STATE STREET Corp
Form 10-Q
August 10, 2009
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2009

or

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

For the transition period from to

Commission File No. 001-07511

STATE STREET CORPORATION

(Exact name of registrant as specified in its charter)

Massachusetts	**04-2456637**

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

617-786-3000

(Registrant s telephone number, including area code)

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

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

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

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

(Do not check if a smaller reporting company)

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

The number of shares of State Street s common stock outstanding on July 31, 2009 was 494,489,413

Table of Contents

STATE STREET CORPORATION

Quarterly Report on Form 10-Q for the Quarterly Period Ended June 30, 2009

Table of Contents

	Page
PART I. FINANCIAL INFORMATION	
Management s Discussion and Analysis of Financial Condition and Results of Operations	2
Quantitative and Qualitative Disclosures About Market Risk	40
Controls and Procedures	41
Consolidated Statement of Income (Unaudited) for the three and six months ended June 30, 2009 and 2008	42
Consolidated Statement of Condition as of June 30, 2009 (Unaudited) and December 31, 2008	43
Consolidated Statement of Changes in Shareholders Equity (Unaudited) for the six months ended June 30, 2009 and 2008	44
Consolidated Statement of Cash Flows (Unaudited) for the six months ended June 30, 2009 and 2008	45
Condensed Notes to Consolidated Financial Statements (Unaudited)	46
Report of Independent Registered Public Accounting Firm	89
FORM 10-Q PART I CROSS-REFERENCE INDEX	90
PART II. OTHER INFORMATION	
Legal Proceedings	91
Risk Factors	91
Submission of Matters to a Vote of Security Holders	92
Exhibits	92
SIGNATURES	93
EXHIBIT INDEX	94

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL

CONDITION AND RESULTS OF OPERATIONS

GENERAL

State Street Corporation is a financial holding company headquartered in Boston, Massachusetts. Through its subsidiaries, including its principal bank subsidiary, State Street Bank and Trust Company, which we refer to as State Street Bank, State Street Corporation provides a full range of products and services to meet the needs of institutional investors worldwide. Unless otherwise indicated or unless the context requires otherwise, all references in this Management s Discussion and Analysis to State Street, we, us, our or similar terms mean State Street Corporation and its subsidiaries on a consolidated basis. All references in this Form 10-Q to the parent company are to State Street Corporation. Our principal banking subsidiary, State Street Bank and Trust Company, is referred to as State Street Bank. At June 30, 2009, we had consolidated total assets of $153.42 billion, consolidated total deposits of $85.58 billion, consolidated total shareholders equity of $12.10 billion, and employed 26,950.

Our customers include mutual funds, collective investment funds and other investment pools, corporate and public retirement plans, insurance companies, foundations, endowments and investment managers. Our two lines of business, Investment Servicing and Investment Management, provide products and services including custody, recordkeeping, daily pricing and administration, shareholder services, foreign exchange, brokerage and other trading services, securities finance, deposit and short-term investment facilities, loan and lease financing, investment manager and hedge fund manager operations outsourcing, performance, risk and compliance analytics, investment research and investment management, including passive and active U.S. and non-U.S. equity and fixed-income strategies. We had $16.39 trillion of assets under custody and administration (including $12.34 trillion of assets under custody) and $1.56 trillion of assets under management at June 30, 2009. Information about these assets, and financial information about our business lines, is provided in the Consolidated Results of Operations Total Revenue and Line of Business Information sections of this Management s Discussion and Analysis.

This Management s Discussion and Analysis is part of our Quarterly Report on Form 10-Q for the second quarter of 2009 which we filed with the SEC, and updates the Management s Discussion and Analysis in our Annual Report on Form 10-K for the year ended December 31, 2008, which we refer to as the 2008 Form 10-K, and in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2009. We previously filed these reports with the SEC. You should read the financial information in this Management s Discussion and Analysis and elsewhere in this Form 10-Q in conjunction with the financial information contained in those reports. Certain previously reported amounts have been reclassified to conform to current period classifications as presented in this Form 10-Q.

We prepare our consolidated financial statements in accordance with United States generally accepted accounting principles, which we refer to as GAAP, and which require management to make judgments in the application of its accounting policies that involve significant estimates and assumptions about the effect of matters that are inherently uncertain. Accounting policies considered by management to be relatively more significant in this respect are accounting for the fair value of financial instruments, special purpose entities, and goodwill and other intangible assets. Additional information about these accounting policies is included in the Significant Accounting Estimates section of Management s Discussion and Analysis in our 2008 Form 10-K. Although no significant changes were made to these accounting policies during the first six months of 2009, we have provided updated information with respect to our accounting for the fair value of financial instruments in the Fair Value Measurements section of this Management s Discussion and Analysis.

Certain financial information provided in this Management s Discussion and Analysis has been prepared on both a GAAP basis and an operating basis. Management measures and compares certain financial information

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

on an operating basis, as it believes this presentation supports meaningful comparisons from period to period and the analysis of comparable financial trends with respect to State Street s normal ongoing business operations. Management believes that operating-basis financial information, which reports revenue from non-taxable sources on a fully taxable-equivalent basis and excludes the impact of revenue and expenses outside of the normal course of our business, facilitates an investor s understanding and analysis of State Street s underlying financial performance and trends in addition to financial information prepared in accordance with GAAP.

SIGNIFICANT DEVELOPMENTS

In May 2009, we completed a public offering of approximately 58.97 million shares of our common stock at an offering price of $39 per share, and received aggregate net proceeds from the offering of approximately $2.23 billion. In addition, we completed the issuance of $500 million of 4.30% fixed-rate senior notes due 2014. We completed the offerings primarily in connection with our intention to repurchase the $2 billion of equity issued to the U.S. Treasury in October 2008 under the TARP Capital Purchase Program, as well as for general corporate purposes to the extent that the aggregate proceeds exceeded the repurchase. Additional information about the offerings is provided in notes 7 and 10 to the consolidated financial statements included in this Form 10-Q.

In May 2009, we elected to take action that resulted in the consolidation onto our balance sheet, for financial reporting purposes, of the assets and liabilities of the third-party owned, special purpose multi-seller asset-backed commercial paper program, or conduits, that we administer. In connection with the consolidation, we recorded the assets and liabilities of the conduits at their then fair values, and recorded a pre-tax extraordinary loss of approximately $6.10 billion, or approximately $3.68 billion after-tax, in our consolidated statement of income. This loss was primarily related to the recognition of the unrealized mark-to-market losses on the conduits aggregate assets, which had a book value of approximately $22.7 billion and a fair value of approximately $16.6 billion. In addition to the aggregate assets of $16.6 billion, we added approximately $20.95 billion of aggregate commercial paper issued by the conduits to our consolidated balance sheet.

The difference between the aggregate fair value of the conduits investment securities and their par value on the date of consolidation created a discount. Based on a detailed security-by-security analysis, we believe that the vast majority of this discount is related to factors other than credit. To the extent that the projected cash flows of the securities exceed their consolidation date book values, the portion of the discount not related to credit will be accreted into net interest revenue over the securities remaining lives. Subsequent to the consolidation, we recorded accretion of approximately $112 million in net interest revenue for the second quarter of 2009 in our consolidated statement of income.

Additional information about the conduit consolidation is provided in note 9 to the consolidated financial statements included in this Form 10-Q.

In June 2009, we repurchased the preferred stock portion of Treasury s equity investment by redeeming all of the outstanding shares of the preferred stock at its aggregate liquidation amount plus accrued dividends, or approximately $2 billion. The excess of the aggregate liquidation amount over the $1.89 billion carrying value of the preferred stock, which totaled approximately $106 million, was recorded as a reduction of retained earnings, and thus affected earnings available to common shareholders for the second quarter and first six months of 2009. In July 2009, we repurchased the warrant to purchase shares of our common stock originally issued to Treasury as part of its equity investment at its fair value of $60 million. The repurchase reduced shareholders equity, but will not affect our earnings available to common shareholders, since it was recorded as a reduction of surplus. Additional information about these transactions is provided in note 10 to the consolidated financial statements included in this Form 10-Q.

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

Effective April 1, 2009, we adopted the provisions of FASB Staff Position No. FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*. The FSP generally requires that the credit-related portion of other-than-temporary impairment losses recognized during the period for certain debt securities be reflected in results of operations, and that the portion of the losses related to factors other than credit be recognized as a component of other comprehensive income in the balance sheet. Previous guidance required impairment losses not related to credit to be recognized in results of operations.

For the second quarter and first six months of 2009, we identified certain securities that we considered to be other-than-temporarily impaired. The resulting pre-tax losses, defined as the gross difference between the fair value and book value of these securities, were $167 million and $180 million, respectively. Our application of the provisions of the FSP resulted in the identification of $103 million of these pre-tax losses as related to factors other than credit, and these losses remained in other comprehensive income as of June 30, 2009. These losses are netted against the aforementioned gross other-than-temporary impairment losses, and the net losses are presented in our consolidated statement of income. Disclosure of other-than-temporary impairment losses, both related and not related to credit, is provided in note 2 to the consolidated financial statements included in this Form 10-Q.

FORWARD-LOOKING STATEMENTS

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

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

- global financial market disruptions and the current worldwide economic recession, and monetary and other governmental actions designed to address such disruptions and recession in the U.S. and internationally;

- increases in the potential volatility of our net interest revenue, changes in the composition of the assets on our consolidated balance sheet and the possibility that we may be required to change the manner in which we fund those assets, principally all as a result of the May 15, 2009 consolidation, for financial reporting purposes, of the asset-backed commercial paper conduits that we administer;

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

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

4

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

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

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

the possibility of our customers incurring substantial losses in investment pools where we act as agent, and the possibility of further general reductions in the valuation of assets;

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

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

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

our ability to measure the fair value of the investment securities on our consolidated balance sheet;

the results of litigation, government investigations and similar disputes and, in particular, the effect of current or potential proceedings concerning State Street Global Advisors , or SSgA s, active fixed-income strategies and other investment products, including the potential for monetary damages and negative consequences for our business and our reputation arising from the previously reported Wells notice we received from the SEC;

the enactment of legislation and changes in regulation and enforcement that impact us and our customers;

adverse publicity or other reputational harm;

our ability to pursue acquisitions, strategic alliances and divestures, finance future business acquisitions and obtain regulatory approvals and consents for acquisitions;

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

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

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

the potential for new products and services to impose additional costs on us and expose us to increased operational risk, and our ability to protect our intellectual property rights;

changes in government regulation or new legislation, which may increase our costs, expose us to risk related to compliance or impact our customers;

changes in accounting standards and practices; and

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

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

Therefore, actual outcomes and results may differ materially from what is expressed in our forward-looking statements and from our historical financial results due to the factors discussed in this Management s Discussion and Analysis and elsewhere in this Form 10-Q or disclosed in our other SEC filings. Forward-looking statements should not be relied upon as representing our expectations or beliefs as of any time subsequent to the time this Form 10-Q is filed with the SEC. State Street undertakes no obligation to revise the forward-looking statements contained in this Form 10-Q to reflect events after the time it is filed with the SEC. The factors discussed above are not intended to be a complete summary of all risks and uncertainties that may affect our businesses. We cannot anticipate all potential economic, operational and financial developments that may adversely impact our operations and our financial results.

