the uncondensed consolidated statements of operations for the three-month period ended March 31, 2014 and 2013:

Derivative Instrument	Consolidated Statement of Operations Classification of Gain (Loss) on Derivatives, Net of Settlement	Gain (Loss) on Derivatives net of settlement Recognized in Earnings For the three months ended March 31, 2014		2013	
		(in thousands)			
Basis swaps	Gain (Loss) on Derivatives	$	(10,184)	$	(2,950)
Fixed price call options	Gain (Loss) on Derivatives	$	(26,913)	$	(57,082)
Fixed price swaps	Gain (Loss) on Derivatives	$	(22,585)	$	29,232
Interest rate swaps	Gain (Loss) on Derivatives	$	(2,202)	$	–

Derivative Instrument	Consolidated Statement of Operations Classification of Gain (Loss) on Derivatives, Settled (1)	Gain (Loss) on Derivatives, Settled (1) Recognized in Earnings For the three months ended March 31, 2014		2013	
		(in thousands)			
Basis swaps	Gain (Loss) on Derivatives	$	(14,270)	$	1,007
Fixed price swaps	Gain (Loss) on Derivatives	$	(23,453)	$	–
Interest rate swaps	Gain (Loss) on Derivatives	$	(113)	$	–

(1) The Company calculates gain (loss) on derivatives, settled, as the summation of gains and losses on positions that have settled within the period reported.

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(8) RECLASSIFICATIONS FROM ACCUMULATED OTHER COMPREHENSIVE LOSS

The following tables detail the components of accumulated other comprehensive loss and the related tax effects for the three months ended March 31, 2014:

	For the three months ended March 31, 2014 (in thousands) (1)			
	Gains and Losses on Cash Flow Hedges	Pension and Other Postretirement	Foreign Currency	Total
Beginning balance, December 31, 2013	$ 9,270	$ (9,558)	$ (4,054)	$ (4,342)
Other comprehensive loss before reclassifications	(54,200)	–	(2,856)	(57,056)
Amounts reclassified from accumulated other comprehensive loss (2)	26,350	81	–	26,431
Net current-period other comprehensive income (loss)	(27,850)	81	(2,856)	(30,625)
Ending balance, March 31,2014	$ (18,580)	$ (9,477)	$ (6,910)	$ (34,967)

(1) All amounts are net-of-tax.
(2) See separate table below for details about these reclassifications.

The following table details the amounts reclassified from accumulated other comprehensive loss into earnings for the three months ended March 31, 2014:

Details about Accumulated Other Comprehensive Loss	Affected Line Item in the Consolidated Statement of	Amount Reclassified from Accumulated Other Comprehensive

	Operations	Loss For the three months ended March 31, 2014 (in thousands)
Gains (losses) on cash flow hedges		
Settlements	Gas sales	$ (41,978)
Ineffectiveness	Gas sales	(1,940)
	Income before income taxes	(43,918)
	Provision for income taxes	(17,568)
	Net income	$ (26,350)
Pension and other postretirement		
Amortization of prior service cost included in net periodic pension cost (1)	General and administrative expenses	$ (135)
	Loss before income taxes	(135)
	Benefit for income taxes	(54)
	Net loss	$ (81)
Total reclassifications for the period	Net income	$ (26,431)

(1) Included in the computation of net periodic pension cost (see Footnote 13 for additional details).

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(9) FAIR VALUE MEASUREMENTS

The carrying amounts and estimated fair values of the Company’s financial instruments as of March 31, 2014 and December 31, 2013 were as follows:

	March 31, 2014		December 31, 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in thousands)			
Cash and cash equivalents	$ 18,719	$ 18,719	$ 22,938	$ 22,938
Credit facility	$ 160,200	$ 160,200	$ 282,900	$ 282,900
Senior notes	$ 1,668,426	$ 1,825,949	$ 1,668,396	$ 1,795,935
Derivative instruments	$ (72,225)	$ (72,225)	$ 38,013	$ 38,013

The carrying values of cash and cash equivalents, accounts receivable, accounts payable, other current assets and current liabilities on the unaudited condensed consolidated balance sheets approximate fair value because of their short-term nature. For debt and derivative instruments, the following methods and assumptions were used to estimate fair value:

Debt: The fair values of the Company’s senior notes were based on the market for the Company’s publicly-traded debt as determined based on yield of the Company’s 7.5% Senior Notes due 2018, which was 2.4% at March 31, 2014 and 2.6% at December 31, 2013, and its 4.10% Senior Notes due 2022, which was 3.7% a-family:Times New Roman" SIZE="1">495 9,180 7,098 (2,265) 432 (17) 14,491

Comprehensive income:

Net income

1,473 1,473

Change in net unrealized loss on available-for-sale securities, net of reclassification adjustment and net of related taxes of $1,059

1,653 1,653

Change in net unrealized loss on available-for-sale securities designated in fair value hedges, net of related taxes of $(56)

(80) (80)

Expected losses from other-than-temporary impairment of held-to-maturity securities related to factors other than credit, net of related taxes of $(24)

(31) (31)

Foreign currency translation, net of related taxes of $153

(61) (61)

Change in net unrealized loss on cash flow hedges, net of related taxes

6 6

Change in minimum pension liability, net of related taxes of $(2)

(4) (4)

Total comprehensive income

1,473 1,483 2,956

Cash dividends declared $.03 per common share

(15) (15)

Common stock awards and options exercised, including related taxes of $(11)

6,663 7 130 137

Other

6

Balance at September 30, 2010

502,029	$502	$9,310	$8,556	$(782)	438	$(17)	$17,569

Balance at December 31, 2010

502,064 $502 $9,356 $8,634 $(689) 420 $(16) $17,787

Comprehensive income:

Net income

1,539 **1,539**

Change in net unrealized loss on available-for-sale securities, net of reclassification adjustment and net of related taxes of $318

449 **449**

Change in net unrealized loss on available-for-sale securities designated in fair value hedges, net of related taxes of $(63)

(96) **(96)**

Expected losses from other-than-temporary impairment of held-to-maturity securities related to factors other than credit, net of related taxes of $8

13 **13**

Foreign currency translation, net of related taxes of $(7)

10 **10**

Change in net unrealized loss on cash flow hedges, net of related taxes of $2

6 **6**

Change in minimum pension liability, net of related taxes of $23

(8) **(8)**

Total comprehensive income

1,539 374 1,913

Preferred stock issued

$500 500

Cash dividends declared:

Common stock $.54 per share

(271) (271)

Preferred stock

(13) (13)

Common stock acquired

10,700 (450) (450)

Common stock awards and options exercised, including related taxes of $(13)

1,937 2 183 (197) 10 195

Other

(11) (4) 1 (10)

Balance at September 30, 2011

$500	**504,001**	**$504**	**$9,528**	**$9,889**	**$(315)**	**10,919**	**$(455)**	**$19,651**

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

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STATE STREET CORPORATION

CONSOLIDATED STATEMENT OF CASH FLOWS

(UNAUDITED)

(In millions)	Nine Months Ended September 30, 2011	2010
Operating Activities:		
Net income	**$ 1,539**	$ 1,473
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred income tax expense (benefit)	**(96)**	209
Amortization of other intangible assets	**149**	132
Other non-cash adjustments for depreciation, amortization and accretion	**116**	(360)
Gains related to investment securities, net	**(25)**	(62)
Change in trading account assets, net	**(1,297)**	(1,337)
Change in accrued income receivable	**(199)**	(270)
Change in collateral deposits, net	**(1,919)**	879
Change in trading liabilities, net	**785**	139
Other, net	**(1,166)**	189
Net cash (used in) provided by operating activities	**(2,113)**	992
Investing Activities:		
Net (increase) decrease in interest-bearing deposits with banks	**(14,250)**	2,072
Net increase in securities purchased under resale agreements	**(3,130)**	(1,554)
Proceeds from sales of available-for-sale securities	**11,056**	17,634
Proceeds from maturities of available-for-sale securities	**33,705**	26,781
Purchases of available-for-sale securities	**(58,901)**	(49,443)
Proceeds from maturities of held-to-maturity securities	**2,779**	4,223
Purchases of held-to-maturity securities	**(455)**	(426)
Net increase in loans	**(52)**	(3,117)
Business acquisitions, net of cash acquired	**(77)**	(2,246)
Purchases of equity investments and other long-term assets	**(69)**	(95)
Purchases of premises and equipment	**(209)**	(157)
Other, net	**280**	326
Net cash used in investing activities	**(29,323)**	(6,002)
Financing Activities:		
Net increase in time deposits	**566**	3,286
Net increase in all other deposits	**36,087**	11,686
Net increase (decrease) in short-term borrowings	**1,606**	(7,638)
Proceeds from issuance of long-term debt, net of issuance costs	**1,986**	
Payments for long-term debt and obligations under capital leases	**(2,474)**	(335)
Proceeds from issuance of preferred stock	**500**	
Proceeds from exercises of common stock options	**40**	8
Purchases of common stock	**(450)**	
Repurchases of common stock for employee tax withholding	**(60)**	(40)
Proceeds from issuance of treasury stock for stock awards and options exercised	**10**	
Payments for cash dividends	**(199)**	(15)
Net cash provided by financing activities	**37,612**	6,952

Net increase	**6,176**	1,942
Cash and due from banks at beginning of period	**3,311**	2,641
Cash and due from banks at end of period	**$ 9,487**	$ 4,583

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

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STATE STREET CORPORATION

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Condensed Notes to Consolidated Financial Statements (Unaudited)

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STATE STREET CORPORATION

Condensed Notes to Consolidated Financial Statements (Unaudited)

Note 1. Basis of Presentation

The accounting and financial reporting policies of State Street Corporation conform to U.S. generally accepted accounting principles, referred to as GAAP. State Street Corporation, the parent company, is a financial holding company headquartered in Boston, Massachusetts. Unless otherwise indicated or unless the context requires otherwise, all references in these condensed notes to consolidated financial statements to State Street, we, us, our or similar references mean State Street Corporation and its subsidiaries on a consolidated basis. Our principal banking subsidiary, State Street Bank and Trust Company, is referred to as State Street Bank.

The consolidated financial statements accompanying these condensed notes are unaudited. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, which are necessary for a fair statement of the consolidated results of operations in these financial statements, have been made. Certain previously reported amounts have been reclassified to conform to current period classifications as presented in this Form 10-Q. Events occurring subsequent to the date of our consolidated statement of condition were evaluated for potential recognition or disclosure in our consolidated financial statements through the date we filed this Form 10-Q with the SEC.

The preparation of consolidated financial statements requires management to make estimates and assumptions in the application of certain of our accounting policies that may materially affect the reported amounts of assets, liabilities, revenue and expenses. As a result of unanticipated events or circumstances, actual results could differ from those estimates. Amounts dependent on subjective or complex judgments in the application of accounting policies considered by management to be relatively more significant in this regard are those associated with our accounting for fair value measurements; interest revenue recognition and other-than-temporary impairment; and impairment of goodwill and other intangible assets. Among other effects, unanticipated events or circumstances could result in future impairment of investment securities, goodwill or other intangible assets, and the recognition of varying amounts of interest revenue from discount accretion related to certain investment securities.

Our consolidated statement of condition at December 31, 2010 included in the accompanying consolidated financial statements was derived from the audited financial statements at that date, but does not include all footnotes required by GAAP for a complete set of financial statements. The accompanying consolidated financial statements and these condensed notes should be read in conjunction with the financial and risk factors information included in our 2010 Form 10-K, which we previously filed with the SEC.

In September 2011, the FASB issued an amendment to GAAP that modifies existing guidance with respect to impairment of goodwill. The amendment provides companies with an option to perform a qualitative assessment to determine whether further impairment testing is necessary. The amendment is effective, for State Street, for interim and annual periods beginning on January 1, 2012. Adoption of the amendment is not expected to have a material effect on our consolidated financial statements.

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

STATE STREET CORPORATION

Condensed Notes to Consolidated Financial Statements (Continued)

(Unaudited)

Note 1. Basis of Presentation (Continued)

In May 2011, the FASB issued an amendment to GAAP associated with fair value measurement and related disclosures. While the amendment is not expected to significantly affect current practice, it clarifies the FASB s intent about the application of existing fair value measurement requirements, and requires the disclosure of additional quantitative information about fair value measurements. The amendment includes guidance about, among other things, how a principal market is determined and the measurement of fair value of instruments with offsetting market or counterparty credit risks. The amendment is effective, for State Street, for interim and annual periods beginning on January 1, 2012, and is required to be applied prospectively. Adoption of the amendment is not expected to have a material effect on our consolidated financial statements from a fair value measurement perspective. However, adoption is expected to result in additional disclosures in our consolidated financial statements.