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

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

OVERVIEW OF FINANCIAL RESULTS

(Dollars in millions, except per share amounts)	Quarters Ended June 30, 2009	2008	% Change	Six Months Ended June 30, 2009	2008	% Change
Total fee revenue	**$ 1,516**	$ 2,006	(24)%	**$ 2,938**	$ 3,967	(26)%
Net interest revenue	**580**	657	(12)	**1,144**	1,282	(11)
Gains (Losses) related to investment securities, net	**26**	9		**42**		
Total revenue	**2,122**	2,672	(21)	**4,124**	5,249	(21)
Provision for loan losses	**14**			**98**		
Expenses:						
Expenses from operations	**1,352**	1,809	(25)	**2,639**	3,557	(26)
Merger and integration costs	**12**	32	(63)	**29**	58	(50)
Total expenses	**1,364**	1,841	(26)	**2,668**	3,615	(26)
Income before income tax expense and extraordinary loss	**744**	831	(10)	**1,358**	1,634	(17)
Income tax expense	**242**	283		**380**	556	
Income before extraordinary loss	**502**	548	(8)	**978**	1,078	(9)
Extraordinary loss, net of taxes	**(3,684)**			**(3,684)**		
Net income (loss)	**$ (3,182)**	$ 548		**$ (2,706)**	$ 1,078	
Adjustments to net income (loss)[(1)]	**(132)**			**(163)**		
Net income before extraordinary loss available to common shareholders	**$ 370**	$ 548	(32)	**$ 815**	$ 1,078	(24)
Net income (loss) available to common shareholders	**$ (3,314)**	$ 548		**$ (2,869)**	$ 1,078	
Earnings per common share before extraordinary loss:						
Basic	**$ .80**	$ 1.36		**$ 1.82**	$ 2.72	
Diluted	**.79**	1.35		**1.81**	2.70	
Earnings (loss) per common share:						
Basic	**$ (7.16)**	$ 1.36		**$ (6.40)**	$ 2.72	
Diluted	**(7.12)**	1.35		**(6.37)**	2.70	
Average common shares outstanding (in thousands):						
Basic	**462,399**	402,482		**447,370**	395,212	

Diluted	**465,814**	406,964	**450,483**	399,684
Cash dividends declared	**.01**	.24	**.02**	.47
Return on common shareholders equity[2]	**13.0%**	18.6%	**14.4%**	18.6%

(1) Adjustments are described in note 17 to the consolidated financial statements included in this Form 10-Q.

(2) For the quarter and six months ended June 30, 2009, return on common shareholders equity was determined by dividing annualized net income before extraordinary loss available to common shareholders by average common shareholders equity for the period.

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

Financial Highlights

For the second quarter of 2009, we recorded a net loss available to common shareholders of $3.31 billion, or $7.12 per diluted common share, which included an after-tax extraordinary loss of $3.68 billion, or $7.91 per diluted common share, related to the previously reported consolidation, for financial reporting purposes, of the asset-backed commercial paper conduits that we administer onto our balance sheet in May 2009. Including the extraordinary loss, the net loss available to common shareholders was $2.87 billion, or $6.37 per diluted common share, for the six months ended June 30, 2009.

Before the after-tax extraordinary loss of $3.68 billion, net income available to common shareholders was $370 million, or $.79 per diluted common share, for the second quarter of 2009, compared to $548 million, or $1.35 per diluted share, for the second quarter of 2008. Net income before the extraordinary loss was $815 million and diluted earnings per share were $1.81 for the first six months of 2009, compared to $1.08 billion and $2.70 for the first six months of 2008. Return on common shareholders equity (before the extraordinary loss for the 2009 periods) was 13.0% compared to 18.6% for the second quarter of 2008, and 14.4% compared to 18.6% for the first six months of 2008.

Total revenue for the second quarter of 2009 decreased 21% compared to the second quarter of 2008, with total fee revenue down 24%. Generally, all fee revenue types were down compared to the prior-year quarter, reflecting the impact of the ongoing instability in the global financial markets. Servicing fee and management fee revenue were down 19% and 31%, respectively, from the year-ago quarter, compared to generally greater declines in equity market valuations over the same period as measured by the published indices presented in the INDEX table in this Management s Discussion and Analysis on page 11. Trading services revenue decreased primarily as a result of lower trading volumes, partially offset by higher levels of volatility. Securities finance revenue decreased compared to the second quarter of 2008 primarily from lower lending volumes reflective of lower asset values and lower demand.

Net interest revenue decreased 12% for the second quarter of 2009 compared to the prior-year second quarter, or 11% on a fully taxable-equivalent basis ($611 million compared to $685 million, reflecting tax-equivalent adjustments of $31 million and $28 million, respectively), with a related decrease in net interest margin of 38 basis points. The decline was generally the result of decreases in interest-bearing deposit volumes and interest rate spreads, reflecting relatively more stable financial markets compared to 2008, as well as the impact of our more conservative re-investment strategy during 2009 with respect to our investment securities portfolio, partly offset by the discount accretion related to the conduit assets consolidated in May 2009. This investment strategy, which is an element of our previously disclosed plan to improve our tangible common equity, includes the investment of excess cash in short-term money market instruments, including interest-bearing deposits at the Federal reserve and other central banks in excess of minimum reserve requirements, in light of the ongoing instability in the global financial markets and to increase our overall liquidity.

We recorded a provision for loan losses of $98 million during the first six months of 2009, of which $14 million was recorded in the second quarter, related to commercial real estate loans purchased in 2008 from certain customers pursuant to indemnified repurchase agreements. The provision reflected management s revised expectation of future principal and interest cash flows with respect to certain of these loans. Management s change in expectation resulted primarily from its assessment of the impact of deteriorating economic conditions in the commercial real estate markets on certain of these loans during the first half of 2009.

Total expenses decreased 26% to $1.36 billion for the second quarter of 2009 compared to the 2008 quarter, primarily the result of a 34% reduction in salaries and benefits expense. This decrease was mainly attributable to

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

lower accruals of incentive compensation in 2009, as well as the impact of our previously announced reduction in force. The decrease in total expenses also reflected the impact of lower transaction processing expenses and lower professional fees. Expenses for the second quarter of 2009 included $12 million of merger and integration costs associated with the 2007 acquisition of Investors Financial, compared to $32 million for the second quarter of 2008.

With the decline in total expenses exceeding the decline in total revenue for the second quarter of 2009 compared to the second quarter of 2008, we achieved positive operating leverage. We define operating leverage as the difference between the growth rate of total revenue and the growth rate of total expenses.

Results for the second quarter of 2009 included the following significant items outside of the ordinary course of our business.

Effective May 15, 2009, we elected to take action that resulted in the consolidation onto our balance sheet, for financial reporting purposes, of all of the assets and liabilities of the four third-party-owned, special purpose, multi-seller asset-backed commercial paper conduits that we administer, and recorded a related after-tax extraordinary loss of approximately $3.68 billion in our consolidated statement of income; and

In June 2009, we redeemed the preferred stock portion of the equity investment issued to the U.S. Treasury in October 2008 under the TARP Capital Purchase Program, reducing retained earnings, and as a result earnings available to common shareholders, by approximately $106 million for the second quarter and first six months of 2009, by accelerating the accretion of the remaining discount on the preferred stock. This discount would have reduced retained earnings (and earnings available to common shareholders) and increased the carrying value of the preferred stock for the periods over which we expected it to be outstanding.

At June 30, 2009, we had aggregate assets under custody and administration of $16.39 trillion, which increased $487 billion, or 3%, from $15.91 trillion at December 31, 2008, and decreased $3.34 trillion, or 17%, from $19.73 trillion at June 30, 2008. At June 30, 2009, we had aggregate assets under management of $1.56 trillion, which increased $113 billion, or 8%, from $1.44 trillion at December 31, 2008, and decreased $337 billion, or 18%, from $1.89 trillion at June 30, 2008. The decreases in these assets from June 30, 2008 to June 30, 2009 were primarily associated with the ongoing instability in the global financial markets and resulting declines in asset valuations.

During the first half of 2009, we generated approximately $458 billion of gross new business in assets to be serviced, for which we will provide various services including accounting, fund administration, custody, foreign exchange, transition management, currency management, securities finance, transfer agency, performance analytics, compliance reporting and monitoring, hedge fund servicing and private equity administration, and investment manager operations outsourcing. With respect to this new business, we expect to earn fee revenue in future periods as we begin to service the assets.

During the first half of 2009, we generated approximately $41 billion of net new business in assets to be managed, for which we will provide various asset management services including passive index strategies and exchange-traded funds. With respect to this new business, we expect to earn fee revenue in future periods as we manage the customer assets.

Our effective tax rates for the second quarter and first six months of 2009 were 32.6% and 28.0%, respectively, compared to 34% for both periods in 2008.

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

CONSOLIDATED RESULTS OF OPERATIONS

This section discusses our consolidated results of operations for the second quarter and first six months of 2009 compared to the same periods in 2008, and should be read in conjunction with the consolidated financial statements and accompanying notes included elsewhere in this Form 10-Q.

TOTAL REVENUE

	Quarters Ended June 30,			Six Months Ended June 30,		
(Dollars in millions)	**2009**	**2008**	**% Change**	**2009**	**2008**	**% Change**
Fee revenue:						
Servicing fees	**$ 795**	$ 977	(19)%	**$ 1,561**	$ 1,937	(19)%
Management fees	**193**	280	(31)	**374**	558	(33)
Trading services	**310**	320	(3)	**555**	686	(19)
Securities finance	**201**	352	(43)	**382**	655	(42)
Processing fees and other	**17**	77	(78)	**66**	131	(50)
Total fee revenue	**1,516**	2,006	(24)	**2,938**	3,967	(26)
Net interest revenue:						
Interest revenue	**773**	1,137	(32)	**1,511**	2,425	(38)
Interest expense	**193**	480	(60)	**367**	1,143	(68)
Net interest revenue	**580**	657	(12)	**1,144**	1,282	(11)
Gains (Losses) related to investment securities, net	**26**	9		**42**		
Total revenue	**$ 2,122**	$ 2,672	(21)	**$ 4,124**	$ 5,249	(21)

Fee Revenue

Servicing and management fees collectively comprised approximately 65% and 66% of our total fee revenue for the second quarter and first six months of 2009 compared to approximately 63% for both periods in 2008. These fees are a function of several factors, including the mix and volume of assets under custody and administration and assets under management, securities positions held and the volume of portfolio transactions, and the types of products and services used by customers, and are affected by changes in worldwide equity and fixed-income valuations.