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

In April 2011, the FASB issued an amendment to GAAP related to the identification and disclosure of troubled debt restructurings. The amendment clarifies that the inability of a borrower to access funds at a market rate for debt with characteristics similar to the restructured debt may be an indicator of a concession being granted. The amendment also clarifies that when evaluating whether a borrower is experiencing financial difficulty, a creditor must consider whether a borrower s default on any of its debt is probable in the foreseeable future, rather than wait for an actual default to occur. The amendment is effective, for State Street, as of July 1, 2011, and applies retroactively to restructurings occurring on or after January 1, 2011. The disclosures required by the amendment are provided in note 4.

Note 2. Acquisitions

On January 10, 2011, we completed our acquisition of Bank of Ireland s asset management business, or BIAM, in a cash acquisition financed through available capital. We acquired BIAM to expand our overall presence in Ireland, where we already provide services to institutional clients, to provide a range of investment management products. In connection with our acquisition of BIAM, we recorded $31 million of goodwill and $27 million of other intangible assets in our consolidated statement of condition, and added approximately $23 billion to our assets under management as of March 31, 2011. The assets under management are not recorded in our consolidated financial statements. Results of operations of the acquired BIAM business are included in our consolidated financial statements beginning on January 10, 2011.

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

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STATE STREET CORPORATION

Condensed Notes to Consolidated Financial Statements (Continued)

(Unaudited)

Note 2. Acquisitions (Continued)

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

With respect to the acquired Intesa business, we may be entitled to adjust the purchase price, to allow for a return of a portion of the purchase price, should we lose the business of certain key clients during a defined period subsequent to the closing of the transaction. This contingent asset, which was approximately $55 million as of September 30, 2011, compared to approximately $72 million as of December 31, 2010, will be re-measured to fair value at each reporting date through the end of the defined purchase price adjustment period, with any changes in its fair value recorded in our consolidated statement of income.

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

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STATE STREET CORPORATION

Condensed Notes to Consolidated Financial Statements (Continued)

(Unaudited)

Note 3. Investment Securities

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

	September 30, 2011				December 31, 2010			
	Amortized	Gross Unrealized		Fair	Amortized	Gross Unrealized		Fair
(In millions)	Cost	Gains	Losses	Value	Cost	Gains	Losses	Value
Available for sale:								
U.S. Treasury and federal agencies:								
Direct obligations	**$ 5,287**	**$ 80**	**$ 2**	**$ 5,365**	$ 7,505	$ 74	$ 2	$ 7,577
Mortgage-backed securities	**27,373**	**660**	**7**	**28,026**	23,398	325	83	23,640
Asset-backed securities:								
Student loans(1)	**17,111**	**80**	**658**	**16,533**	14,975	92	652	14,415
Credit cards	**10,450**	**60**	**15**	**10,495**	7,578	56	31	7,603
Sub-prime	**1,931**	**2**	**447**	**1,486**	2,161	3	346	1,818
Other	**3,288**	**172**	**122**	**3,338**	2,550	175	156	2,569
Total asset-backed securities	**32,780**	**314**	**1,242**	**31,852**	27,264	326	1,185	26,405
Non-U.S. debt securities:								
Mortgage-backed securities	**9,363**	**99**	**70**	**9,392**	6,258	82	46	6,294
Asset-backed securities	**3,790**	**2**	**11**	**3,781**	1,790	13	17	1,786
Government securities	**3,014**			**3,014**	2,915			2,915
Other	**1,066**	**42**	**9**	**1,099**	990	34	2	1,022
Total non-U.S. debt securities	**17,233**	**143**	**90**	**17,286**	11,953	129	65	12,017
State and political subdivisions	**6,853**	**198**	**155**	**6,896**	6,706	102	204	6,604
Collateralized mortgage obligations	**3,105**	**46**	**59**	**3,092**	1,828	49	16	1,861
Other U.S. debt securities	**3,127**	**148**	**14**	**3,261**	2,438	116	18	2,536
U.S. equity securities	**606**	**2**		**608**	1,115			1,115
Non-U.S. equity securities	**209**	**1**	**1**	**209**	122	5	1	126
Total	**$ 96,573**	**$ 1,592**	**$ 1,570**	**$ 96,595**	$ 82,329	$ 1,126	$ 1,574	$ 81,881
Held to maturity:								
U.S. Treasury and federal agencies:								
Mortgage-backed securities	**$ 299**	**$ 21**		**$ 320**	$ 413	$ 26		$ 439
Asset-backed securities	**38**		**$ 4**	**34**	64		$ 5	59
Non-U.S. debt securities:								
Mortgage-backed securities	**5,174**	**112**	**215**	**5,071**	6,332	166	160	6,338
Asset-backed securities	**574**	**16**	**3**	**587**	646	18	3	661
Government securities	**3**			**3**				
Other	**193**		**16**	**177**	208		2	206

Total non-U.S. debt securities	**5,944**	**128**	**234**	**5,838**	7,186	184	165	7,205
State and political subdivisions	**113**	**3**		**116**	134	3		137
Collateralized mortgage obligations	**3,624**	**227**	**57**	**3,794**	4,452	328	44	4,736
Total	**$ 10,018**	**$ 379**	**$ 295**	**$ 10,102**	$ 12,249	$ 541	$ 214	$ 12,576

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

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STATE STREET CORPORATION

Condensed Notes to Consolidated Financial Statements (Continued)

(Unaudited)

Note 3. Investment Securities (Continued)

Aggregate investment securities carried at $45.02 billion and $44.81 billion at September 30, 2011 and December 31, 2010, respectively, were designated as pledged for public and trust deposits, short-term borrowings and for other purposes as provided by law.

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

(In millions)	Under 1 Year	1 to 5 Years	6 to 10 Years	Over 10 Years
Available for sale:				
U.S. Treasury and federal agencies:				
Direct obligations	$ 1,966	$ 1,095	$ 1,589	$ 715
Mortgage-backed securities	3	1,672	10,407	15,944
Asset-backed securities:				
Student loans	134	4,715	7,883	3,801
Credit cards	1,961	6,294	2,240	
Sub-prime	781	153	10	542
Other	133	1,730	1,118	357
Total asset-backed securities	3,009	12,892	11,251	4,700
Non-U.S. debt securities:				
Mortgage-backed securities	293	1,957	266	6,876
Asset-backed securities	53	949	2,320	459
Government securities	3,014			
Other	38	942	118	1
Total non-U.S. debt securities	3,398	3,848	2,704	7,336
State and political subdivisions	467	2,742	2,743	944
Collateralized mortgage obligations	68	1,419	562	1,043
Other U.S. debt securities	242	2,156	824	39
Total	$ 9,153	$ 25,824	$ 30,080	$ 30,721
Held to maturity:				
U.S. Treasury and federal agencies:				
Mortgage-backed securities		$ 67	$ 73	$ 159
Asset-backed securities				38
Non-U.S. debt securities:				
Mortgage-backed securities	$ 1,245	558	44	3,327
Asset-backed securities	47	292	235	
Government securities	3			

Other		176		17
Total non-U.S. debt securities	1,295	1,026	279	3,344
State and political subdivisions	57	56		
Collateralized mortgage obligations	358	1,789	347	1,130
Total	$ 1,710	$ 2,938	$ 699	$ 4,671

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STATE STREET CORPORATION

Condensed Notes to Consolidated Financial Statements (Continued)

(Unaudited)

Note 3. Investment Securities (Continued)

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

Impairment

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

Our review of impaired securities generally includes:

- the identification and evaluation of securities that have indications of possible other-than-temporary impairment, such as issuer-specific concerns, including deteriorating financial condition or bankruptcy;
- the analysis of expected future cash flows of securities, based on quantitative and qualitative factors;
- the analysis of the collectability of those future cash flows, including information about past events, current conditions and reasonable and supportable forecasts;
- the analysis of individual impaired securities, including consideration of the length of time the security has been in an unrealized loss position, the anticipated recovery period, and the magnitude of the overall price decline;
- discussion and evaluation of factors or triggers that could cause individual securities to be deemed other-than-temporarily impaired and those that would not support other-than-temporary impairment; and
- documentation of the results of these analyses.

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

- the length of time the security has been impaired;

- the severity of the impairment;
- the cause of the impairment and the financial condition and near-term prospects of the issuer;
- activity in the market of the issuer which may indicate adverse credit conditions; and
- our intention not to sell, and the likelihood that we will not be required to sell, the security for a period of time sufficient to allow for recovery in value.

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

STATE STREET CORPORATION

Condensed Notes to Consolidated Financial Statements (Continued)

(Unaudited)

Note 3. Investment Securities (Continued)

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

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

Mortgage- and Asset-Backed Securities

For recent vintages of U.S. mortgage-backed securities (in particular, sub-prime first-lien mortgages, Alt-A mortgages and home equity lines of credit (2006 and 2007 originations) that have significant unrealized losses as a percentage of their amortized cost), other-than-temporary impairment related to credit is assessed using cash flow models, tailored for each security, that estimate the future cash flows from the underlying mortgages, using the security-specific collateral and transaction structure. Estimates of future cash flows are subject to management judgment. The future cash flows and performance of our portfolio of U.S. mortgage-backed securities are a function of a number of factors, including, but not limited to, the condition of the U.S. economy, the condition of the U.S. residential mortgage markets, and the level of loan defaults, prepayments and loss severities. Management s estimates of future losses for each security also consider the underwriting and historical performance of our specific securities, the underlying collateral type, vintage, borrower profile, third-party guarantees, current levels of subordination, geography and other factors.

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

	Sub-Prime ARM	Alt-A	Non-Agency Prime
September 30, 2011:			
Prepayment rate	**1-3%**	**3-5%**	**6-8%**
Cumulative loss estimates	**46-54**	**26-39**	**10-19**
Loss severity(1)	**70-72**	**59-61**	**52-54**
Peak-to-trough housing price decline(2)	**36**	**36**	**36**

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

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

Peak-to-trough housing price decline[2]	35-40	35-40	35-40

(1) Loss severity rates consider the initial loan-to-value ratio, lien position, geography, expected collateral value and other factors.
(2) Management s expectation of the Case-Shiller National Home Price Index.

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STATE STREET CORPORATION

Condensed Notes to Consolidated Financial Statements (Continued)

(Unaudited)

Note 3. Investment Securities (Continued)

For securities that relate to these vintages, other-than-temporary impairment has been recorded on certain assets when both fair value was below carrying value and a credit loss existed. During the three and nine months ended September 30, 2011, we recorded credit-related other-than-temporary impairment on securities in these vintages of $1 million and $9 million, respectively. For the three months ended September 30, 2011, none of this impairment related to sub-prime first-lien mortgages or to Alt-A mortgages, while $2 million and $3 million related to sub-prime first-lien mortgages and Alt-A mortgages, respectively, for the first nine months of 2011. For the same three- and nine-month periods, $1 million and $4 million, respectively, related to non-agency prime mortgages. During the three and nine months ended September 30, 2010, we recorded credit-related other-than-temporary impairment on securities in these vintages of $59 million and $158 million, respectively, with $6 million and $26 million, respectively, related to sub-prime first-lien mortgages, $19 million and $43 million, respectively, related to Alt-A mortgages and $34 million and $89 million, respectively, related to non-agency prime mortgages.

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

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

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

The assumptions presented above are used by management to identify those securities which are subject to further analysis of potential credit losses. Additional analyses are performed using more severe assumptions to further evaluate sensitivity of losses relative to the above factors. However, since the assumptions are based on the unique characteristics of each security, management uses a range of point estimates for prepayment speeds and housing prices that reflect the collateral profile of the securities within each asset class. In addition, in measuring expected credit losses, the individual characteristics of each security are examined to determine whether any additional factors would increase or mitigate the expected loss. Once losses are determined, the

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STATE STREET CORPORATION

Condensed Notes to Consolidated Financial Statements (Continued)

(Unaudited)

Note 3. Investment Securities (Continued)

timing of the loss will also affect the ultimate other-than-temporary impairment, since the loss is ultimately subject to a discount commensurate with the purchase yield of the security. Primarily as a result of rising delinquencies and management s continued expectation of declining housing prices, we recorded credit-related other-than-temporary impairment of $10 million and $56 million during the three and nine months ended September 30, 2011, respectively.

After a review of the investment portfolio, taking into consideration current economic conditions, adverse situations that might affect our ability to fully collect principal and interest, the timing of future payments, the credit quality and performance of the collateral underlying asset-backed securities and other relevant factors, and excluding the securities for which other-than-temporary impairment was recorded during the nine months ended September 30, 2011, management considers the aggregate decline in fair value of the remaining securities and the resulting gross pre-tax unrealized losses of $1.87 billion related to 1,773 securities as of September 30, 2011 to be temporary and not the result of any material changes in the credit characteristics of the securities.