Generally, servicing fees are affected, in part, by changes in daily average valuations of assets under custody and administration, while management fees are affected by changes in month-end valuations of assets under management. Additional factors, such as the level of transaction volumes, changes in service level, balance credits, customer minimum balances, pricing concessions and other factors, may have a significant effect on servicing fee revenue. Generally, management fee revenue is more sensitive to market valuations than servicing fee revenue. Management fees also include performance fees, which amounted to less than 1% of management fees for both the second quarter and first six months of 2009 compared to 1% and 2% for each of the second quarter and first six months of 2008 respectively. Performance fees are generated when the performance of certain managed funds exceeds benchmarks specified in the management agreements. We experience more volatility with performance fees than with more traditional management fees.

In light of the above, we estimate, assuming all other factors remain constant, that a 10% increase or decrease in worldwide equity values would result in a corresponding change in our total revenue of

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

approximately 2%. If fixed-income security values were to increase or decrease by 10%, we would anticipate a corresponding change of approximately 1% in our total revenue. We would expect the foregoing relationships to exist in normalized financial markets. These relationships were not experienced in 2008 or in the first six months of 2009, in light of the ongoing instability in the global financial markets. Those disrupted conditions adversely affected our servicing and management fee revenues for 2008 and the first six months of 2009, which are based, in part, on the value of assets under custody and administration or assets under management as described earlier in this section. In general, our trading services revenue benefited from volatility in the markets, and our securities finance revenue benefited slightly from wider spreads, in spite of a decline in securities lending volumes caused by reduced or suspended participation by some institutional investors in the program. Collectively, these positive trends offset a portion of the market-related impact on certain of our revenue which, in general, was more significant then we would anticipate in normalized markets. We cannot predict with any certainty what the impact of changes in equity and fixed-income security values will be on our market-driven revenue for full-year 2009.

The following table presents selected equity market indices for the quarters ended June 30, 2009 and 2008. Daily averages and the averages of month-end indices demonstrate worldwide equity market valuation changes that affect servicing and management fee revenue, respectively. Quarter-end indices affect the value of assets under custody and management at those dates. The index names listed in the table are service marks of their respective owners.

INDEX

	Daily Averages of Indices			Average of Month-End Indices			Quarter-End Indices		
	2009	**2008**	**Change**	**2009**	**2008**	**Change**	**2009**	**2008**	**Change**
S&P 500®	**893**	1,372	(35)%	**904**	1,355	(33)%	**919**	1,280	(28)%
NASDAQ®	**1,733**	2,425	(29)	**1,776**	2,409	(26)	**1,835**	2,293	(20)
MSCI EAFE®	**1,237**	2,103	(41)	**1,270**	2,084	(39)	**1,307**	1,967	(34)

Servicing Fees

Servicing fees are derived from custody, product- and participant-level accounting, daily pricing and administration; recordkeeping; investment manager and hedge fund manager operations outsourcing; master trust and master custody; and performance, risk and compliance analytics. The 19% decrease in servicing fees for both the quarterly and six-month comparisons was primarily attributable to the impact of declines in daily average equity market valuations. The following tables set forth the composition of assets under custody and administration, as well as the composition of assets under custody included in these aggregate amounts.

	Assets Under Custody and Administration			Assets Under Custody[1]		
(in billions)	**June 30, 2009**	**December 31, 2008**	**June 30, 2008**	**June 30, 2009**	**December 31, 2008**	**June 30, 2008**
Mutual funds	**$ 4,244**	$ 4,093	$ 5,192	**$ 4,039**	$ 3,896	$ 4,998
Collective funds	**3,004**	2,679	3,727	**2,318**	2,173	3,050
Pension products	**3,852**	3,621	4,915	**2,969**	2,784	3,790
Insurance and other products	**5,294**	5,514	5,893	**3,011**	3,188	3,419
Total	**$ 16,394**	$ 15,907	$ 19,727	**$ 12,337**	$ 12,041	$ 15,257

(1) Assets under custody are included in the amounts of assets under custody and administration presented for each period-end.

11

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

Financial Instrument Mix	Assets Under Custody and Administration			Assets Under Custody[1]		
(in billions)	June 30, 2009	December 31, 2008	June 30, 2008	June 30, 2009	December 31, 2008	June 30, 2008
Equities	**$ 6,456**	$ 6,691	$ 8,365	**$ 5,307**	$ 5,003	$ 7,269
Fixed-income	**6,901**	6,689	7,665	**5,217**	5,014	4,910
Short-term and other investments	**3,037**	2,527	3,697	**1,813**	2,024	3,078
Total	**$ 16,394**	$ 15,907	$ 19,727	**$ 12,337**	$ 12,041	$ 15,257

[1] Assets under custody are included in the amounts of assets under custody and administration presented for each period-end.

Management Fees

The 31% and 33% decreases in management fees for the second quarter and first six months of 2009, respectively, compared to the second quarter and first six months of 2008, primarily resulted from declines in average month-end equity market valuations. Average month-end equity market valuations, individually presented in the foregoing INDEX table, were lower for the second quarter of 2009 compared to the second quarter of 2008.

Assets under management consisted of the following:

ASSETS UNDER MANAGEMENT

(In billions)	June 30, 2009	December 31, 2008	June 30, 2008
Equities:			
Passive	**$ 610**	$ 576	$ 752
Active and other	**87**	91	162
Company stock/ESOP	**41**	39	61
Total equities	**738**	706	975
Fixed-income:			
Passive	**293**	238	233
Active	**29**	32	32
Cash and money market	**497**	468	654
Total fixed-income and cash and money market	**819**	738	919
Total	**$ 1,557**	$ 1,444	$ 1,894

The following table presents a roll-forward of assets under management for the twelve months ended June 30, 2009:

ASSETS UNDER MANAGEMENT

(In billions)	
June 30, 2008	$ 1,894
Net new business[1]	(70)
Market appreciation (depreciation)	(380)
December 31, 2008	$ 1,444
Net new business[1]	**41**
Market appreciation (depreciation)	**72**
June 30, 2009	**$ 1,557**

(1) Net new business is measured as the aggregate value of new asset management business added less asset management business lost during the period.

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

Trading Services

Trading services revenue, which includes foreign exchange trading revenue and brokerage and other trading fees, decreased slightly for the second quarter of 2009 compared to the second quarter of 2008 and decreased 19% in the six-month comparison. Foreign exchange trading revenue for the second quarter and first six months of 2009 totaled $190 million and $381 million, respectively, down 16% and 23% from $227 million and $492 million, respectively, for the corresponding prior-year periods. The quarterly decrease was primarily the result of the impact of a 20% decline in aggregate customer volumes, both in custody foreign exchange services and foreign exchange trading and sales, partly offset by the impact of a 47% increase in currency volatility. The six-month decrease was primarily the result of the impact of a 25% decline in aggregate customer volumes, both in custody foreign exchange services and foreign exchange trading and sales, partly offset by the effect of a 61% increase in currency volatility.

Brokerage and other trading fees totaled $120 million for the second quarter of 2009, up 29% from $93 million for the second quarter of 2008, primarily due to higher levels of brokerage and trading services and the impact of improved transition management business. For the first six months of 2009, brokerage and other trading fees were $174 million, down 10% from $194 million from the corresponding 2008 period, primarily due to a decline in trading profits.

Securities Finance

Securities finance revenue for the second quarter of 2009 decreased $151 million, or 43%, compared to the particularly strong second quarter of 2008 and $273 million, or 42%, in the six-month comparison. The decreases in the quarterly and year-to-date comparisons were primarily due to the impact of 38% and 40% declines, respectively, in the average volume of securities on loan, partly offset by slightly higher spreads in both comparisons.

Beginning in the third quarter of 2008, a number of institutional investors suspended or limited their participation in our securities lending program, resulting in lower lendable volumes. During 2008, we experienced significant withdrawal activity from the underlying collateral pools, primarily to allow the lending programs to meet daily mark-to-market collateral adjustments caused by significant declines in the values of securities on loan or to satisfy obligations to return collateral upon the return of borrowed securities. This activity, which occurs in the normal course of our business, contributed to a net reduction of the value of securities on loan from June 30, 2008 to December 31, 2008 of approximately 41%. The value of securities on loan increased approximately 6% between December 31, 2008 and June 30, 2009.

During the disruption in the global financial markets in 2008 and 2009, we were able to manage the outflows of cash collateral, as well as the impact of the disruptions in the credit markets, in a manner that substantially reduced the risk of loss to our customers. However, we imposed in 2008, and continued to impose during the first half of 2009, limitations on withdrawals from our lending programs in order to manage the liquidity in the cash collateral pools. The net asset value of our cash collateral pools, determined using information from independent third parties, has fallen below $1.00 per unit. At June 30, 2009, the net asset value, based on the market value of our unregistered cash collateral pools, ranged from $0.91 to $1.01, with the weighted-average net asset value on that date equal to $0.958, compared to $0.939 at December 31, 2008. However, we continue to transact purchases into and redemptions out of these pools at $1.00 per unit. We are maintaining this practice for a number of reasons, including the fact that none of the securities in the cash collateral pools are currently in default or are considered to be impaired, and our implementation of restrictions on withdrawals.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

We cannot determine how long the withdrawal limitations will remain in place, nor can we determine how long the valuation of the collateral pools, which we believe to be influenced significantly by market illiquidity, will remain so influenced. The continuation of either trend could materially affect the longer-term prospects for our securities lending business. During the second quarter of 2009, a purported class action was filed regarding certain collateral pools underlying funds managed by SSgA, and we are responding to inquiries from the SEC and other regulatory authorities in connection with our cash collateral pools. Additional information is included in the discussion of risk factors in our Current Report on Form 8-K filed with the SEC on May 18, 2009.

Processing Fees and Other

The 78% decrease in processing fees and other revenue in the quarterly comparison reflected the impact of a decline in certain product-related revenue, partially offset by favorable market gains from our tax-exempt investment program. The 50% decrease in the six-month comparison resulted from the impact of a decline in certain product-related revenue, partially offset by an increase in administrative fees related to the conduits, which for 2009 were recorded in this line item up to the May 15 consolidation.

NET INTEREST REVENUE

	For the Quarters Ended June 30,					
	2009			2008		
(Dollars in millions; fully taxable-equivalent basis)	Average Balance	Interest Revenue/ Expense	Rate	Average Balance	Interest Revenue/ Expense	Rate
Federal funds sold and securities purchased under resale agreements	**$ 4,864**	**$ 6**	**.54%**	$ 15,528	$ 99	2.56%
Investment securities	**75,481**	**686**	**3.65**	71,694	756	4.24
Investment securities purchased under AMLF[1]	**444**	**1**	**.86**			
Loans and leases	**9,365**	**60**	**2.58**	10,643	82	3.17
Other	**37,271**	**51**	**.55**	21,532	228	4.25
Total interest-earning assets	**$ 127,425**	**$ 804**	**2.53**	$ 119,397	$ 1,165	3.93
Deposits	**$ 71,545**	**$ 54**	**.31%**	$ 83,095	$ 328	1.58%
Short-term borrowings under AMLF[1]	**443**	**1**	**.67**			
Other short-term borrowings	**32,437**	**55**	**.74**	20,996	95	1.82
Long-term debt	**8,650**	**83**	**3.85**	4,138	57	5.55
Total interest-bearing liabilities	**$ 113,075**	**$ 193**	**.68**	$ 108,229	$ 480	1.79
Interest-rate spread			**1.85%**			2.14%
Net interest revenue fully taxable-equivalent basis[2]		**$ 611**			$ 685	
Net interest margin fully taxable-equivalent basis			**1.93%**			2.31%
Net interest revenue GAAP basis		**$ 580**			$ 657	

(1) Amounts represent averages of asset-backed commercial paper purchases from eligible unaffiliated money market mutual funds under the Federal Reserve s AMLF, and associated borrowings.

(2) Amounts include tax-equivalent adjustments of $31 million for 2009 and $28 million for 2008.

14

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

	For the Six Months Ended June 30,					
	2009			2008		
(Dollars in millions; fully taxable-equivalent basis)	**Average Balance**	**Interest Revenue/ Expense**	**Rate**	**Average Balance**	**Interest Revenue/ Expense**	**Rate**
Federal funds sold and securities purchased under resale agreements	**$ 4,167**	**$ 14**	**.68%**	$ 15,980	$ 242	3.05%
Investment securities	**72,821**	**1,298**	**3.59**	72,514	1,613	4.47
Investment securities purchased under AMLF[1]	**1,770**	**25**	**2.87**			
Loans and leases	**8,894**	**103**	**2.36**	11,590	201	3.51
Other	**36,327**	**134**	**.74**	18,705	420	4.51
Total interest-earning assets	**$ 123,979**	**$ 1,574**	**2.56**	$ 118,789	$ 2,476	4.19
Deposits	**$ 69,182**	**$ 119**	**.35%**	$ 81,232	$ 792	1.96%
Short-term borrowings under AMLF[1]	**1,760**	**18**	**2.03**			
Other short-term borrowings	**28,608**	**87**	**.61**	20,982	234	2.24
Long-term debt	**6,917**	**143**	**4.15**	4,079	117	5.73
Total interest-bearing liabilities	**$ 106,467**	**$ 367**	**.69**	$ 106,293	$ 1,143	2.16
Interest-rate spread			**1.87%**			2.03%
Net interest revenue fully taxable-equivalent basis[2]		**$ 1,207**			$ 1,333	
Net interest margin fully taxable-equivalent basis			**1.96%**			2.26%
Net interest revenue GAAP basis		**$ 1,144**			$ 1,282	

(1) Amounts represent averages of asset-backed commercial paper purchases from eligible unaffiliated money market mutual funds under the Federal Reserve s AMLF, and associated borrowings.

(2) Amounts include tax-equivalent adjustments of $63 million for 2009 and $51 million for 2008.

Net interest revenue is defined as the total of interest revenue earned on interest-earning assets less interest expense incurred on interest-bearing liabilities. Interest-earning assets, which consist of investment securities, loans and leases and other liquid assets, are financed primarily by customer deposits and short-term borrowings. Net interest margin represents the relationship between annualized net interest revenue and average interest-earning assets for the period. Changes in the components of interest-earning assets and interest-bearing liabilities are discussed in more detail below. Additional detail about the components of interest revenue and interest expense is in note 13 to the consolidated financial statements included in this Form 10-Q.

On a fully taxable-equivalent basis, net interest revenue in the second quarter of 2009 decreased 11% (12% on a GAAP basis) compared to the second quarter of 2008, and net interest margin decreased to 1.93% from 2.31%. For the six months ended June 30, 2009, on a fully taxable-equivalent basis, net interest revenue decreased 9% (11% on a GAAP basis) compared to the corresponding 2008 period, and net interest margin decreased to 1.96% from 2.26%. The declines in both comparisons were generally the result of declines in interest-bearing deposit volumes and rate spreads, as well as the impact of a more conservative re-investment strategy with respect to our investment securities portfolio. This impact was partially offset by $112 million of discount accretion on the investment securities portfolio, described below, which was recorded subsequent to the May 2009 consolidation of the commercial paper conduits. Average interest-bearing deposit volumes decreased 15% in the year-to-date comparison, primarily due to the negative impact of the current low-yield environment and customers reallocation of deposits to non-interest bearing accounts to maximize deposit insurance protection.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

Effective May 15, 2009, we elected to take action that resulted in the consolidation onto our balance sheet, for financial reporting purposes, of all of the assets and liabilities of the conduits. Upon consolidation, the aggregate fair value of the conduits investment securities was established as their book value, resulting in a discount to the assets par value. To the extent that the projected cash flows of the securities exceed their book values, the portion of the discount not related to credit will be accreted into net interest revenue over the remaining lives of the securities. During the second quarter of 2009, we recorded discount accretion in net interest revenue of approximately $112 million, and we currently anticipate that this discount accretion will be a material component of interest revenue for the second half of 2009.

Average federal funds sold and securities purchased under resale agreements decreased 69%, or $10.66 billion, from $15.53 billion for the second quarter of 2008 to $4.86 billion for the second quarter of 2009, and decreased 74%, or $11.81 billion, to $4.17 billion in the six-month comparison. The decrease was mainly due to the re-allocation of liquidity to U.S. Treasury securities in the investment portfolio and the placement of excess liquidity at the Federal Reserve and other central banks.

Our average investment securities portfolio increased 5% from approximately $71.69 billion in the second quarter of 2008 to approximately $75.48 billion in the second quarter of 2009, and increased slightly in the six-month comparison. Both comparisons reflect the impact of the conduit consolidation and an increase in U.S. Treasury and Agency securities, partially offset by net run-off and sales of asset- and mortgage-backed securities. We continued to invest conservatively in AA and AAA rated securities. Securities rated AA and AAA comprised approximately 80% of the investment securities portfolio, with approximately 68% AAA rated, at June 30, 2009.

Loans and leases averaged $9.37 billion for the second quarter of 2009, down 12% from $10.64 billion for the second quarter of 2008 and $8.89 billion, down $2.70 billion, or 23%, from $11.59 billion, in the six-month comparison. For both periods, the decrease was primarily related to lower levels of short-term liquidity required by customers. Approximately 33% of the loan and lease portfolio was composed of U.S. and non-U.S. short-duration advances that provide liquidity to customers in support of their transaction flows, which averaged approximately $3.13 billion for the second quarter of 2009, down $4.12 billion, or 57%, from $7.25 billion for the corresponding quarter in 2008 and down $4.64 billion, or 58%, in the six month comparison. The lower levels of liquidity we provided to customers during the first half of 2009 were due to a decrease in customer demand and not a reduction in credit availability from, on committed lines provided by, State Street. As transaction flows returned to more normalized levels compared to the extraordinarily high levels experienced in 2008, customer demand for short-term liquidity declined. The decrease in customer overdrafts was partially offset by the addition of structured asset-backed loans in connection with the consolidation of the conduits.

Average other interest-earning assets, composed of interest-bearing deposits with banks, including cash balances held at the Federal Reserve to satisfy reserve requirements, as well as trading account assets and cash collateral deposits, increased 73%, or $15.74 billion, to $37.27 billion for the second quarter of 2009 compared to the second quarter of 2008 and for the first six months of 2009 increased $17.62 billion or 94% compared to the same period in 2008. For both the quarterly and year-to-date periods, the increase principally resulted from interest-bearing deposits with banks. An average of $20.45 billion was held at the Federal Reserve Bank during the second quarter of 2009, which resulted from our investment of the excess liquidity mentioned above, and which exceeded minimum reserve requirements, due to the ongoing instability in the global financial markets. Beginning in the fourth quarter of 2008, reserve balances held at the Federal Reserve Bank earn a minimal level of interest.

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

Average interest-bearing deposits decreased $11.55 billion, or 14%, from $83.10 billion to $71.55 billion for the second quarter of 2009 compared to the second quarter of 2008. For the six-month period, average interest-bearing deposits decreased $12.05 billion or 15% to $69.18 billion. In both the quarterly and six-month comparisons, the decreases were due to lower levels of U.S. and non-U.S. deposits reflective of the current low-yield interest environment, and customers reallocation of their deposits to non-interest bearing accounts to maximize deposit insurance protection.

Our average other short-term borrowings increased $11.44 billion, or 54%, to $32.44 billion, from $21 billion for the second quarter of 2008, and increased $7.63 billion, or 36%, to $28.61 billion for the first six months of 2009 compared to the corresponding period in 2008. The increases were primarily due to borrowings under the Federal Reserve s term auction facility, which is a secured lending program available to financial institutions, and short-term commercial paper, which was added in connection with the consolidation of the conduits.

For the second quarter of 2009, average long-term debt increased $4.51 billion, or 109%, to $8.65 and $2.83 billion or 70% to $6.92 billion, in the six-month comparison, both due to the issuance of an aggregate of approximately $4 billion of unsecured senior notes by State Street and State Street Bank in March 2009 under the FDIC s Temporary Liquidity Guarantee Program and the issuance by State Street of $500 million of unsecured senior notes in May 2009.