STATE STREET CORPORATION

Condensed Notes to Consolidated Financial Statements (Continued)

(Unaudited)

Note 3. Investment Securities (Continued)

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

September 30, 2011	Less than 12 months		12 months or longer		Total	
(In millions)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available for sale:						
U.S. Treasury and federal agencies:						
Direct obligations	$ 1,873	$ 1	$ 75	$ 1	$ 1,948	$ 2
Mortgage-backed securities	1,716	5	388	2	2,104	7
Asset-backed securities:						
Student loans	2,258	14	10,360	644	12,618	658
Credit cards	2,336	7	1,530	8	3,866	15
Sub-prime	17	2	1,440	445	1,457	447
Other	939	16	1,146	106	2,085	122
Total asset-backed securities	5,550	39	14,476	1,203	20,026	1,242
Non-U.S. debt securities:						
Mortgage-backed securities	4,769	38	1,050	32	5,819	70
Asset-backed securities	2,118	5	47	6	2,165	11
Other	243	9			243	9
Total non-U.S. debt securities	7,130	52	1,097	38	8,227	90
State and political subdivisions	463	6	1,524	149	1,987	155
Collateralized mortgage obligations	1,670	53	32	6	1,702	59
Other U.S. debt securities	331	4	61	10	392	14
Non-U.S. equity securities	5	1			5	1
Total	$ 18,738	$ 161	$ 17,653	$ 1,409	$ 36,391	$ 1,570
Held to maturity:						
Asset-backed securities			$ 34	$ 4	$ 34	$ 4
Non-U.S. debt securities:						
Mortgage-backed securities	$ 245	$ 14	1,319	201	1,564	215
Asset-backed securities			65	3	65	3
Other			145	16	145	16
Total non-U.S. debt securities	245	14	1,529	220	1,774	234

Collateralized mortgage obligations		**770**		**38**		**234**		**19**		**1,004**		**57**
Total	**$**	**1,015**	**$**	**52**	**$**	**1,797**	**$**	**243**	**$**	**2,812**	**$**	**295**

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STATE STREET CORPORATION

Condensed Notes to Consolidated Financial Statements (Continued)

(Unaudited)

Note 3. Investment Securities (Continued)

December 31, 2010 (In millions)	Less than 12 months Fair Value	Less than 12 months Gross Unrealized Losses	12 months or longer Fair Value	12 months or longer Gross Unrealized Losses	Total Fair Value	Total Gross Unrealized Losses
Available for sale:						
U.S. Treasury and federal agencies:						
Direct obligations			$ 153	$ 2	$ 153	$ 2
Mortgage-backed securities	$ 6,639	$ 81	431	2	7,070	83
Asset-backed securities:						
Student loans	1,980	25	8,457	627	10,437	652
Credit cards	1,268	5	2,396	26	3,664	31
Sub-prime			1,769	346	1,769	346
Other	269	3	1,122	153	1,391	156
Total asset-backed securities	3,517	33	13,744	1,152	17,261	1,185
Non-U.S. debt securities:						
Mortgage-backed securities	2,621	22	370	24	2,991	46
Asset-backed securities			54	17	54	17
Other	348	2			348	2
Total non-U.S. debt securities	2,969	24	424	41	3,393	65
State and political subdivisions	1,097	19	1,967	185	3,064	204
Collateralized mortgage obligations	494	5	109	11	603	16
Other U.S. debt securities	330	7	61	11	391	18
Non-U.S. equity securities	8	1			8	1
Total	$ 15,054	$ 170	$ 16,889	$ 1,404	$ 31,943	$ 1,574
Held to maturity:						
Asset-backed securities			$ 53	$ 5	$ 53	$ 5
Non-U.S. debt securities:						
Mortgage-backed securities	$ 1,445	$ 72	862	88	2,307	160
Asset-backed securities			68	3	68	3
Other	206	2			206	2
Total non-U.S. debt securities	1,651	74	930	91	2,581	165
Collateralized mortgage obligations	125	2	575	42	700	44
Total	$ 1,776	$ 76	$ 1,558	$ 138	$ 3,334	$ 214

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STATE STREET CORPORATION

Condensed Notes to Consolidated Financial Statements (Continued)

(Unaudited)

Note 3. Investment Securities (Continued)

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

(In millions)	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Gross realized gains from sales of available-for-sale securities	**$ 24**	$ 110	**$ 93**	$ 313
Gross realized losses from sales of available-for-sale securities	**(9)**	(19)	**(12)**	(27)
Gross losses from other-than-temporary impairment	**(25)**	(132)	**(104)**	(612)
Losses not related to credit	**15**	58	**48**	388
Net impairment losses	**(10)**	(74)	**(56)**	(224)
Gains related to investment securities, net	**$ 5**	$ 17	**$ 25**	$ 62
Impairment associated with expected credit losses	**$ (7)**	$ (71)	**$ (36)**	$ (201)
Impairment associated with management s intent to sell the impaired securities prior to their recovery in value		(1)	**(8)**	(1)
Impairment associated with adverse changes in timing of expected future cash flows	**(3)**	(2)	**(12)**	(22)
Net impairment losses	**$ (10)**	$ (74)	**$ (56)**	$ (224)

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

(In millions)	2011	2010
Beginning balance	**$ 63**	$ 175
Plus expected credit-related losses for which other-than-temporary impairment was not previously recognized	**9**	87
Plus expected credit-related losses for which other-than-temporary impairment was previously recognized	**39**	136
Less losses realized for securities sold	**(13)**	(8)
Less losses related to securities intended or required to be sold	**(2)**	(1)
Ending balance	**$ 96**	$ 389

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

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STATE STREET CORPORATION

Condensed Notes to Consolidated Financial Statements (Continued)

(Unaudited)

Note 4. Loans and Leases

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

(In millions)	September 30, 2011	December 31, 2010
Institutional:		
Investment funds:		
U.S.	**$ 6,456**	$ 5,316
Non-U.S.	**1,505**	1,478
Commercial and financial:		
U.S.	**637**	540
Non-U.S.	**207**	190
Purchased receivables:		
U.S.	**673**	728
Non-U.S.	**403**	1,471
Lease financing:		
U.S.	**399**	417
Non-U.S.	**857**	1,053
Total institutional	**11,137**	11,193
Commercial real estate:		
U.S.	**603**	764
Total loans and leases	**11,740**	11,957
Allowance for loan losses	**(22)**	(100)
Loans and leases, net of allowance for loan losses	**$ 11,718**	$ 11,857

The institutional segment included aggregate short-duration advances to our clients of $3.81 billion and $2.63 billion as of September 30, 2011 and December 31, 2010, respectively. These advances, which we provide in support of clients investment activities associated with securities settlement, fluctuate based on the volume of securities transactions, and are largely short-term in nature.

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

September 30, 2011	Institutional				Commercial Real Estate			
(In millions)	Investment Funds	Commercial and Financial	Purchased Receivables	Lease Financing	Property Development	Other Acquired Credit-Impaired	Other	Total Loans and Leases
Investment grade	**$ 7,843**	**$ 714**	**$ 1,076**	**$ 1,197**	**$ 1**	**$ 3**	**$ 37**	**$ 10,871**
Speculative	**118**	**129**		**59**	**379**	**31**	**95**	**811**
Special mention		**1**						**1**
Doubtful					**52**	**5**		**57**

Total	**$ 7,961**	**$ 844**	**$ 1,076**	**$ 1,256**	**$ 432**	**$ 39**	**$ 132**	**$ 11,740**

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STATE STREET CORPORATION

Condensed Notes to Consolidated Financial Statements (Continued)

(Unaudited)

Note 4. Loans and Leases (Continued)

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

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

In October 2011, we completed a deed-in-lieu-of-foreclosure agreement with respect to an acquired commercial real estate, or CRE, property development loan with a recorded investment of $52 million as of September 30, 2011, and took title to the underlying property. The loan was part of the portfolio acquired in 2008 pursuant to indemnified repurchase agreements with an affiliate of Lehman as a result of the Lehman Brothers bankruptcy. In connection with the agreement, in October 2011, the property was recorded in other assets as other real estate owned in our consolidated statement of condition at its fair value of $52 million and we charged off our recorded investment in the loan. The fair value of the property is net of estimated costs to sell it. During the three months ended September 30, 2011, we charged off the related allowance for loan losses of $24 million. This transaction had no impact on our consolidated statement of income.

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

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STATE STREET CORPORATION

Condensed Notes to Consolidated Financial Statements (Continued)

(Unaudited)

Note 4. Loans and Leases (Continued)

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

	Institutional		Commercial Real Estate		Total Loans and Leases	
(In millions)	September 30, 2011	December 31, 2010	September 30, 2011	December 31, 2010	September 30, 2011	December 31, 2010
Loans and leases:						
Individually evaluated for impairment	**$ 93**	$ 112	**$ 564**	$ 623	**$ 657**	$ 735
Collectively evaluated for impairment	**11,044**	11,081			**11,044**	11,081
Loans acquired with deteriorated credit quality			**39**	141	**39**	141
Total	**$ 11,137**	$ 11,193	**$ 603**	$ 764	**$ 11,740**	$ 11,957
Allowance for loan losses:						
Individually evaluated for impairment				$ 24		$ 24
Collectively evaluated for impairment	**$ 22**	$ 31			**$ 22**	31
Loans acquired with deteriorated credit quality				45		45
Total	**$ 22**	$ 31		$ 69	**$ 22**	$ 100

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

	As of September 30, 2011			Three Months Ended September 30, 2011		Nine Months Ended September 30, 2011		As of December 31, 2010		
(In millions)	Recorded Investment	Unpaid Principal Balance	Related Allowance(1)	Average Recorded Investment	Interest Revenue Recognized	Average Recorded Investment	Interest Revenue Recognized	Recorded Investment	Unpaid Principal Balance	Related Allowance(1)
With no related allowance recorded:										
CRE property development	**$ 251**	**$ 347**		**$ 274**	**$ 4**	**$ 280**	**$ 12**	$ 209	$ 240	
CRE property development acquired credit-impaired		**34**				**6**			34	
CRE other acquired credit-impaired	**8**	**69**		**23**		**46**		16	47	
CRE other	**2**	**3**		**3**		**7**	**1**	27	29	
With an allowance recorded:										
CRE property development								79	113	$ 24
CRE property development acquired credit-impaired								42	47	19
CRE other acquired credit impaired	**31**	**37**		**31**		**31**	**1**	83	100	26

CRE other	7	9	7		7		7	9	
Total CRE	**$ 299**	**$ 499**	**$ 338**	**$ 4**	**$ 377**	**$ 14**	$ 463	$ 619	$ 69

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

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STATE STREET CORPORATION

Condensed Notes to Consolidated Financial Statements (Continued)

(Unaudited)

Note 4. Loans and Leases (Continued)

As of September 30, 2011, we held an aggregate of approximately $260 million of CRE loans which were modified in troubled debt restructurings, or TDRs, compared to $307 million as of December 31, 2010. No impairment loss was recognized upon restructuring of the loans, as the discounted cash flows of the modified loans exceeded the carrying amount of the original loans as of the modification date. During the nine months ended September 30, 2011, no loans were modified in troubled debt restructurings.

No institutional loans or leases were 90 days or more contractually past-due as of September 30, 2011 or December 31, 2010. Although a portion of the CRE loans was 90 days or more contractually past-due as of September 30, 2011 and December 31, 2010, we do not report them as past-due loans pursuant to GAAP that governs the accounting for acquired credit-impaired loans.

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

(In millions)	September 30, 2011	December 31, 2010
Commercial Real Estate:		
Property development	**$ 52**	$ 79
Property development acquired credit-impaired		42
Other acquired credit-impaired	**5**	22
Other		15
Total	**$ 57**	$ 158

The loans presented in the table above were placed on non-accrual status by management because the yield associated with those loans was deemed to be non-accretable, based on the expected future collection of principal and interest from the loans. The property development loan of $52 million presented in the table was transferred to other real estate owned in October 2011 in connection with the previously-described deed-in-lieu-of-foreclosure agreement. The acquired credit-impaired property development loan of $42 million presented in the table was foreclosed upon and transferred to other real estate owned in March 2011, as described previously in this note.