Several factors could affect future levels of our net interest revenue and margin, including the mix of customer liabilities, actions of the various central banks, changes in U.S. and non-U.S. interest rates, and the shapes of the various yield curves around the world. Depending on market conditions and progress on our previously announced tangible common equity improvement plan, we may begin to reinvest proceeds from amortizing and maturing securities in highly rated investment securities, such as U.S. Treasuries and federal agencies, mortgage-backed securities, asset-backed securities and other similarly-rated securities. The pace at which we reinvest and the securities purchased will depend on market conditions over time. Any such purchases made will generally be in lieu of placing cash with the Federal Reserve or other central banks.

The decision to place the proceeds of amortizing and maturing securities at the Federal Reserve and other central banks during the first half of 2009 did have an adverse impact on our net interest revenue and net interest margin during that period. Going forward, the pace of reinvestment, the securities purchased and the level of interest rates worldwide will dictate what impact the reinvestment program will have on our net interest revenue and net interest margin in future periods.

Gains (Losses) Related to Investment Securities, Net

We recorded net gains of $90 million from sales of available-for-sale securities in the second quarter of 2009 and $119 million during the first six months of 2009, compared to net gains of $9 million and $15 million, respectively, in the 2008 periods. In addition, we recorded losses from other-than-temporary impairment, related to credit, of $64 million and $77 million in the second quarter and first six months of 2009, respectively, compared to $15 million in the first six months of 2008, all recorded in that year s second quarter, which resulted from our impairment analysis process. For the second quarter of 2009, the losses were composed of $47 million associated with expected credit losses, and $17 million related to changes in management s intention to hold impaired securities to their ultimate recovery in value. The majority of the impairment losses related to non-agency mortgage-backed securities which management concluded, pursuant to its analysis, had experienced credit losses based on the present value of the expected cash flows. These securities are classified as asset-backed securities in note 3 to the consolidated financial statements included in this Form 10-Q.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

(Dollars in millions)	Quarters Ended June 30, 2009	2008	Six Months Ended June 30, 2009	2008
Net gains from sales of available-for-sale securities	**$ 90**	$ 9	**$ 119**	$ 15
Losses from other-than-temporary impairment	**(167)**		**(180)**	(15)
Losses not related to credit[(1)]	**103**		**103**	
Net impairment losses	**(64)**		**(77)**	(15)
Gains (Losses) related to investment securities, net	**$ 26**	$ 9	**$ 42**	$

(1) These losses were recognized as a component of other comprehensive income; refer to note 10 to the consolidated financial statements included in this Form 10-Q.

Management regularly reviews the investment securities portfolio to determine whether to record other-than-temporary impairment. Historically, we have recognized losses from other-than-temporary impairment of debt and equity securities for either a change in management intention or expected credit losses. These impairment losses, which reflected the entire difference between the fair value and amortized cost basis of each individual security, were recorded in our consolidated results of operations.

Pursuant to FSP FAS No. 115-2 and 124-2, the provisions of which we adopted effective April 1, 2009, impairment related to expected losses represents the difference between the discounted values of the expected future cash flows from the securities compared to their current amortized cost basis, with each discount rate commensurate with the effective yield on the underlying security. For debt securities held to maturity, other-than-temporary impairment remaining after credit-related impairment (recorded in our consolidated results of operations) is recognized as a component of other comprehensive income. For other-than-temporary impairment of debt securities that results from a change in management s intent or ability not to sell the security prior to its recovery in value, the entire difference between the security s fair value and its amortized cost basis is recorded in our consolidated results of operations.

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

Provision for loan losses

We recorded provisions for loan losses of $14 million during the second quarter of 2009 and $98 million during the first six months of 2009, in order to reflect management s revised expectation of future principal and interest cash flows with respect to certain of the commercial real estate loans carried on our balance sheet that were purchased in 2008 from certain customers in connection with indemnified repurchase agreements. The change in management s expectation was primarily based on its assessment of the impact of the deteriorating economic conditions in the commercial real estate markets on certain of these loans during the first half of 2009. Future changes in expectations with respect to collection of principal and interest on these loans could result in additional provisions for loan losses. The allowance for loan losses related to these loans was reduced by net charge-offs totaling $8 million, all of which were recorded during the first quarter of 2009.

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

EXPENSES

	Quarters Ended June 30,			Six Months Ended June 30,		
(Dollars in millions)	2009	2008	% Change	2009	2008	% Change
Salaries and employee benefits	**$ 696**	$ 1,060	(34)%	**$ 1,427**	$ 2,122	(33)%
Information systems and communications	**167**	164	2	**328**	319	3
Transaction processing services	**146**	172	(15)	**277**	334	(17)
Occupancy	**121**	115	5	**242**	225	8
Other:						
Merger and integration costs	**12**	32	(63)	**29**	58	(50)
Professional services	**73**	106	(31)	**108**	188	(43)
Amortization of other intangible assets	**34**	33	3	**68**	66	3
Regulator fees and assessments	**40**	4	900	**52**	6	767
Other	**75**	155	(52)	**137**	297	(54)
Total other	**234**	330	(29)	**394**	615	(36)
Total expenses	**$ 1,364**	$ 1,841	(26)	**$ 2,668**	$ 3,615	(26)
Number of employees at quarter end	**26,950**	28,700				

Salaries and employee benefits expense decreased in the quarterly and year-to-date comparisons mainly due to lower accruals of incentive compensation in the first and second quarters of 2009, as well as the impact of our previously announced reduction in force, which was substantially completed in the first quarter of 2009, and lower contract services spending. We expect relatively higher salaries and benefits expense during the second half of 2009 compared to this year s first half, as we accrue incentive compensation commensurate with our financial performance for the remainder of 2009.

Information systems and communications expense for the second quarter and first six months of 2009 included spending on telecommunications hardware and software. Transaction processing services expense decreased for both the second quarter and first six months due to lower volumes in the investment servicing business and lower external contract costs.

The increase in occupancy costs in the quarterly and year-to-date comparisons resulted primarily from the impact of additional leased space acquired to support growth in the hedge funds servicing and investment manager operations outsourcing businesses, as well as higher occupancy costs in support of expansion in Europe, including our new facility in the U.K.

Other expenses decreased in the second quarter of 2009 compared to the second quarter of 2008, and in the six-month comparison, mainly due to reduced securities processing costs and lower professional services fees, partially offset by an increase in regulatory fees and assessments associated with (1) the cost of unlimited insurance protection for non-interest bearing demand deposits instituted by the FDIC during the fourth quarter of 2008, and (2) the impact of a special assessment on insured depository institutions instituted by the FDIC during the second quarter of this year.

Income Taxes

We recorded income tax expense of $242 million for the second quarter of 2009, compared to $283 million for the second quarter of 2008. For the first six months of 2009, income tax expense was $380 million, compared

19

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

to $556 million for the corresponding 2008 period. Our effective tax rates for the second quarter and first six months of 2009 were 32.6% and 28.0%, respectively, compared to 34% for both the second quarter and first six months of 2008.

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 in note 24 to the consolidated financial statements included in our 2008 Form 10-K.

The following is a summary of our line of business results. The amounts in the Divestitures columns for 2008 represent the operating results of our joint venture interest in CitiStreet prior to its sale in July 2008. The amounts presented in the Other columns for 2009 represent the provision for loan losses associated with commercial real estate loans purchased in 2008 and the merger and integration costs recorded in connection with our July 2007 acquisition of Investors Financial, and for the six months ended June 30, 2009, net interest earned in connection with our participation in the Federal Reserve Bank of Boston s AMLF. The 2008 amount represents the merger and acquisition costs recorded in connection with the acquisition of Investors Financial. The amounts in the Divestitures and Other columns were not allocated to State Street s business lines.

	For the Quarters Ended June 30,									
(Dollars in millions,	Investment Servicing		Investment Management		Divestitures		Other		Total	
except where otherwise noted)	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
Fee revenue:										
Servicing fees	**$ 795**	$ 977							**$ 795**	$ 977
Management fees			**$ 193**	$ 280					**193**	280
Trading services	**310**	320							**310**	320
Securities finance	**133**	259	**68**	93					**201**	352
Processing fees and other	**(10)**	55	**27**	28		$ (6)			**17**	77
Total fee revenue	**1,228**	1,611	**288**	401		(6)			**1,516**	2,006
Net interest revenue	**562**	624	**18**	31		2			**580**	657
Gains (Losses) related to investment securities, net	**26**	9							**26**	9
Total revenue	**1,816**	2,244	**306**	432		(4)			**2,122**	2,672
Provision for loan losses							**$ 14**		**14**	
Expenses from operations	**1,152**	1,493	**200**	315		1			**1,352**	1,809
Merger and integration costs							**12**	$ 32	**12**	32
Total expenses	**1,152**	1,493	**200**	315		1	**12**	32	**1,364**	1,841
Income (loss) before income taxes and extraordinary loss	**$ 664**	$ 751	**$ 106**	$ 117		$ (5)	**$ (26)**	$ (32)	**$ 744**	$ 831
Pre-tax margin	**37%**	33%	**35%**	27%						

Average assets (in billions)	**$ 147.9**	$ 140.1	**$ 3.5**	$ 3.3	$ 0.5	**$ 151.4**	$ 143.9

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

(Dollars in millions, except where otherwise noted)	For the Six Months Ended June 30, Investment Servicing		Investment Management		Divestitures		Other		Total	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
Fee revenue:										
Servicing fees	**$ 1,561**	$ 1,937							**$ 1,561**	$ 1,937
Management fees			**$ 374**	$ 558					**374**	558
Trading services	**555**	686							**555**	686
Securities finance	**258**	487	**124**	168					**382**	655
Processing fees and other	**23**	87	**43**	52		$ (8)			**66**	131
Total fee revenue	**2,397**	3,197	**541**	778		(8)			**2,938**	3,967
Net interest revenue	**1,103**	1,214	**34**	62		6	**$ 7**		**1,144**	1,282
Gains (Losses) related to investment securities, net	**42**								**42**	
Total revenue	**3,542**	4,411	**575**	840		(2)	**7**		**4,124**	5,249
Provision for loan losses							**98**		**98**	
Expenses from operations	**2,291**	2,930	**348**	624		3			**2,639**	3,557
Merger and integration costs							**29**	$ 58	**29**	58
Total expenses	**2,291**	2,930	**348**	624		3	**29**	58	**2,668**	3,615
Income (loss) before income taxes and extraordinary loss	**$ 1,251**	$ 1,481	**$ 227**	$ 216		$ (5)	**$ (120)**	$ (58)	**$ 1,358**	$ 1,634
Pre-tax margin	**35%**	34%	**39%**	26%						
Average assets (in billions)	**$ 144.6**	$ 139.3	**$ 3.2**	$ 3.3		$ 0.5			**$ 147.8**	$ 143.1

Investment Servicing

Total revenue for the second quarter of 2009 decreased 19% compared to the second quarter of 2008, and 20% in the six-month comparison. The decreases in all revenue line items reflected the impact of the ongoing instability and resulting uncertainty in the global financial markets, including declines in equity market valuations and reduced customer demand for securities lending. In both the quarterly and six-month comparisons, the decreases in servicing fees were primarily due to the impact of declines in equity market valuations. The decreases in trading services revenue reflected decreases in foreign exchange trading revenue, both in custody foreign exchange services and foreign exchange trading and sales, offset by the impact of higher levels of volatility. Securities finance revenue decreased due to lower lending volumes slightly offset by wider credit spreads.

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

Net interest revenue for the second quarter of 2009 decreased 10% compared to the second quarter of 2008, and 9% for the first six months of 2009 compared to the corresponding 2008 period, with both decreases primarily due to the impact of lower interest-bearing customer deposit volumes and interest rate spreads, partly offset by the discount accretion recorded following the consolidation of the conduits, which accretion is more fully discussed in the Total Revenue Net Interest Revenue section of this Management s Discussion and Analysis. A portion of consolidated

net interest revenue is recorded in the Investment Management business line based on the volume of customer liabilities attributable to that business.

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

Total expenses for the second quarter of 2009 decreased 23% compared to the second quarter of 2008, and 22% for the first six months of 2009 compared to the first six months of 2008. Both decreases were attributable to lower levels of salaries and benefits costs, which reflected the impact of lower accruals of incentive compensation as well as the impact of our previously announced reduction in force and lower contract services spending. Other expenses decreased as a result of lower levels of securities processing costs and professional fees, slightly offset by a special assessment on insured depository institutions instituted by the FDIC.

Investment Management

Total revenue for the second quarter of 2009 decreased 29% compared to the second quarter of 2008, reflecting a 28% decline in total fee revenue and a 42% decline in net interest revenue. For the six months ended June 30, 2009, total revenue decreased 32% compared to the corresponding prior-year period, due to a 30% decrease in fee revenue and a 45% decline in net interest revenue.

With respect to management fees, which are generated by SSgA, the decreases resulted primarily from the impact of declines in equity market valuations. Management fees for the Investment Management business line are identical to the respective consolidated results. Refer to the Management Fees caption in the Total Revenue section of this Management s Discussion and Analysis for a more-in depth discussion.

For the second quarter of 2009, total expenses decreased 37% compared to the second quarter of 2008, and 44% in the six-month comparison. Both decreases were primarily attributable to decreases in salaries and benefits due to lower accruals of incentive compensation, the impact of reductions in staffing levels, and lower securities processing costs and professional fees.

In connection with certain funds managed by SSgA that engage in securities lending, we have imposed limitations on the ability of participants in those funds to redeem units in an effort to address the impact of the disruption in the fixed-income securities markets on the liquidity of certain assets held by the cash collateral pools underlying these funds. In addition, beginning as of the end of the most recent fiscal year of these funds, the value of these funds, in accordance with GAAP, reflects a net asset value based upon the net asset value of the cash collateral pools in which the proceeds from securities lending are invested. Although these funds continue to transact purchase and redemption orders based upon the transaction value of the collateral pools of $1.00 per unit, the net asset value of the collateral pools determined in accordance with GAAP is less than $1.00 per unit. The net asset value of the collateral pools underlying the SSgA funds, which is determined based upon the market value of the cash collateral pool assets, ranged from $0.94 to $0.98, with a weighted-average net asset value of $0.958, at June 30, 2009, compared to $0.932 at December 31, 2008.

Our continuation of the limitations on participant redemptions and the difference between the net asset value used for purchase and redemption transactions and the net asset value determined in accordance with GAAP could, if either or both continue, adversely effect SSgA s reputation, the marketing of its lending funds and its future results of operations. During the second quarter of 2009, a purported class action was filed regarding certain collateral pools underlying funds managed by SSgA, and we are responding to inquiries from the SEC and other regulatory authorities in connection with our cash collateral pools. Additional information is included in the discussion of risk factors in our Current Report on Form 8-K filed with the SEC on May 18, 2009.

FAIR VALUE MEASUREMENTS

We carry certain of our financial assets and liabilities at fair value in our consolidated financial statements on a recurring basis, including trading account assets, investment securities available for sale and various types of derivative instruments.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

As discussed in further detail below, changes in the fair value of these financial assets and liabilities are recorded either as gains and losses in our consolidated statement of income, or as components of other comprehensive income within shareholders equity in our consolidated statement of condition. We estimate the fair value of all of these financial assets and liabilities using the exit price definition prescribed by SFAS No. 157, *Fair Value Measurements* and reiterated by FASB Staff Position No. FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly,* the latter of which was issued by the FASB in April 2009 and which provisions we adopted effective April 1, 2009**.**

SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for an asset or liability in an orderly transaction between market participants on the measurement date. FSP FAS 157-4 provides guidance on how to determine the fair value of assets or liabilities when the volume and level of underlying market activity have significantly decreased, and reemphasizes that the objective of fair value measurement continues to be the determination of an exit price as defined by SFAS No. 157. In the aforementioned circumstances, further analysis of transactions or quoted prices is needed, and an adjustment to the transactions or quoted prices may be necessary to estimate fair value in accordance with SFAS No. 157. The FSP does not provide new accounting guidance, but rather clarifies the existing guidance in SFAS No. 157 regarding the determination of fair value of an asset or liability when markets are inactive or transactions are executed in a distressed manner. Our fair value methodologies already incorporated these concepts and, accordingly, adoption of the FSP s provisions did not materially change our valuation methodology or underlying process.

At June 30, 2009, approximately $62.98 billion of our financial assets and approximately $4.81 billion of our financial liabilities were carried at fair value, compared to $66.92 billion and $12.36 billion, respectively, at December 31, 2008. These amounts represented approximately 41% of our consolidated total assets and approximately 3% of our consolidated total liabilities at June 30, 2009, compared to 39% and 8%, respectively, at December 31, 2008. The increase in the relative percentage of consolidated total assets as of June 30, 2009 compared to December 31, 2008, resulted primarily from the consolidation of the conduits. The decrease in the percentage of consolidated liabilities from December 31, 2008 to June 30, 2009 was the result of lower foreign exchange trading volumes.

When we measure fair value for our financial assets and liabilities, we consider the principal or most advantageous market in which we would transact, and we consider assumptions that market participants would use when pricing the asset or liability. When possible, we look to active and observable markets to measure the fair value of identical, or similar, financial assets or liabilities. When identical financial assets and liabilities are not traded in active markets, we look to market-observable data for similar assets and liabilities. In some instances, certain assets and liabilities are not actively traded in observable markets, and as a result we use alternative valuation techniques to measure their fair value.

We categorize the financial assets and liabilities that we carry at fair value in our consolidated statement of condition based upon a 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). At June 30, 2009, we categorized approximately 15% of our financial assets carried at fair value in level 1, 62% in level 2 and 23% in level 3 of the fair value hierarchy, including the effect of master netting agreements. We categorized approximately 95% of our financial liabilities carried at fair value in level 2, and 5% in level 3, including the effect of master netting agreements.

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

Financial instruments are categorized in level 1 when valuation can be based on quoted prices in active markets for identical assets or liabilities. Level 2 financial instruments are valued using quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or models using inputs that are observable or can be corroborated by observable market data of substantially the full term of the assets or liabilities. Financial instruments are categorized in level 3 when their values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable, and when measurement of the instrument s fair value requires significant management judgment or estimation.

The fair value of financial assets categorized in level 1 was substantially composed of investment securities available for sale, specifically U.S. Treasury bills, which have a maturity of one year or less. Fair value was measured by management using unadjusted quoted prices in active markets for identical securities.

The fair value of financial assets categorized in level 2 was primarily composed of investment securities available for sale, the majority of which were asset-backed, mortgage-backed and other fixed- income securities, and interest-rate and foreign exchange derivative instruments. Fair value was measured by management primarily using information obtained from independent third parties. Information obtained from third parties is subject to review by management as part of a continuous validation process. Management has developed a process to review information provided by third parties, including an understanding of underlying assumptions and the level of market participant information used to support those assumptions. In addition, management compares significant 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 spreads and the timing of cash flows.

The fair value of the derivative instruments categorized in level 2 predominantly represented foreign exchange contracts utilized in our role as a financial intermediary, for which fair value was measured by management 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. We considered factors such as the likelihood of default by us and our counterparties, our net exposures and remaining maturities in determining the appropriate measurements of fair value. Valuation adjustments associated with these factors were not significant for the first six months of 2009.

While the substantial majority of our financial assets categorized in level 3 were composed of asset-backed securities available for sale, primarily securities collateralized by student and other loans, level 3 also included foreign exchange derivative instruments, primarily options. The categorization of asset-backed securities in level 3 as of June 30, 2009 was significantly influenced by ongoing conditions in the fixed-income securities markets, including illiquidity. Little or no market activity for these securities occurred during the first six months of 2009, consistent with 2008, and as a result of the lack of price transparency, we measured their fair value using unobservable pricing inputs, such as spread indices and non-binding quotes received directly from third parties. These inputs were subject to management s review and were determined to be appropriate based on individual facts and circumstances. Generally, where our fair value measurements are based on non-binding quotes from market specialists, we obtain one quote for each individual security as necessary. Given the unique nature of each underlying security structure, it is not practical or useful to obtain multiple quotes for individual securities.

The aggregate fair value of our financial assets categorized in level 3 as of June 30, 2009, increased significantly compared to December 31, 2008, primarily as a result of the consolidation of the conduits, as the fair value of the assets consolidated was measured using information obtained from third-party sources. Transfers of trading account assets out of level 3 during the six months ended June 30, 2009 related to corporate debt securities that were transferred to our available-for-sale portfolio.

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

FINANCIAL CONDITION

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

Our customers needs and our operating objectives determine the volume, mix and currency denomination of our consolidated balance sheet. Deposits and other liabilities generated by customer activities are invested in assets that generally match the liquidity and interest-rate characteristics of the liabilities. As a result, our assets consist primarily of securities held in our available-for-sale or held-to-maturity portfolios and short-term money-market instruments, such as interest-bearing deposits, federal funds sold and securities purchased under resale agreements. The actual mix of assets is determined by the characteristics of the customer liabilities and our desire to maintain a well-diversified portfolio of high-quality assets. Management of our consolidated balance sheet structure is conducted within specific Board-approved policies for interest-rate risk, credit risk and liquidity.