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

	Three Months Ended September 30, 2011			2010
(In millions)	Institutional	Commercial Real Estate	Total Loans and Leases	Total Loans and Leases
Allowance for loan losses:				
Beginning balance	**$ 22**	**$ 32**	**$ 54**	$ 102
Charge-offs		**(32)**	**(32)**	(1)
Provisions				1
Other				(1)

Ending balance	**$ 22**	**$**	**$ 22**	$ 101

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STATE STREET CORPORATION

Condensed Notes to Consolidated Financial Statements (Continued)

(Unaudited)

Note 4. Loans and Leases (Continued)

(In millions)	Nine Months Ended September 30, 2011 Institutional	Commercial Real Estate	Total Loans and Leases	2010 Total Loans and Leases
Allowance for loan losses:				
Beginning balance	**$ 31**	**$ 69**	**$ 100**	$ 79
Charge-offs		**(79)**	**(79)**	(4)
Provisions	**(9)**	**10**	**1**	26
Ending balance	**$ 22**	**$**	**$ 22**	$ 101

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

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

Note 5. Goodwill and Other Intangible Assets

The following table presents changes in the carrying amount of goodwill during the nine months ended September 30:

	2011			2010		
(In millions)	Investment Servicing	Investment Management	Total	Investment Servicing	Investment Management	Total
Beginning balance	**$ 5,591**	**$ 6**	**$ 5,597**	$ 4,544	$ 6	$ 4,550
Acquisitions	**1**	**32**	**33**	991		991
Foreign currency translation, net	**11**	**(2)**	**9**	(20)		(20)
Ending balance	**$ 5,603**	**$ 36**	**$ 5,639**	$ 5,515	$ 6	$ 5,521

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Condensed Notes to Consolidated Financial Statements (Continued)

(Unaudited)

Note 5. Goodwill and Other Intangible Assets (Continued)

The following table presents changes in the net carrying amount of other intangible assets during the nine months ended September 30:

(In millions)	2011 Investment Servicing	2011 Investment Management	2011 Total	2010 Investment Servicing	2010 Investment Management	2010 Total
Beginning balance	**$ 2,559**	**$ 34**	**$ 2,593**	$ 1,760	$ 50	$ 1,810
Acquisitions		**28**	**28**	1,139		1,139
Amortization	**(142)**	**(7)**	**(149)**	(124)	(8)	(132)
Foreign currency translation, net	**14**	**(2)**	**12**	(5)	(1)	(6)
Other		**2**	**2**	4	(3)	1
Ending balance	**$ 2,431**	**$ 55**	**$ 2,486**	$ 2,774	$ 38	$ 2,812

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

(In millions)	September 30, 2011 Gross Carrying Amount	September 30, 2011 Accumulated Amortization	September 30, 2011 Net Carrying Amount	December 31, 2010 Net Carrying Amount
Client relationships	**$ 2,375**	**$ (627)**	**$ 1,748**	$ 1,821
Core deposits	**712**	**(110)**	**602**	627
Other	**218**	**(82)**	**136**	145
Total	**$ 3,305**	**$ (819)**	**$ 2,486**	$ 2,593

Note 6. Other Assets

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

(In millions)	September 30, 2011	December 31, 2010
Unrealized gains on derivative financial instruments	**$ 11,363**	$ 5,255
Collateral deposits	**7,507**	3,251
Receivable for securities sold	**372**	122
Accounts receivable	**746**	290
Deferred tax assets, net of valuation allowance	**1,619**	1,786

Investments in joint ventures and other unconsolidated entities	**1,002**	927
Income taxes receivable	**560**	530
Prepaid expenses	**389**	382
Other	**1,146**	1,298
Total	**$ 24,704**	$ 13,841

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STATE STREET CORPORATION

Condensed Notes to Consolidated Financial Statements (Continued)

(Unaudited)

Note 7. Long-Term Debt

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

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

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

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

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

Note 8. Commitments and Contingencies

Off-Balance Sheet Commitments and Contingencies

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

STATE STREET CORPORATION

Condensed Notes to Consolidated Financial Statements (Continued)

(Unaudited)

Note 8. Commitments and Contingencies (Continued)

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

(In millions)	September 30, 2011	December 31, 2010
Aggregate fair value of indemnified securities financing	**$ 357,485**	$ 334,235
Aggregate fair value of cash and securities held as collateral for indemnified securities financing	**370,985**	343,410
Aggregate fair value of collateral for indemnified securities financing invested in indemnified repurchase agreements[1]	**111,680**	89,069
Aggregate fair value of cash and securities held as collateral for indemnified repurchase agreements	**116,931**	93,294

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

Legal Proceedings

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

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

STATE STREET CORPORATION

Condensed Notes to Consolidated Financial Statements (Continued)

(Unaudited)

Note 8. Commitments and Contingencies (Continued)

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

Two related participants in our agency securities lending program have brought suit against us challenging actions taken by us in response to their withdrawal from the program. We believe that certain withdrawals by these participants were inconsistent with the redemption policy applicable to the agency lending collateral pools and, consequently, redeemed their remaining interests through an in-kind distribution that reflected the assets these participants would have received had they acted in accordance with the collateral pools redemption policy. The participants have asserted damages of $120 million, an amount that plaintiffs have stated was the difference between the amortized cost and market value of the assets that State Street proposed to distribute to the plans in-kind in or about August 2009. While management does not believe that such difference is an appropriate measure of damages, as of September 30, 2010, the last date on which State Street acted as custodian for the participants, the difference between the amortized cost and market value of the in-kind distribution was approximately $49 million, and if such securities were still held by the participants on such date, would have been approximately $32 million as of September 30, 2011. In taking these actions, we believe that we acted in the best interests of all participants in the collateral pools. We have not established a reserve with respect to this litigation.

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

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

We offer our custody clients and their investment managers the option to route foreign exchange transactions to our foreign exchange desk through our asset servicing operation. We record as revenue an amount approximately equal to the difference between the rates we set for those trades and indicative interbank market rates at the time of execution of the trade. For example, for the nine months ended September 30, 2011, our indirect foreign exchange revenue was estimated to be approximately $259 million. As discussed more fully below, claims have been asserted on behalf of certain current and former custody clients, and future claims may be asserted, alleging that our indirect foreign exchange rates (including the differences between those rates and indicative interbank market rates) were not adequately disclosed or were otherwise improper, and seeking to recover, among other things, the full amount of the revenue we earned from our indirect foreign exchange trading with them.

In October 2009, the Attorney General of the State of California commenced an action under the California False Claims Act and California Business and Professional Code related to services State Street provides to California state pension plans. The California Attorney General asserts that the pricing of certain foreign exchange transactions for these pension plans was governed by the custody contracts for these plans and that our

STATE STREET CORPORATION

Condensed Notes to Consolidated Financial Statements (Continued)

(Unaudited)

Note 8. Commitments and Contingencies (Continued)

pricing was not consistent with the terms of those contracts and related disclosures to the plans, and that, as a result, State Street made false claims and engaged in unfair competition. The Attorney General asserted actual damages of $56 million for periods from 2001 to 2009 and seeks additional penalties.

During the third quarter of 2010, we entered into a $12 million settlement with the State of Washington. This settlement resolves a contract dispute related to the manner in which we priced some foreign exchange transactions during our ten-year relationship with the State of Washington that ended in 2007. Our contractual obligations to the State of Washington were significantly different from those presented in our ongoing litigation in California.

We provide indirect and direct foreign exchange services to government pension plans in other jurisdictions, and attorneys general from many of these other jurisdictions, as well as U.S. Attorney s offices, the SEC and other regulators, have made inquiries or issued subpoenas concerning our foreign exchange pricing. We continue to respond to such inquiries and subpoenas.

In February 2011, a putative class action was filed in federal court in Boston seeking unspecified damages, including treble damages, on behalf of all custodial clients that executed certain foreign exchange transactions with State Street from 1998 to 2009. The putative class action alleges, among other things, that the rates at which State Street executed foreign currency trades constituted an unfair and deceptive practice and a breach of the duty of loyalty. In October 2011, a second putative class action was filed in federal court in Baltimore alleging various violations of ERISA on behalf of all ERISA plans custodied with us that executed indirect foreign exchange transactions with State Street between 2005 and 2009.

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

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

We have claims against Lehman entities, referred to as Lehman, in bankruptcy proceedings in the U.S. and the U.K. We also have amounts that we owe, or return obligations, to Lehman. The various claims and amounts

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STATE STREET CORPORATION

Condensed Notes to Consolidated Financial Statements (Continued)

(Unaudited)

Note 8. Commitments and Contingencies (Continued)

owed have arisen from transactions that existed at the time Lehman entered bankruptcy, including foreign exchange transactions, securities lending arrangements and repurchase agreements. During the third quarter of 2011, we reached agreement with certain Lehman bankruptcy estates in the U.S. to resolve the value of deficiency claims arising out of indemnified repurchase transactions in the U.S., and the bankruptcy court has allowed those claims in the amount of $400 million. We are in discussions with other Lehman bankruptcy administrators and would expect over time to resolve or obtain greater clarity on the other outstanding claims. We continue to believe that our allowed and/or realizable claims against Lehman exceed our potential return obligations, but the ultimate outcomes of these matters cannot be predicted with certainty. In addition, given the complexity of these matters, it remains likely that the resolution of these matters could occur in different periods.

Tax Contingencies

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

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

Unrecognized tax benefits as of September 30, 2011 totaled approximately $235 million, compared to approximately $419 million as of December 31, 2010. Substantially all of the change was associated with the impact of our agreement with the IRS concerning our treatment of SILO transactions and the related closing of the IRS audit of tax years 2000 2003. We expect that unrecognized tax benefits will further decrease by up to $158 million during the fourth quarter as a result of the closing of the IRS audit of tax years 2004 2006 and related state filings.

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

Other Contingencies

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

STATE STREET CORPORATION

Condensed Notes to Consolidated Financial Statements (Continued)

(Unaudited)

Note 8. Commitments and Contingencies (Continued)

As of September 30, 2011 and December 31, 2010, the aggregate notional amount of the contingencies associated with these products, which are individually accounted for as derivative financial instruments, totaled $41.99 billion and $46.76 billion, respectively. The notional amounts of these contingencies are presented as derivatives not designated as hedging instruments in the table of aggregate notional amounts of derivative financial instruments provided in note 12. As of September 30, 2011, we have not made a payment under these contingencies that we consider material to our consolidated financial condition, and management believes that the probability of payment under these contingencies in the future that we would consider material to our consolidated financial condition is remote.

Note 9. Variable Interest Entities

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

Tax-Exempt Investment Program

In the normal course of our business, we structure and sell certificated interests in pools of tax-exempt investment-grade assets, principally to our mutual fund clients. We structure these pools as partnership trusts, and the assets and liabilities of the trusts are recorded in our consolidated statement of condition as investment securities available for sale and other short-term borrowings. We may also provide liquidity and re-marketing services to the trusts. As of both September 30, 2011 and December 31, 2010, we carried investment securities available for sale, composed of securities related to state and political subdivisions, with a fair value of $2.85 billion, and as of the same dates we carried other short-term borrowings of $2.38 billion and $2.50 billion, respectively, in our consolidated statement of condition in connection with these trusts.

We transfer assets to the trusts from our investment securities portfolio at adjusted book value, and the trusts finance the acquisition of these assets by selling certificated interests issued by the trusts to third-party investors and to State Street as residual holder. These transfers do not meet the de-recognition criteria defined by GAAP, and therefore are recorded in our consolidated financial statements. The trusts had a weighted-average life of approximately 7.4 years at September 30, 2011, compared to approximately 7.7 years at December 31, 2010.

Under separate legal agreements, we provide standby bond-purchase agreements to these trusts, which obligate State Street to acquire the certificated interests at par value in the event that the re-marketing agent is unable to place the certificated interests with investors. Our obligations as provider of the standby bond-purchase agreements terminate in the event of the following credit events: payment default, bankruptcy of the issuer and the credit enhancer, if any, the imposition of taxability, or the downgrade of an asset held by the trust below investment grade. Our commitments to the trusts under these standby bond-purchase agreements totaled $2.42 billion at September 30, 2011, none of which was utilized at period-end. In the event that our obligations under these agreements are triggered, no material impact to our consolidated results of operations or financial condition is expected to occur, because the securities are already recorded at fair value in our consolidated statement of condition.

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STATE STREET CORPORATION

Condensed Notes to Consolidated Financial Statements (Continued)

(Unaudited)

Note 9. Variable Interest Entities (Continued)

Asset-Backed Commercial Paper Program

We sponsor and administer multi-seller asset-backed commercial paper programs, or conduits, which are recorded in our consolidated financial statements. These conduits were originally designed to satisfy the demand of our institutional clients, particularly mutual fund clients, for commercial paper. The conduits purchase financial assets with various asset classifications from a variety of independent third parties, and we consider the activities of the conduits in our liquidity management process. The conduits hold diversified investments, which are primarily asset-backed securities purchased from independent third parties, collateralized by student loans, automobile and equipment loans and credit card receivables, among other asset types. As of September 30, 2011 and December 31, 2010, we carried investment securities, composed primarily of asset-backed securities, with an aggregate carrying value of $294 million and $5.01 billion, respectively, and loans, composed of purchased receivables, with a recorded investment of $1.08 billion and $2.20 billion, respectively, in our consolidated statement of condition in connection with the conduits. In addition, as of December 31, 2010 we carried aggregate short-term borrowings, composed of commercial paper, of $1.92 billion in connection with the conduits. There was no commercial paper outstanding to third parties as of September 30, 2011 associated with the conduits.

Collateralized Debt Obligations

We serve as collateral manager for a series of collateralized debt obligations, referred to as CDOs. A CDO is a structured investment vehicle which purchases a portfolio of assets funded through the issuance of several classes of debt and equity, the repayment of and return on which are linked to the performance of the underlying assets. We have determined that we are not the primary beneficiary of these VIEs, and do not record them in our consolidated financial statements. At both September 30, 2011 and December 31, 2010, the aggregate notional amount of these CDOs was $1.0 billion. At September 30, 2011 and December 31, 2010, the carrying amount of the underlying collateral was $275 million and $323 million, respectively. We have not acquired or transferred any investment securities to a CDO since 2005.

Note 10. Shareholders Equity

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

In March 2011, our Board of Directors approved a new program authorizing the purchase by us of up to $675 million of our common stock in 2011. This new program superseded the Board s prior authorization under which 13.25 million common shares were available for purchase as of December 31, 2010. During the period from April 1, 2011 through September 30, 2011, we purchased and recorded as treasury stock a total of approximately 10.7 million shares of our common stock, at an average cost per share of approximately $42.06

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STATE STREET CORPORATION

Condensed Notes to Consolidated Financial Statements (Continued)

(Unaudited)

Note 10. Shareholders Equity (Continued)

and an aggregate cost of approximately $450 million. As of September 30, 2011, approximately $225 million of purchase authorization remained. We may employ third-party broker/dealers to acquire shares on the open market in connection with our common stock purchase programs.

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

(In millions)	September 30, 2011	December 31, 2010
Foreign currency translation	$ **226**	$ 216
Net unrealized loss on hedges of net investments in non-U.S. subsidiaries	**(14)**	(14)
Net unrealized gain (loss) on available-for-sale securities portfolio	**253**	(90)
Net unrealized loss related to reclassified available-for-sale securities	**(215)**	(317)
Net unrealized gain (loss) on available-for-sale securities	**38**	(407)
Net unrealized loss on available-for-sale securities designated in fair value hedges	**(231)**	(135)
Expected losses from other-than-temporary impairment on available-for-sale securities related to factors other than credit	**(13)**	(17)
Expected losses from other-than-temporary impairment on held-to-maturity securities related to factors other than credit	**(98)**	(111)
Net unrealized loss on cash flow hedges	**(5)**	(11)
Minimum pension liability	**(218)**	(210)
Total	$ **(315)**	$ (689)

For the nine months ended September 30, 2011, we realized net gains of $81 million from sales of available-for-sale securities. Unrealized pre-tax gains of $65 million were included in other comprehensive income, or OCI, at December 31, 2010, net of deferred taxes of $26 million, related to these sales. For the nine months ended September 30, 2010, we realized net gains of $286 million from sales of available-for-sale securities. Unrealized pre-tax gains of $102 million were included in OCI at December 31, 2009, net of deferred taxes of $41 million, related to these sales.

The following table presents total comprehensive income for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2011	2010	2011	2010
Net income	**$ 555**	$ 546	**$ 1,539**	$ 1,473
Other comprehensive (loss) income	**(475)**	925	**374**	1,483

Total comprehensive income	**$ 80**	$ 1,471	**$ 1,913**	$ 2,956

STATE STREET CORPORATION

Condensed Notes to Consolidated Financial Statements (Continued)

(Unaudited)

Note 11. Fair Value

Fair Value Measurements

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

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

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

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

a) Quoted prices for similar assets or liabilities in active markets;

b) Quoted prices for identical or similar assets or liabilities in non-active markets;

c) Pricing models whose inputs are observable for substantially the full term of the asset or liability; and

d) Pricing models whose inputs are derived principally from, or corroborated by, observable market information through correlation or other means for substantially the full term of the asset or liability.

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

STATE STREET CORPORATION

Condensed Notes to Consolidated Financial Statements (Continued)

(Unaudited)

Note 11. Fair Value (Continued)

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

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

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

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

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

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

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

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STATE STREET CORPORATION

Condensed Notes to Consolidated Financial Statements (Continued)

(Unaudited)

Note 11. Fair Value (Continued)

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

	Fair Value Measurements on a Recurring Basis as of September 30, 2011				
(In millions)	Quoted Market Prices in Active Markets (Level 1)	Pricing Methods with Significant Observable Market Inputs (Level 2)	Pricing Methods with Significant Unobservable Market Inputs (Level 3)	Impact of Netting[1]	Total Net Carrying Value in Consolidated Statement of Condition
Assets:					
Trading account assets:					
U.S. government securities	$ 171				$ 171
Non-U.S. government securities	1,582				1,582
Other	45	$ 138			183
Investment securities available for sale:					
U.S. Treasury and federal agencies:					
Direct obligations	4,141	1,202	$ 22		5,365
Mortgage-backed securities		26,527	1,499		28,026
Asset-backed securities:					
Student loans		15,584	949		16,533
Credit cards		10,184	311		10,495
Sub-prime		1,486			1,486
Other		605	2,733		3,338
Total asset-backed securities		27,859	3,993		31,852
Non-U.S. debt securities		14,944	2,342		17,286
State and political subdivisions		6,845	51		6,896
Collateralized mortgage obligations		2,742	350		3,092
Other U.S. debt securities		3,259	2		3,261
U.S. equity securities		608			608
Non-U.S. equity securities	8	201			209
Total investment securities available for sale	4,149	84,187	8,259		96,595
Other assets:					
Derivative instruments:					
Foreign exchange contracts		20,339	311		
Interest-rate contracts		1,443	11		
Other		2			
Total derivative instruments		21,784	322	$ (10,743)	11,363
Other	148				148

Total assets carried at fair value	$ 6,095	$ 106,109	$ 8,581	$ (10,743)	$ 110,042
Liabilities:					
Accrued expenses and other liabilities:					
Trading account liabilities:					
U.S. government securities	$ 35				$ 35
Non-U.S. government securities	1,661				1,661
Derivative instruments:					
Foreign exchange contracts		$ 20,878	$ 298		
Interest-rate contracts		1,692	23		
Other		1			
Total derivative instruments		22,571	321	$ (10,743)	12,149
Other	148	1	11		160
Total liabilities carried at fair value	$ 1,844	$ 22,572	$ 332	$ (10,743)	$ 14,005

(1) Represents counterparty netting against level 2 financial assets and liabilities, where a legally enforceable master netting agreement exists between State Street and the counterparty. This netting cannot be disaggregated by type of derivative instrument.

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STATE STREET CORPORATION

Condensed Notes to Consolidated Financial Statements (Continued)

(Unaudited)

Note 11. Fair Value (Continued)

(In millions)	Quoted Market Prices in Active Markets (Level 1)	Pricing Methods with Significant Observable Market Inputs (Level 2)	Pricing Methods with Significant Unobservable Market Inputs (Level 3)	Impact of Netting[1]	Total Net Carrying Value in Consolidated Statement of Condition
	Fair Value Measurements on a Recurring Basis as of December 31, 2010				
Assets:					
Trading account assets:					
U.S. government securities	$ 20				$ 20
Non-U.S. government securities	297				297
Other	40	$ 122			162
Investment securities available for sale:					
U.S. Treasury and federal agencies:					
Direct obligations	6,529	1,048			7,577
Mortgage-backed securities		22,967	$ 673		23,640
Asset-backed securities:					
Student loans		13,181	1,234		14,415
Credit cards		7,560	43		7,603
Sub-prime		1,818			1,818
Other		569	2,000		2,569
Total asset-backed securities		23,128	3,277		26,405
Non-U.S. debt securities		10,872	1,145		12,017
State and political subdivisions		6,554	50		6,604
Collateralized mortgage obligations		1,502	359		1,861
Other U.S. debt securities		2,533	3		2,536
U.S. equity securities		1,115			1,115
Non-U.S. equity securities	7	119			126
Total investment securities available for sale	6,536	69,838	5,507		81,881
Other assets:					
Derivatives instruments:					
Foreign exchange contracts		7,804	254		
Interest-rate contracts		165			
Other		2			
Total derivative instruments		7,971	254	$ (2,970)	5,255
Other	168				168
Total assets carried at fair value	$ 7,061	$ 77,931	$ 5,761	$ (2,970)	$ 87,783
Liabilities:					
Accrued expenses and other liabilities:					
Trading account liabilities:					
U.S. government securities	$ 210				$ 210

Non-U.S. government securities	345				345
Derivative instruments:					
Foreign exchange contracts		$ 8,195	$ 260		
Interest-rate contracts	1	358	9		
Other		1			
Total derivative instruments	1	8,554	269	$ (2,970)	5,854
Other	168	3			171
Total liabilities carried at fair value	$ 724	$ 8,557	$ 269	$ (2,970)	$ 6,580

(1) Represents counterparty netting against level 2 financial assets and liabilities, where a legally enforceable master netting agreement exists between State Street and the counterparty. This netting cannot be disaggregated by type of derivative instrument.

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STATE STREET CORPORATION

Condensed Notes to Consolidated Financial Statements (Continued)

(Unaudited)

Note 11. Fair Value (Continued)

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

	Fair Value Measurements Using Significant Unobservable Inputs Three Months Ended September 30, 2011										
				Total Realized and Unrealized Gains (Losses)							
(In millions)	Fair Value at June 30, 2011	Transfers into Level 3	Transfers out of Level 3	Recorded in Revenue	Recorded in Other Comprehensive Income	Purchases	Issuances	Sales	Settlements	Fair Value at September 30, 2011	Change in Unrealized Gains (Losses) Related to Financial Instruments Held at September 30, 2011
Assets:											
Investment securities available for sale:											
U.S. Treasury and federal agencies:											
Direct obligations	$ 17		**$ (17)**			**$ 22**				**$ 22**	
Mortgage-backed securities	932				**$ 2**	**590**			**$ (25)**	**1,499**	
Asset-backed securities:											
Student loans	1,289		**(379)**	**$ (1)**	**(6)**				**46**	**949**	
Credit cards	79		**(20)**	**2**		**250**				**311**	
Other	2,530			**5**	**(34)**	**267**		**$ (37)**	**2**	**2,733**	
Total asset-backed securities	3,898		**(399)**	**6**	**(40)**	**517**		**(37)**	**48**	**3,993**	
Non-U.S. debt securities	2,116		**(609)**		**(4)**	**894**		**(3)**	**(52)**	**2,342**	
State and political subdivisions	54		**(2)**		**(1)**					**51**	
Collateralized mortgage obligations	173		**(31)**	**31**	**(1)**	**216**			**(38)**	**350**	
Other U.S. debt securities	2									**2**	
Total investment securities available for sale	7,192		**(1,058)**	**37**	**(44)**	**2,239**		**(40)**	**(67)**	**8,259**	
Other assets:											
Derivative instruments:											
Foreign exchange contracts	201			**54**		**173**			**(117)**	**311**	**$ 59**
Interest-rate contracts	8					**4**		**(1)**		**11**	**2**
Total derivative instruments	209			**54**		**177**		**(1)**	**(117)**	**322**	**61**

Total assets carried at fair value	$ 7,401	**$ (1,058)**	**$ 91**	**$ (44)**	**$ 2,416**	**$ (41)**	**$ (184)**	**$ 8,581**	**$ 61**

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STATE STREET CORPORATION

Condensed Notes to Consolidated Financial Statements (Continued)

(Unaudited)

Note 11. Fair Value (Continued)

	Fair Value Measurements Using Significant Unobservable Inputs Three Months Ended September 30, 2011										
				Total Realized and Unrealized (Gains) Losses							
(In millions)	**Fair Value at June 30, 2011**	**Transfers into Level 3**	**Transfers out of Level 3**	**Recorded in Revenue**	**Recorded in Other Comprehensive Income**	**Purchases**	**Issuances**	**Sales**	**Settlements**	**Fair Value at September 30, 2011**	**Change in Unrealized (Gains) Losses Related to Financial Instruments Held at September 30, 2011**
Liabilities:											
Accrued expenses and other liabilities:											
Derivative instruments:											
Foreign exchange contracts	$ 203			$ 42			$ 170		$ (117)	$ 298	$ 51
Interest-rate contracts	25					$ (1)	15	$ (16)		23	10
Total derivative instruments	228			42		(1)	185	(16)	(117)	321	61
Other	11									11	
Total liabilities carried at fair value	$ 239			$ 42		$ (1)	$ 185	$ (16)	$ (117)	$ 332	$ 61