	For the Six Months Ended June 30,	
(In millions)	2009 Average Balance	2008 Average Balance
Assets:		
Interest-bearing deposits with banks	**$ 31,097**	$ 17,362
Securities purchased under resale agreements	**4,041**	11,964
Federal funds sold	**126**	4,016
Trading account assets	**3,704**	1,343
Investment securities	**72,821**	72,514
Investment securities purchased under AMLF	**1,770**	
Loans	**8,894**	11,590
Other interest-earning assets	**1,526**	
Total interest-earning assets	**123,979**	118,789
Cash and due from banks	**2,506**	3,967
Other assets	**21,356**	20,353
Total assets	**$ 147,841**	$ 143,109
Liabilities and shareholders equity:		
Interest-bearing deposits:		
U.S.	**$ 9,302**	$ 12,328
Non-U.S.	**59,880**	68,904
Total interest-bearing deposits	**69,182**	81,232
Securities sold under repurchase agreements	**11,653**	14,148
Federal funds purchased	**731**	1,072
Short-term borrowings under AMLF	**1,760**	
Other short-term borrowings	**16,224**	5,762
Long-term debt	**6,917**	4,079

Total interest-bearing liabilities	**106,467**	106,293
Noninterest-bearing deposits	**18,035**	13,383
Other liabilities	**10,170**	11,806
Shareholders equity	**13,169**	11,627
Total liabilities and shareholders equity	**$ 147,841**	$ 143,109

25

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

Investment Securities

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

(In millions)	June 30, 2009	December 31, 2008
Available for sale:		
U.S. Treasury and federal agencies:		
Direct obligations	**$ 11,260**	$ 11,579
Mortgage-backed securities	**6,931**	10,798
Asset-backed securities	**27,054**	19,424
Collateralized mortgage obligations	**1,785**	1,441
State and political subdivisions	**5,533**	5,712
Other debt investments	**4,819**	4,723
Money-market mutual funds	**769**	344
Other equity securities	**157**	142
Total	**$ 58,308**	$ 54,163
Held to maturity purchased under AMLF:		
Asset-backed commercial paper	**$ 300**	$ 6,087
Held to maturity:		
U.S. Treasury and federal agencies:		
Direct obligations	**$ 500**	$ 501
Mortgage-backed securities	**713**	810
Asset-backed securities	**10,871**	3,986
Collateralized mortgage obligations	**9,643**	9,979
State and political subdivisions	**284**	382
Other investments	**82**	109
Total	**$ 22,093**	$ 15,767

The increases in securities available for sale and held to maturity as of June 30, 2009 compared to December 31, 2008 resulted from the addition of securities in connection with the consolidation of the conduits, offset, in part, by sales and run-off of securities during the first half of 2009. We consider a well-diversified, high-credit quality investment securities portfolio to be an important element in the management of our consolidated balance sheet. The portfolio continues to be concentrated in securities with high credit quality, with approximately 80% of the carrying value of the portfolio AAA or AA rated at June 30, 2009, compared to 89% at December 31, 2008. The percentages of the carrying value of the investment securities portfolio by external credit rating, excluding securities purchased under the AMLF, were as follows as of June 30, 2009 and December 31, 2008:

	June 30, 2009	December 31, 2008
AAA[(1)]	**68%**	78%
AA	**12**	11

A	**7**	5
BBB	**5**	4
< BBB	**7**	1
Non-rated	**1**	1
	100%	100%

(1) Includes U.S. Treasury securities.

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

The investment portfolio of approximately 9,500 securities is also diversified with respect to asset class. Approximately 71% of the carrying value of the portfolio is composed of mortgage-backed and asset-backed securities. The largely floating-rate asset-backed portfolio consists of home-equity loan, credit card, auto- and student loan-backed securities. Mortgage-backed securities are split between securities of Federal National Mortgage Association, Federal Home Loan Mortgage Corporation and U.S. and non-U.S. large-issuer collateralized mortgage obligations. During the second quarter and first six months of 2009, 380 and 803 securities, respectively, were downgraded. The year-to-date downgrades included 352 municipal securities (state and political subdivisions), 202 of which were based on downgrades of the underlying third-party financial guarantor. As of June 30, 2009, the asset-backed securities in the portfolio included $5.5 billion collateralized by sub-prime first-lien mortgages.

Unrealized losses on securities available for sale were as follows as of June 30, 2009 and December 31, 2008:

(In millions)	June 30, 2009	December 31, 2008
Fair value	**$ 58,308**	$ 54,163
Amortized cost	**62,779**	60,786
Unrealized loss pre-tax	**$ (4,471)**	$ (6,623)
Unrealized loss after-tax	**$ (2,741)**	$ (4,057)

The unrealized loss amounts at June 30, 2009 and December 31, 2008 exclude the remaining unrealized loss of $1.81 billion, or $1.11 billion after-tax, and $2.27 billion, or $1.39 billion after-tax, respectively, related to reclassifications of securities available for sale to securities held to maturity.

Excluding the securities for which $180 million of gross other-than-temporary impairment was recorded during the first half of 2009, management considers the aggregate decline in fair value of the remaining securities and the resulting net unrealized losses to be temporary and not the result of any material changes in the credit characteristics of the securities. Additional information about our evaluation of unrealized losses is provided in note 2 to the consolidated financial statements included in this Form 10-Q.

We intend to continue managing our investment securities portfolio to align with interest-rate and duration characteristics of our customer liabilities and in the context of our overall balance sheet structure, which is maintained within internally approved risk limits, and in consideration of the global interest-rate environment. Even with material changes in unrealized losses on available-for-sale securities, we may not experience material changes in our interest-rate risk profile, or experience a material adverse impact on our net interest revenue.

Loans and Lease Financing

At June 30, 2009, we carried commercial real estate loans with a carrying value of approximately $583 million that were purchased from certain customers in 2008 pursuant to indemnified repurchase agreements. The loans, which are primarily collateralized by direct and indirect interests in commercial real estate, were recorded at their then-estimated fair value, based on management s expectation with respect to collection of principal and interest using appropriate market discount rates as of the date of acquisition.

Although a portion of these loans are 90 days or more contractually past-due, we do not report them as past-due loans, because under applicable accounting standards, the interest earned on these loans is based on an

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

accretable yield resulting from management s expectation with respect to cash flows for each loan relative to both the timing and collection of principal and interest as of the reporting date, not contractual payment terms.

During the second quarter of 2009, we added structured asset-backed loans with an aggregate fair value of approximately $2.54 billion to our consolidated balance sheet in connection with the consolidation of the conduits. These loans, which represent undivided interests in securitized pools of underlying third-party receivables, are held for investment.

During the quarter and six months ended June 30, 2009, we recorded provisions for loan losses of approximately $14 million and $98 million, respectively, in our consolidated statement of income, to reflect management s revised expectation of future principal and interest cash flows with respect to certain of the aforementioned commercial real estate loans. Management s change in expectation resulted primarily from its assessment of the effect of the deteriorating economic conditions in the commercial real estate markets on certain of these loans during the first half of the year. The allowance for loan losses related to these loans was reduced by net charge-offs totaling approximately $8 million, all of which were recorded during the first quarter of 2009. At June 30, 2009, approximately $66 million of the aforementioned commercial real estate loans were classified by management as non-performing, as the yield associated with these loans, determined when the loans were acquired, was deemed to be unaccretable. This determination was based on management s expectations with respect to the future collection of principal and interest on the loans. Future changes in expectations with respect to collection of principal and interest on these loans could result in additional nonperforming loans and provisions for loan losses.

Capital

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

Regulatory Capital

Our objective with respect to regulatory capital management is to maintain a strong capital base in order to provide financial flexibility for our business needs, including funding corporate growth and supporting customers cash management needs, and to provide protection against loss to depositors and creditors. We strive to maintain an optimal level of capital, commensurate with our risk profile, on which an attractive return to shareholders will be realized over both the short and long term, while protecting our obligations to depositors and creditors and satisfying regulatory requirements. You can obtain additional information about our capital management process in the Financial Condition section of Management s Discussion in our 2008 Form 10-K.

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

At June 30, 2009, State Street and State Street Bank met all capital adequacy requirements to which they were subject. Regulatory capital amounts and ratios at June 30, 2009, and December 31, 2008 are presented in the table below.

	Regulatory Guidelines[1]		State Street[2]		State Street Bank[2]	
(Dollars in millions)	Minimum	Well Capitalized	June 30, 2009	December 31, 2008	June 30, 2009	December 31, 2008
Tier 1 risk-based capital ratio	4%	6%	**14.5%**	20.3%	**13.4%**	19.8%
Total risk-based capital ratio	8	10	**15.9**	21.6	**15.0**	21.3
Tier 1 leverage ratio	4	5	**7.3**	7.8	**6.6**	7.6
Tier 1 risk-based capital			**$ 10,740**	$ 14,090	**$ 9,643**	$ 13,422
Total risk-based capital			**11,728**	15,030	**10,775**	14,458
Adjusted risk-weighted assets and market-risk equivalents:						
Balance sheet risk-weighted assets			**$ 63,548**	$ 45,855	**$ 61,780**	$ 44,212
Off-balance sheet equivalent risk-weighted assets			**9,877**	23,364	**9,877**	23,415
Market-risk equivalents			**493**	366	**436**	303
Total			**$ 73,918**	$ 69,585	**$ 72,093**	$ 67,930
Quarterly average adjusted assets			**$ 147,966**	$ 179,905	**$ 145,890**	$ 175,858

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

(2) Tier 1 and total risk-based capital and tier 1 leverage ratios, as well as balance sheet risk-weighted assets and quarterly average adjusted assets, exclude the impact of the asset-backed commercial paper purchased from eligible unaffiliated money market mutual funds under the Federal Reserve Bank of Boston s AMLF, as permitted under the AMLF s terms and conditions.

At June 30, 2009, State Street s and State Street Bank s regulatory capital ratios decreased compared to year-end 2008, primarily as a result of the impact on tier 1 capital of the loss associated with the consolidation of the conduits. The loss, along with an increase in total risk-weighted assets attributable primarily to the impact of downgrades of investment securities during the first half of the year, decreased the risk-based ratios. A decline in quarterly adjusted average assets, as we reduced the size of our consolidated balance sheet during the first half of 2009, partly offset the impact of the above-described decline in tier 1 capital on the leverage ratio. All ratios for State Street and State Street Bank exceeded the applicable regulatory minimum and well-capitalized thresholds.