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STATE STREET CORPORATION

Condensed Notes to Consolidated Financial Statements (Continued)

(Unaudited)

Note 11. Fair Value (Continued)

	Fair Value Measurements Using Significant Unobservable Inputs Nine Months Ended September 30, 2011										
				Total Realized and Unrealized Gains (Losses)							
(in millions)	**Fair Value at December 31, 2010**	**Transfers into Level 3**	**Transfers out of Level 3**	**Recorded in Revenue**	**Recorded in Other Comprehensive Income**	**Purchases**	**Issuances**	**Sales**	**Settlements**	**Fair Value at September 30, 2011**	**Change in Unrealized Gains (Losses) Related to Financial Instruments Held at September 30, 2011**
Assets:											
Investment securities available for sale:											
U.S. Treasury and federal agencies:											
Direct obligations			$ (17)			$ 39				$ 22	
Mortgage-backed securities	$ 673		(404)		$ 3	1,289			$ (62)	1,499	
Asset-backed securities:											
Student loans	1,234		(720)	$ 2	(6)	421			18	949	
Credit cards	43		(35)	3	(2)	301			1	311	
Other	2,000	$ 114	(135)	22	14	837		$ (37)	(82)	2,733	
Total asset-backed securities	3,277	114	(890)	27	6	1,559		(37)	(63)	3,993	
Non-U.S. debt securities	1,145		(1,432)	1	8	2,799		(3)	(176)	2,342	
State and political subdivisions	50	1	(3)			3				51	
Collateralized mortgage obligations	359		(359)	363	(2)	381			(392)	350	
Other U.S. debt securities	3								(1)	2	
Total investment securities available for sale	5,507	115	(3,105)	391	15	6,070		(40)	(694)	8,259	
Other assets:											
Derivative instruments:											
Foreign exchange contracts	254			(15)		256			(184)	311	$ 40
Interest-rate contracts				5		10		(4)		11	9
Total derivative instruments	254			(10)		266		(4)	(184)	322	49
Total assets carried at fair value	$ 5,761	$ 115	$ (3,105)	$ 381	$ 15	$ 6,336		$ (44)	$ (878)	$ 8,581	$ 49

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STATE STREET CORPORATION

Condensed Notes to Consolidated Financial Statements (Continued)

(Unaudited)

Note 11. Fair Value (Continued)

	Fair Value Measurements Using Significant Unobservable Inputs Nine Months Ended September 30, 2011										
				Total Realized and Unrealized (Gains) Losses							
(In millions)	**Fair Value at December 31, 2010**	**Transfers into Level 3**	**Transfers out of Level 3**	**Recorded in Revenue**	**Recorded in Other Comprehensive Income**	**Purchases**	**Issuances**	**Sales**	**Settlements**	**Fair Value at September 30, 2011**	**Change in Unrealized (Gains) Losses Related to Financial Instruments Held at September 30, 2011**
Liabilities:											
Accrued expenses and other liabilities:											
Derivative instruments:											
Foreign exchange contracts	$ 260			$ (21)			$ 247		$ (188)	$ 298	$ 32
Interest-rate contracts	9			10		$ (5)	29	$ (20)		23	10
Total derivative instruments	269			(11)		(5)	276	(20)	(188)	321	42
Other							11			11	
Total liabilities carried at fair value	$ 269			$ (11)		$ (5)	$ 287	$ (20)	$ (188)	$ 332	$ 42

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STATE STREET CORPORATION

Condensed Notes to Consolidated Financial Statements (Continued)

(Unaudited)

Note 11. Fair Value (Continued)

	Fair Value Measurements Using Significant Unobservable Inputs Three Months Ended September 30, 2010						
		Total Realized and Unrealized Gains (Losses)					Change in Unrealized Gains (Losses) Related to Financial Instruments Held at September 30, 2010
(In millions)	**Fair Value at June 30, 2010**	**Recorded in Revenue**	**Recorded in Other Comprehensive Income**	**Purchases, Issuances and Settlements, Net**	**Transfers Into and/or Out of Level 3**	**Fair Value at September 30, 2010**	
Assets:							
Investment securities available for sale:							
U.S. Treasury and federal agencies:							
Mortgage-backed securities	$ 43				$ (42)	$ 1	
Asset-backed securities:							
Student loans	2,229	$ 3	$ 5	$ 17	(659)	1,595	
Credit cards	91	1		(52)		40	
Sub-prime	4				(4)		
Other	1,069	(2)	2	(56)	(141)	872	
Total asset-backed securities	3,393	2	7	(91)	(804)	2,507	
Non-U.S. debt securities	2,659	28	(10)	1,175	(459)	3,393	
State and political subdivisions	3				1	4	
Collateralized mortgage obligations	424		2	80		506	
Other U.S. debt securities	3					3	
Total investment securities available for sale	6,525	30	(1)	1,164	(1,304)	6,414	
Other assets:							
Derivative instruments - foreign exchange contracts	307	(55)		127		379	$ (13)
Total assets	$ 6,832	$ (25)	$ (1)	$ 1,291	$ (1,304)	$ 6,793	$ (13)

	Fair Value Measurements Using Significant Unobservable Inputs Three Months Ended September 30, 2010						
		Total Realized and Unrealized (Gains) Losses					
(In millions)	**Fair Value at June 30, 2010**	**Recorded in Revenue**	**Recorded in Other Comprehensive Income**	**Purchases, Issuances and Settlements, Net**	**Transfers Into and/ or Out of Level 3**	**Fair Value at September 30, 2010**	**Change in Unrealized (Gains) Losses Related to Financial Instruments Held at September**

					30, 2010
Liabilities:					
Accrued expenses and other liabilities:					
Derivative instruments:					
Foreign exchange contracts	$ 275	$ (51)	$ 129	$ 353	$ (22)
Interest-rate contracts	9			9	
Total derivative instruments	284	(51)	129	362	(22)
Total liabilities carried at fair value	$ 284	$ (51)	$ 129	$ 362	$ (22)

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STATE STREET CORPORATION

Condensed Notes to Consolidated Financial Statements (Continued)

(Unaudited)

Note 11. Fair Value (Continued)

(In millions)	Fair Value at December 31, 2009	Total Realized and Unrealized Gains (Losses) Recorded in Revenue	Recorded in Other Comprehensive Income	Purchases, Issuances and Settlements, Net	Transfers Into and/or Out of Level 3	Fair Value at September 30, 2010	Change in Unrealized Gains (Losses) Related to Financial Instruments Held at September 30, 2010
	Fair Value Measurements Using Significant Unobservable Inputs Nine Months Ended September 30, 2010						
Assets:							
Investment securities available for sale:							
U.S. Treasury and federal agencies:							
Mortgage-backed securities	$ 58	$ (1)	$ (1)	$ (13)	$ (42)	$ 1	
Asset-backed securities:							
Student loans	3,111	8	76	(19)	(1,581)	1,595	
Credit cards	312	15	(15)	(33)	(239)	40	
Sub-prime	3	1			(4)		
Other	1,134	37	45	(102)	(242)	872	
Total asset-backed securities	4,560	61	106	(154)	(2,066)	2,507	
Non-U.S. debt securities	2,606	103	138	1,122	(576)	3,393	
State and political subdivisions	2				2	4	
Collateralized mortgage obligations	199	(208)	5	510		506	
Other U.S. debt securities	3					3	
Total investment securities available for sale	7,428	(45)	248	1,465	(2,682)	6,414	
Other assets:							
Derivative instruments-foreign exchange contracts	128	(19)		270		379	$ (17)
Total assets	$ 7,556	$ (64)	$ 248	$ 1,735	$ (2,682)	$ 6,793	$ (17)

(In millions)	Fair Value at December 31, 2009	Total Realized and Unrealized (Gains) Losses Recorded in Revenue	Recorded in Other Comprehensive Income	Purchases, Issuances and Settlements, Net	Transfers Into and/or Out of Level 3	Fair Value at September 30, 2010	Change in Unrealized (Gains) Losses Related to Financial Instruments Held at
	Fair Value Measurements Using Significant Unobservable Inputs Nine Months Ended September 30, 2010						

					September 30, 2010
Liabilities:					
Accrued expenses and other liabilities:					
Derivative instruments:					
Foreign exchange contracts	$ 138	$ (55)	$ 270	$ 353	$ (35)
Interest-rate contracts	9			9	
Total derivative instruments	147	(55)	270	362	(35)
Total liabilities carried at fair value	$ 147	$ (55)	$ 270	$ 362	$ (35)

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STATE STREET CORPORATION

Condensed Notes to Consolidated Financial Statements (Continued)

(Unaudited)

Note 11. Fair Value (Continued)

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

	Three Months Ended September 30, 2011		Nine Months Ended September 30, 2011	
(In millions)	**Total Realized and Unrealized Gains (Losses) Recorded in Revenue**	**Change in Unrealized Gains (Losses) Related to Financial Instruments Held at September 30, 2011**	**Total Realized and Unrealized Gains (Losses) Recorded in Revenue**	**Change in Unrealized Gains (Losses) Related to Financial Instruments Held at September 30, 2011**
Fee revenue:				
Trading services	**$ 12**		**$ 1**	**$ 7**
Total fee revenue	**12**		**1**	**7**
Net interest revenue	**37**		**391**	
Total revenue	**$ 49**		**$ 392**	**$ 7**

	Three Months Ended September 30, 2010		Nine Months Ended September 30, 2010	
(In millions)	**Total Realized and Unrealized Gains (Losses) Recorded in Revenue**	**Change in Unrealized Gains (Losses) Related to Financial Instruments Held at September 30, 2010**	**Total Realized and Unrealized Gains (Losses) Recorded in Revenue**	**Change in Unrealized Gains (Losses) Related to Financial Instruments Held at September 30, 2010**
Fee revenue:				
Trading services	$ (4)	$ 9	$ 36	$ 18
Total fee revenue	(4)	9	36	18
Net interest revenue	30		(45)	
Total revenue	$ 26	$ 9	$ (9)	$ 18

Fair Values of Financial Instruments

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

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

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

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STATE STREET CORPORATION

Condensed Notes to Consolidated Financial Statements (Continued)

(Unaudited)

Note 11. Fair Value (Continued)

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

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

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

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

(In millions)	Reported Amount	Fair Value
September 30, 2011:		
Financial Assets:		
Investment securities held to maturity	**$ 10,018**	**$ 10,102**
Net loans (excluding leases)	**10,462**	**10,429**
Financial Liabilities:		
Long-term debt	**8,112**	**8,207**
December 31, 2010:		
Financial Assets:		
Investment securities held to maturity	$ 12,249	$ 12,576
Net loans (excluding leases)	10,387	10,242
Financial Liabilities:		
Long-term debt	8,550	8,498

STATE STREET CORPORATION

Condensed Notes to Consolidated Financial Statements (Continued)

(Unaudited)

Note 12. Derivative Financial Instruments

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

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

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

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

Derivative financial instruments involve the management of interest-rate and foreign currency risk, and involve, to varying degrees, market risk and credit and counterparty risk (risk related to repayment). Market risk is defined as the risk of adverse financial impact due to fluctuations in interest rates, foreign exchange rates and other market-driven factors and prices. We use a variety of risk management tools and methodologies to measure, monitor and manage the market risk associated with our trading activities. One such risk-management measure is value-at-risk, or VaR. VaR is an estimate of potential loss for a given period within a stated statistical confidence interval. We use a risk-measurement system to estimate VaR daily. We have adopted standards for estimating VaR, and we maintain regulatory capital for market risk in accordance with federal regulatory capital guidelines.

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

We enter into master netting agreements with many of our derivative counterparties. Certain of these agreements contain credit risk-related contingent features in which the counterparty has the option to declare State Street in default and accelerate cash settlement of our net derivative liabilities with the counterparty in the event our credit rating falls below specified levels. The aggregate fair value of all derivative instruments with credit risk-related contingent features that were in a net liability position as of September 30, 2011 totaled

STATE STREET CORPORATION

Condensed Notes to Consolidated Financial Statements (Continued)

(Unaudited)

Note 12. Derivative Financial Instruments (Continued)

approximately $1.87 billion, against which we had posted aggregate collateral of approximately $720 million. If State Street s credit rating was downgraded below levels specified in the agreements, the maximum additional amount of payments related to termination events that could have been required pursuant to these contingent features as of September 30, 2011 was approximately $1.15 billion. Such accelerated settlement would not affect our consolidated results of operations.

Derivatives Not Designated as Hedging Instruments

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

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

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

Derivatives Designated as Hedging Instruments

In connection with our asset and liability management activities, we use derivative financial instruments to manage interest-rate risk. Interest-rate risk, defined as the sensitivity of income or financial condition to variations in interest rates, is a significant non-trading market risk to which our assets and liabilities are exposed. These hedging relationships are formally designated, and qualify for hedge accounting, as fair value or cash flow hedges. We manage interest-rate risk by identifying, quantifying and hedging our exposures, using fixed-rate portfolio securities and a variety of derivative financial instruments, most frequently interest-rate swaps and

STATE STREET CORPORATION

Condensed Notes to Consolidated Financial Statements (Continued)

(Unaudited)

Note 12. Derivative Financial Instruments (Continued)

options (e.g., interest rate caps and floors). Interest-rate swap agreements alter the interest-rate characteristics of specific balance sheet assets or liabilities. When appropriate, forward rate agreements, options on swaps, and exchange-traded futures and options are also used.

Fair value hedges

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

We have entered into interest rate contracts to hedge fair value changes for certain available-for-sale securities. Under one strategy, we have entered into interest-rate swap agreements to modify our interest revenue from certain available-for-sale securities from a fixed rate to a floating rate. The securities hedged have a weighted-average life of approximately 7.4 years as of September 30, 2011, compared to 7.7 years as of December 31, 2010. These securities are hedged with interest-rate swap contracts of similar maturity, repricing and fixed-rate coupons. The interest-rate swap contracts convert the interest revenue from a fixed rate to a floating rate indexed to LIBOR, thereby mitigating our exposure to fluctuations in the fair value of the securities attributable to changes in the benchmark interest rate. Under a second strategy, we have entered into U.S. Treasury note futures contracts to hedge the risk of changes in fair value for certain fixed-rate available-for-sale U.S. Treasury securities. Those U.S. Treasury securities have terms ranging from two to five years, and are hedged with U.S. Treasury note futures contacts with similar terms.

We have entered into interest-rate swap agreements to modify our interest expense on two subordinated notes from fixed rates to floating rates. The subordinated notes mature in 2018; one pays fixed interest at a 4.956% annual rate and the other pays fixed interest at a 5.25% annual rate. The subordinated notes are hedged with interest-rate swap contracts with notional amounts, maturities and fixed-rate coupon terms that align with the hedged subordinated notes. The interest-rate swap contracts convert the fixed-rate coupons to floating rates indexed to LIBOR, thereby mitigating our exposure to fluctuations in the fair values of the subordinated notes stemming from changes in the benchmark interest rates.

We have entered into forward foreign exchange contracts to hedge the change in fair value attributable to foreign-exchange movements in the funding of non-functional currency denominated investment securities. These forward contracts convert the foreign currency risk to U.S. dollars, thereby mitigating our exposure to fluctuations in the fair value of the securities attributable to changes in foreign exchange rates. Generally, no ineffectiveness is recorded in earnings, since the notional amount of the hedging instruments is aligned with the carrying value of the hedged securities. The forward points on the hedging instruments are considered to be a hedging cost, and accordingly are excluded from the evaluation of hedge effectiveness and are recorded in net interest revenue.

STATE STREET CORPORATION

Condensed Notes to Consolidated Financial Statements (Continued)

(Unaudited)

Note 12. Derivative Financial Instruments (Continued)

Cash flow hedges

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

We have entered into interest-rate swap agreements to modify our interest revenue from certain available-for-sale securities from a floating rate to a fixed rate. The securities hedged have a weighted-average life of approximately 3.0 years as of September 30, 2011, compared to 3.8 years as of December 31, 2010. These securities are hedged with interest-rate swap contracts of similar maturities, repricing and other characteristics. The interest-rate swap contracts convert the interest revenue from a floating rate to a fixed rate, thereby mitigating our exposure to fluctuations in the cash flows of the securities attributable to changes in the benchmark interest rate.

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

(In millions)	**September 30, 2011**	**December 31, 2010**
Derivatives not designated as hedging instruments:		
Interest-rate contracts:		
Swap agreements and forwards	**$ 250,003**	$ 52,383
Options and caps purchased	**1,069**	140
Options and caps written	**2,068**	130
Futures	**71,245**	25,253
Foreign exchange contracts:		
Forward, swap and spot	**1,097,107**	637,847
Options purchased	**13,795**	14,299
Options written	**14,119**	14,587
Credit derivative contracts:		
Credit default swap agreements	**105**	155
Other:		
Stable value contracts	**41,987**	46,758
Derivatives designated as hedging instruments:		
Interest-rate contracts:		
Swap agreements	**2,161**	1,886
Futures	**2,505**	
Foreign exchange contracts:		
Forwards	**2,799**	

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STATE STREET CORPORATION

Condensed Notes to Consolidated Financial Statements (Continued)

(Unaudited)

Note 12. Derivative Financial Instruments (Continued)

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

	September 30, 2011			December 31, 2010		
(In millions)	**Fair Value Hedges**	**Cash Flow Hedges**	**Total**	**Fair Value Hedges**	**Cash Flow Hedges**	**Total**
Investment securities available for sale	**$ 3,842**	**$ 124**	**$ 3,966**	$ 1,561	$ 125	$ 1,686
Long-term debt[1]	**700**		**700**	200		200
Total	**$ 4,542**	**$ 124**	**$ 4,666**	$ 1,761	$ 125	$ 1,886

(1) As of September 30, 2011 and December 31, 2010, fair value hedges of long-term debt increased the carrying value of long-term debt presented in our consolidated statement of condition by $129 million and $81 million, respectively.

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

	Three Months Ended September 30,			
	2011		2010	
	Contractual Rates	**Rate Including Impact of Hedges**	**Contractual Rates**	**Rate Including Impact of Hedges**
Long-term debt	**3.58%**	**3.17%**	3.72%	3.33%

	Nine Months Ended September 30,			
	2011		2010	
	Contractual Rates	**Rate Including Impact of Hedges**	**Contractual Rates**	**Rate Including Impact of Hedges**
Long-term debt	**3.56%**	**3.17%**	3.73%	3.28%

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

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STATE STREET CORPORATION

Condensed Notes to Consolidated Financial Statements (Continued)

(Unaudited)

Note 12. Derivative Financial Instruments (Continued)

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

(In millions)	Asset Derivatives September 30, 2011 Balance Sheet Location	Fair Value	Liability Derivatives September 30, 2011 Balance Sheet Location	Fair Value
Derivatives not designated as hedging instruments:				
Interest-rate contracts	Other assets	**$ 1,351**	Other liabilities	**$ 1,418**
Foreign exchange contracts	Other assets	**20,429**	Other liabilities	**21,176**
Credit derivative contracts	Other assets		Other liabilities	**1**
Equity derivative contracts	Other assets	**2**	Other liabilities	
Total		**$ 21,782**		**$ 22,595**
Derivatives designated as hedging instruments:				
Interest-rate contracts	Other assets	**$ 103**	Other liabilities	**$ 297**
Foreign exchange contracts	Other assets	**221**	Other liabilities	
Total		**$ 324**		**$ 297**

(In millions)	Asset Derivatives December 31, 2010 Balance Sheet Location	Fair Value	Liability Derivatives December 31, 2010 Balance Sheet Location	Fair Value
Derivatives not designated as hedging instruments:				
Interest-rate contracts	Other assets	$ 133	Other liabilities	$ 140
Foreign exchange contracts	Other assets	8,058	Other liabilities	8,455
Credit derivative contracts	Other assets	1	Other liabilities	1
Equity derivative contracts	Other assets	1	Other liabilities	
Total		$ 8,193		$ 8,596
Derivatives designated as hedging instruments:				
Interest-rate contracts	Other assets	$ 32	Other liabilities	$ 228

Total	$ 32	$ 228

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STATE STREET CORPORATION

Condensed Notes to Consolidated Financial Statements (Continued)

(Unaudited)

Note 12. Derivative Financial Instruments (Continued)

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

(In millions)	Location of Gain (Loss) on Derivative in Consolidated Statement of Income	Amount of Gain (Loss) on Derivative Recognized in Consolidated Statement of Income Three Months Ended September 30, 2011	Nine Months Ended September 30, 2011
Derivatives not designated as hedging instruments:			
Interest-rate contracts	Trading services revenue	**$ 43**	**$ (4)**
Foreign exchange contracts	Trading services revenue	**170**	**526**
Foreign exchange contracts	Processing fees and other revenue	**5**	**6**
Total		**$ 218**	**$ 528**

(In millions)	Location of Gain (Loss) on Derivative in Consolidated Statement of Income	Amount of Gain (Loss) on Derivative Recognized in Consolidated Statement of Income Three Months Ended September 30, 2010	Nine Months Ended September 30, 2010
Derivatives not designated as hedging instruments:			
Interest-rate contracts	Trading services revenue	$ (1)	$ (3)
Interest-rate contracts	Processing fees and other revenue	3	17
Foreign exchange contracts	Trading services revenue	117	448
Foreign exchange contracts	Processing fees and other revenue	5	(2)
Total		$ 124	$ 460

STATE STREET CORPORATION

Condensed Notes to Consolidated Financial Statements (Continued)

(Unaudited)

Note 12. Derivative Financial Instruments (Continued)

(In millions)	Location of Gain (Loss) on Derivative in Consolidated Statement of Income	Amount of Gain (Loss) on Derivative Recognized in Consolidated Statement of Income Three Months Ended September 30, 2011	Nine Months Ended September 30, 2011	Hedged Item in Fair Value Hedging Relationship	Location of Gain (Loss) on Hedged Item in Consolidated Statement of Income	Amount of Gain (Loss) on Hedged Item Recognized in Consolidated Statement of Income Three Months Ended September 30, 2011	Nine Months Ended September 30, 2011
Derivatives designated as fair value hedges:							
Interest-rate contracts	Processing fees and other revenue	**$ 44**	**$ 60**	Long-term debt	Processing fees and other revenue	**$ (42)**	**$ (56)**
Interest-rate contracts	Processing fees and other revenue	**(171)**	**(161)**	Available-for-sale securities	Processing fees and other revenue	**172**	**158**
Foreign exchange contracts	Processing fees and other revenue	**(306)**	**(306)**	Investment securities	Processing fees and other revenue	**306**	**306**
Total		**$ (433)**	**$ (407)**			**$ 436**	**$ 408**

(In millions)	Location of Gain (Loss) on Derivative in Consolidated Statement of Income	Amount of Gain (Loss) on Derivative Recognized in Consolidated Statement of Income Three Months Ended September 30, 2010	Nine Months Ended September 30, 2010	Hedged Item in Fair Value Hedging Relationship	Location of Gain (Loss) on Hedged Item in Consolidated Statement of Income	Amount of Gain (Loss) on Hedged Item Recognized in Consolidated Statement of Income Three Months Ended September 30, 2010	Nine Months Ended September 30, 2010
Derivatives designated as fair value hedges:							
Interest-rate contracts	Processing fees and other revenue	$ 30	$ 70	Long-term debt	Processing fees and other revenue	$ (26)	$ (61)

Interest-rate contracts	Processing fees and other revenue	(48)	(138)	Available-for-sale securities	Processing fees and other revenue	46	136
Total		$ (18)	$ (68)			$ 20	$ 75

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STATE STREET CORPORATION

Condensed Notes to Consolidated Financial Statements (Continued)

(Unaudited)

Note 12. Derivative Financial Instruments (Continued)

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

(In millions)	Amount of Gain (Loss) on Derivative Recognized in Other Comprehensive Income Three Months Ended September 30, 2011	Nine Months Ended September 30, 2011	Location of Gain (Loss) Reclassified from OCI to Consolidated Statement of Income	Amount of Gain (Loss) Reclassified from OCI to Consolidated Statement of Income Three Months Ended September 30, 2011	Nine Months Ended September 30, 2011	Location of Gain (Loss) on Derivative Recognized in Consolidated Statement of Income	Amount of Gain (Loss) on Derivative Recognized in Consolidated Statement of Income Three Months Ended September 30, 2011	Nine Months Ended September 30, 2011
Derivatives designated as cash flow hedges:								
Interest-rate contracts	**$ 4**	**$ 8**	Net interest revenue	**$ (1)**	**$ (5)**	Net interest revenue		**$ 2**
Total	**$ 4**	**$ 8**		**$ (1)**	**$ (5)**			**$ 2**

(In millions)	Amount of Gain (Loss) on Derivative Recognized in Other Comprehensive Income Three Months Ended September 30, 2010	Nine Months Ended September 30, 2010	Location of Gain (Loss) Reclassified from OCI to Consolidated Statement of Income	Amount of Gain (Loss) Reclassified from OCI to Consolidated Statement of Income Three Months Ended September 30, 2010	Nine Months Ended September 30, 2010	Location of Gain (Loss) on Derivative Recognized in Consolidated Statement of Income	Amount of Gain (Loss) on Derivative Recognized in Consolidated Statement of Income Three Months Ended September 30, 2010	Nine Months Ended September 30, 2010
Derivatives designated as cash flow hedges:								
Interest-rate contracts	$ 1	$ 6	Net interest revenue	$ (2)	$ (5)	Net interest revenue	$ 2	$ 4
Total	$ 1	$ 6		$ (2)	$ (5)		$ 2	$ 4

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STATE STREET CORPORATION

Condensed Notes to Consolidated Financial Statements (Continued)

(Unaudited)

Note 13. Net Interest Revenue

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	**2011**	**2010**	**2011**	**2010**
Interest revenue:				
Deposits with banks	**$ 39**	$ 22	**$ 94**	$ 63
Investment securities:				
U.S. Treasury and federal agencies	**186**	198	**590**	507
State and political subdivisions	**55**	56	**166**	166
Other investments	**374**	551	**1,093**	1,619
Securities purchased under resale agreements	**6**	7	**22**	17
Loans and leases(1)	**68**	69	**215**	254
Other interest-earning assets		1	**1**	2
Total interest revenue	**728**	904	**2,181**	2,628
Interest expense:				
Deposits	**52**	62	**154**	141
Short-term borrowings(1)	**23**	46	**74**	229
Long-term debt	**73**	72	**220**	215
Other interest-bearing liabilities	**2**		**6**	
Total interest expense	**150**	180	**454**	585
Net interest revenue	**$ 578**	$ 724	**$ 1,727**	$ 2,043

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

Note 14. Acquisition and Restructuring Costs

For the three and nine months ended September 30, 2011, we recorded acquisition and restructuring costs of $85 million and $121 million, respectively. For the three and nine months ended September 30, 2010, we recorded acquisition and restructuring costs of $23 million and $77 million, respectively. The costs for the three and nine months ended September 30, 2011 were composed of integration costs of $19 million and $46 million, respectively, related to the acquired Intesa, MIFA and BIAM businesses, and restructuring costs of $66 million and $75 million, respectively, related to the business operations and information technology transformation program described below. The 2010 costs were composed of integration costs associated with acquisitions.

In November 2010, we announced a global multi-year business operations and information technology transformation program. The program includes operational and information technology enhancements and targeted cost initiatives, including plans related to reductions in both staff and occupancy costs. To date, we have recorded aggregate pre-tax restructuring charges of $231 million, composed of $156 million in 2010 and $75 million in the first nine months of 2011, including $66 million in the third quarter of this year.

STATE STREET CORPORATION

Condensed Notes to Consolidated Financial Statements (Continued)

(Unaudited)

Note 14. Acquisition and Restructuring Costs (Continued)

The charges related to the program include costs associated with severance, benefits and outplacement services, as well as costs which resulted from actions taken to consolidate real estate. In addition, the program includes charges for costs related to information technology, including transition fees associated with the expansion of our use of service providers associated with components of our information technology infrastructure and application maintenance and support.

In 2010, in connection with the program, we initiated a reduction of 1,400 employees, or approximately 5% of our global workforce, which we expect to have substantially completed by the end of 2011. In addition, in the third quarter of 2011, in connection with the above-described expansion of our use of service providers associated with planned enhancements to our information technology infrastructure, we identified approximately 530 employees who will be provided with severance and outplacement services as their roles are eliminated. As of September 30, 2011, in connection with the planned aggregate staff reductions of 1,930 employees described above, approximately 1,260 employees had been involuntarily terminated and left State Street, including approximately 710 employees during the first nine months of 2011.

The following table presents activity associated with restructuring-related accruals:

(In millions)	Employee-Related Costs	Real Estate Consolidation	IT Transition Costs	Total
Initial accrual	$ 105	$ 51		$ 156
Payments	(15)	(4)		(19)
Balance at December 31, 2010	90	47		137
Additional restructuring-related accruals	**53**	**5**	**$ 17**	**75**
Payments	**(66)**	**(12)**	**(4)**	**(82)**
Balance at September 30, 2011	**$ 77**	**$ 40**	**$ 13**	**$ 130**

Note 15. Income Taxes

We recorded income tax expense of $74 million for the three months ended September 30, 2011, compared to income tax expense of $236 million for the three months ended September 30, 2010. Income tax expense for the nine months ended September 30, 2011 was $465 million, compared to $361 million for the nine months ended September 30, 2010. Our effective tax rates for the three and nine months ended September 30, 2011 were 11.7% and 23.2%, respectively, compared to 30.1% and 19.7% for the three and nine months ended September 30, 2010. Income tax expense and the effective tax rates for the three and nine months ended September 30, 2011 included a discrete tax benefit of $91 million related to the cost of terminating funding obligations that supported former conduit asset structures.

Income tax expense and the effective tax rate for the nine months ended September 30, 2010 reflected a discrete tax benefit of $180 million related to the cost of terminating funding obligations that supported former conduit asset structures.

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STATE STREET CORPORATION

Condensed Notes to Consolidated Financial Statements (Continued)

(Unaudited)

Note 16. Earnings Per Common Share

The following table presents the computation of basic and diluted earnings per common share for the periods indicated:

(Dollars in millions, except per share amounts)	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Net income	**$ 555**	$ 546	**$ 1,539**	$ 1,473
Less:				
Preferred stock dividends	**(6)**		**(13)**	
Dividends and undistributed earnings allocated to participating securities[1]	**(6)**	(6)	**(15)**	(14)
Net income available to common shareholders	**$ 543**	$ 540	**$ 1,511**	$ 1,459
Average shares outstanding (in thousands):				
Basic average shares	**490,840**	495,729	**495,015**	495,312
Effect of dilutive securities: stock options and stock awards	**3,940**	2,430	**3,402**	2,403
Diluted average shares	**494,780**	498,159	**498,417**	497,715
Anti-dilutive securities[2]	**3,636**	12,386	**2,589**	10,590
Earnings per Share:				
Basic	**$ 1.11**	$ 1.09	**$ 3.05**	$ 2.94
Diluted[3]	**$ 1.10**	$ 1.08	**$ 3.03**	$ 2.93

(1) Represented the portion of net income available to common equity allocated to participating securities; participating securities, composed of unvested restricted stock and director stock, have non-forfeitable rights to dividends during the vesting period on a basis equivalent to dividends paid to common shareholders.

(2) Represented stock options, restricted stock and other securities outstanding, but not included in the computation of diluted average shares because their effect was anti-dilutive.

(3) Calculations reflect the allocation of earnings to participating securities using the two-class method, as this computation was more dilutive than the calculation using the treasury stock method.

Note 17. Line of Business Information

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

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STATE STREET CORPORATION

Condensed Notes to Consolidated Financial Statements (Continued)

(Unaudited)

Note 17. Line of Business Information (Continued)

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

	Three Months Ended September 30,							
(Dollars in millions,	**Investment Servicing**		**Investment Management**		**Other**		**Total**	
except where otherwise noted)	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
Fee revenue:								
Servicing fees	**$ 1,106**	$ 1,006					**$ 1,106**	$ 1,006
Management fees			**$ 229**	$ 196			**229**	196
Trading services	**334**	228					**334**	228
Securities finance	**77**	62	**8**	6			**85**	68
Processing fees and other	**57**	39	**33**	32			**90**	71
Total fee revenue	**1,574**	1,335	**270**	234			**1,844**	1,569
Net interest revenue	**539**	688	**39**	36			**578**	724
Gains related to investment securities, net	**5**	17					**5**	17
Total revenue	**2,118**	2,040	**309**	270			**2,427**	2,310
Provision for loan losses		1						1
Expenses from operations	**1,477**	1,341	**236**	163			**1,713**	1,504
Acquisition and restructuring costs					**$ 85**	$ 23	**85**	23
Total expenses	**1,477**	1,341	**236**	163	**85**	23	**1,798**	1,527
Income from continuing operations before income taxes	**$ 641**	$ 698	**$ 73**	$ 107	**$ (85)**	$ (23)	**$ 629**	$ 782
Pre-tax margin	**30%**	34%	**24%**	40%				
Average assets (in billions)	**$ 175.9**	$ 149.4	**$ 5.1**	$ 4.6			**$ 181.0**	$ 154.0

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STATE STREET CORPORATION

Condensed Notes to Consolidated Financial Statements (Continued)

(Unaudited)

Note 17. Line of Business Information (Continued)

	Nine Months Ended September 30,							
	Investment Servicing		Investment Management		Other		Total	
(Dollars in millions, except where otherwise noted)	2011	2010	2011	2010	2011	2010	2011	2010
Fee revenue:								
Servicing fees	$ 3,325	$ 2,874					$ 3,325	$ 2,874
Management fees			$ 715	$ 608			715	608
Trading services	947	796					947	796
Securities finance	252	204	36	45			288	249
Processing fees and other	179	192	73	86			252	278
Total fee revenue	4,703	4,066	824	739			5,527	4,805
Net interest revenue	1,593	1,928	134	115			1,727	2,043
Gains related to investment securities, net	25	62					25	62
Total revenue	6,321	6,056	958	854			7,279	6,910
Provision for loan losses	1	26					1	26
Expenses from operations	4,468	3,980	685	579			5,153	4,559
Acquisition and restructuring costs					$ 121	$ 77	121	77
Securities lending charge		75		339				414
Total expenses	4,468	4,055	685	918	121	77	5,274	5,050
Income (Loss) from continuing operations before income taxes	$ 1,852	$ 1,975	$ 273	$ (64)	$ (121)	$ (77)	$ 2,004	$ 1,834
Pre-tax margin	29%	33%	28%	nm				
Average assets (in billions)	$ 162.5	$ 144.3	$ 5.5	$ 5.1			$ 168.0	$ 149.4

nm - not meaningful

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STATE STREET CORPORATION

Condensed Notes to Consolidated Financial Statements (Continued)

(Unaudited)

Note 18. Non-U.S. Activities

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

The following table presents our non-U.S. operating results for the periods indicated. Effective January 1, 2011, management revised its methodology with respect to funds transfer pricing, which is used in the measurement of net interest revenue related to non-U.S. activities. Prior-year net interest revenue amounts were not restated to reflect the revised methodology.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	**2011**	**2010**	**2011**	**2010**
Total fee revenue	**$ 758**	$ 676	**$ 2,293**	$ 1,998
Net interest revenue	**300**	184	**877**	519
Gains (Losses) related to investment securities, net	**(4)**	(2)	**(13)**	48
Total revenue	**1,054**	858	**3,157**	2,565
Expenses	**809**	688	**2,485**	2,113
Income before income taxes	**245**	170	**672**	452
Income tax expense	**63**	64	**173**	170
Net income	**$ 182**	$ 106	**$ 499**	$ 282

Non-U.S. revenue for the three and nine months ended September 30, 2011 included $516 million and $1.01 billion, respectively, in the U.K., primarily from our London operations.

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

(In millions)	**September 30, 2011**	**December 31, 2010**
Interest-bearing deposits with banks	**$ 13,289**	$ 9,443
Non-U.S. investment securities	**23,439**	19,329
Other assets	**24,717**	13,994
Total assets	**$ 61,445**	$ 42,766

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Shareholders and Board of Directors

State Street Corporation

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

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

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

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

/s/ Ernst & Young LLP

Boston, Massachusetts

November 4, 2011

FORM 10-Q PART I CROSS-REFERENCE INDEX

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

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PART II. OTHER INFORMATION

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

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

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

(Dollars in millions, except per share amounts, shares in thousands) Period	Total Number of Shares Purchased Under Publicly Announced Program	Average Price Paid per Share	Approximate Dollar Value of Shares Purchased Under Publicly Announced Program	Approximate Dollar Value of Shares Yet to Be Purchased Under Publicly Announced Program
July 1 - July 31, 2011	**1,432**	**$ 42.16**	**$ 60**	**$ 390**
August 1 - August 31, 2011	**4,396**	**37.45**	**165**	**225**
September 1 - September 30, 2011				**225**
Total	**5,828**	**$ 38.61**	**$ 225**	**$ 225**

ITEM 6. EXHIBITS

The exhibits listed in the Exhibit Index on page 111 of this Form 10-Q are filed herewith or are incorporated herein by reference to other SEC filings.

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SIGNATURES

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

	STATE STREET CORPORATION	
	(Registrant)	
Date: November 4, 2011	By:	/s/ EDWARD J. RESCH Edward J. Resch *Executive Vice President and* *Chief Financial Officer* *(Principal Financial Officer)*
Date: November 4, 2011	By:	/s/ JAMES J. MALERBA James J. Malerba *Executive Vice President, Corporate Controller and* *Chief Accounting Officer* *(Principal Accounting Officer)*

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EXHIBIT INDEX

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

* Submitted electronically herewith

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