In May 2009, we completed a public offering of approximately 58.97 million shares of our common stock. The offering price was $39 per share, and aggregate proceeds from the offering, net of underwriting commissions and related offering costs, totaled approximately $2.23 billion. Underwriting commissions totaled approximately $69 million. We completed the offering, which was executed under our current universal shelf registration statement filed with the SEC, primarily in connection with our intention to repurchase the $2 billion of equity issued to the U.S. Treasury in October 2008 under the TARP Capital Purchase Program.

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

In June 2009, we repurchased the preferred stock portion of Treasury s original TARP investment by redeeming all of the outstanding shares of our Series B fixed-rate cumulative perpetual preferred stock at its aggregate liquidation amount plus accrued dividends, or approximately $2 billion. In July 2009, we repurchased the warrant to purchase shares of our common stock originally issued to Treasury as part of its overall investment at its fair value of $60 million.

In 2004, the Committee on Banking Supervision released the final version of its capital adequacy framework, commonly referred to as Basel II. In 2006, the four U.S. banking regulatory agencies jointly issued their second draft of implementation rules, with industry comment provided by the end of March 2007. Final rules were released in December 2007, with a stated effective date of April 1, 2008. State Street has established a comprehensive program to implement these regulatory requirements within prescribed time frames. We anticipate adopting the most advanced approaches for assessing capital adequacy under the requirements.

Economic Capital

We define economic capital as the capital required to protect holders of our senior debt, and obligations higher in priority, against unexpected economic losses over a one-year period at a level consistent with the solvency of a firm with our target AA senior debt rating. Our Capital Committee is responsible for overseeing our economic capital process. The framework and methodologies used to quantify economic capital for each of the risk types described below have been developed by our Enterprise Risk Management, Global Treasury and Corporate Finance groups and are designed to be generally consistent with our risk management principles and the new Basel II regulatory capital rules. This framework has been approved by senior management and the Risk and Capital Committee of the Board of Directors. Due to the evolving nature of quantification techniques, we expect to periodically refine the methodologies, assumptions, and data used to estimate our economic capital requirements, which could result in a different amount of capital needed to support our business activities.

We quantify capital requirements for the risks inherent in our business activities and group them into one of the following broadly-defined categories:

- Market risk: the risk of adverse financial impact due to fluctuations in market prices, primarily as they relate to our trading activities;

- Interest-rate risk: the risk of loss in non-trading asset and liability management positions, primarily the impact of adverse movements in interest rates on the repricing mismatches that exist between balance sheet assets and liabilities;

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

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

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

Economic capital for each of these five categories is estimated on a stand-alone basis using statistical modeling techniques applied to internally-generated and, in some cases, external data. These individual results are then aggregated at the State Street consolidated level. A capital reduction or diversification benefit is then applied to reflect the unlikely event of experiencing an extremely large loss in each risk type at the same time.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

Liquidity

The objective of liquidity management is to ensure that we have the ability to meet our financial obligations in a timely and cost-effective manner, and that we maintain sufficient flexibility to fund strategic corporate initiatives as they arise. Effective management of liquidity involves assessing the potential mismatch between the future cash needs of our customers and our available sources of cash under normal and adverse economic and business conditions. Significant uses of liquidity, described more fully below, consist primarily of meeting deposit withdrawals and funding outstanding commitments to extend credit or to purchase securities as they are drawn upon. Liquidity is provided by the maintenance of broad access to the global capital markets and by our consolidated balance sheet asset structure.

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

Uses of liquidity result from the following: withdrawals of unsecured customer deposits; drawdowns on unfunded commitments to extend credit or to purchase securities, generally provided through lines of credit; and overdraft facilities. Customer deposits are generated largely from our investment servicing activities, and are invested in a combination of term investment securities and short-term money market assets whose mix is determined by the characteristics of the deposits. Most of the customer deposits are payable upon demand or are short-term in nature, which means that withdrawals can potentially occur quickly and in large amounts. Similarly, customers can request disbursement of funds under commitments to extend credit.

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

Effective May 15, 2009, we took action that resulted in the consolidation, for financial reporting purposes, of the four third-party special purpose multi-seller asset-backed commercial paper conduits that we administer onto our balance sheet. As a result, the conduit assets became part of the State Street Bank balance sheet, along with the commercial paper liabilities that had funded the assets. For liquidity purposes, we now consider these assets as part of State Street Bank s asset structure and the liabilities as State Street Bank wholesale funding.

In managing our liquidity, we have issued term wholesale certificates of deposit, and the conduits have issued asset-backed commercial paper, to third parties and invested excess funds in short-term money market assets where they would be available to meet cash needs. At June 30, 2009, the certificate-of-deposit portfolio totaled $5.54 billion, compared to $1.93 billion at December 31, 2008. The conduit commercial paper issued to third parties was $9.77 billion at June 30, 2009. Conduit commercial paper was not recorded in our consolidated balance sheet prior to May 2009. In connection with our management of liquidity where we seek to maintain access to sources of back-up liquidity at reasonable costs, we have participated in the Federal Reserve s term auction facility, or TAF, which is a secured lending program available to financial institutions. At June 30, 2009,

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

our participation in this program amounted to $5.0 billion. The highest TAF balance borrowed by State Street Bank during both the second quarter and first half of 2009 was approximately $10.0 billion, and the average borrowings for those periods were approximately $5.4 billion and $6.3 billion, respectively.

While maintenance of our high investment-grade credit rating is of primary importance to our liquidity management program, on-balance sheet liquid assets represent significant liquidity that we can directly control, and provide a source of cash from their principal maturities and from the ability to borrow from the capital markets using our securities as collateral. Our liquid assets consist primarily of cash balances at central banks in excess of regulatory requirements and other short-term liquid assets, such as federal funds sold and interest-bearing deposits with banks, the latter of which are multicurrency instruments invested with major multinational banks; and high-quality, marketable investment securities not already pledged, which generally are more liquid than other types of assets and can be sold or borrowed against to generate cash quickly. As of June 30, 2009, the cash value of our liquid assets, as we define them, totaled $65.45 billion, compared to $85.81 billion as of December 31, 2008. This decline reflected a return of customer deposit balances to more normal levels during the first half of 2009, as the trend for our customers to maintain historically high demand deposits levels in light of instability in market conditions particularly those experienced in the second half of 2008 returned to historical patterns.

Due to the unusual size and volatile nature of these incremental customer deposits that we experienced since mid-2008, we chose to maintain an excess of approximately $20.45 billion at central banks as of June 30, 2009 over regulatory required minimum balances. Securities carried at $41.37 billion as of June 30, 2009, compared to $42.74 billion as of December 31, 2008, were designated as pledged for public and trust deposits, borrowed funds and for other purposes as provided by law, and are excluded from the liquid assets calculation, unless pledged to the Federal Reserve Bank of Boston. The liquid assets and pledged securities described above excluded securities purchased under the Federal Reserve s AMLF. Liquid assets included securities pledged to the Federal Reserve Bank of Boston to secure our ability to borrow from their discount window should the need arise. This access to primary credit is an important source of back-up liquidity for State Street Bank. As of June 30, 2009, we had no outstanding primary credit borrowings from the discount window.

Based upon our level of liquid assets and our ability to access the capital markets for additional funding when necessary, including our ability to issue debt and equity securities under our current universal shelf registration, management considers overall liquidity at June 30, 2009 to be sufficient to meet State Street s current commitments and business needs, including supporting the liquidity of the now-consolidated commercial paper conduits and accommodating the transaction and cash management needs of our customers.

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

We maintain an effective universal shelf registration that allows for the public offering and sale of debt securities, capital securities, common stock, depositary shares and preferred stock, and warrants to purchase such securities, including any shares into which the preferred stock and depositary shares may be convertible, or any

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

combination thereof. We have, as discussed previously, issued in the past, and we may issue in the future, securities pursuant to the shelf registration. The issuance of debt or equity securities will depend on future market conditions, funding needs and other factors.

We currently maintain a corporate commercial paper program, separate from the conduits, under which we can issue up to $3 billion with original maturities of up to 270 days from the date of issue. At June 30, 2009, we had $1.70 billion of commercial paper outstanding, compared to $2.59 billion at December 31, 2008. Commercial paper issuances are recorded in other short-term borrowings in our consolidated statement of condition.

In connection with the FDIC s Temporary Liquidity Guarantee Program, or TLGP, in which we elected to participate in December 2008, State Street can issue up to $1.67 billion, and State Street Bank can issue up to $2.48 billion, of unsecured senior debt through October 31, 2009, which will be backed by the full faith and credit of the United States. The guarantee of this unsecured senior debt expires on the earlier of the maturity date of the debt or June 30, 2012 for debt issued through March 31, 2009 and December 31, 2012 for debt issued on or after April 1, 2009. During the first quarter of 2009, we issued $1.5 billion of unsecured fixed-rate senior notes maturing on April 30, 2012, backed by the FDIC s TLGP guarantee. During the first quarter and first half of 2009, we issued unsecured senior debt, composed of commercial paper issued under the aforementioned corporate commercial paper program, totaling $155 million and $169 million, respectively, also backed by the FDIC s TLGP guarantee. More information with respect to these issuances, the former of which is recorded in long-term debt and the latter of which is recorded in other short-term borrowings in our consolidated statement of condition, is provided in notes 6 and 7 to the consolidated financial statements included in this Form 10-Q.

State Street Bank currently has Board authority to issue bank notes up to an aggregate of $5 billion, including the aforementioned $2.48 billion of unsecured senior debt under the TLGP, as well as up to $1 billion of subordinated bank notes. During the first half of 2009, State Street Bank issued an aggregate of $2.45 billion of fixed- and floating-rate senior notes, composed of $1.0 billion of fixed-rate senior notes maturing on March 15, 2011 and $1.45 billion of floating-rate senior notes maturing on September 15, 2011, both of which are backed by the FDIC s TLGP guarantee. More information with respect to these issuances, both of which are recorded in long-term debt in our consolidated statement of condition, is provided in note 7 to the consolidated financial statements included in this Form 10-Q.

State Street Bank currently maintains a line of credit with a financial institution of CAD $800 million, or approximately USD $688 million as of June 30, 2009, to support its Canadian securities processing operations. The line of credit has no stated termination date and is cancelable by either party with prior notice. As of June 30, 2009, no balance was outstanding on this line of credit.

Risk Management

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

We have a disciplined approach to risk management that involves all levels of management. The Board of Directors provides extensive review and oversight of our overall risk management programs, including the

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

approval of key risk management policies and the periodic review of State Street s key risk indicators. These indicators are designed to identify significant risk content within the major business activities of State Street, and to establish quantifiable thresholds for risk measurement. Key risk indicators are reported regularly to the Risk and Capital Committees of the Board and are reviewed periodically for appropriateness. Modifications to the indicators are made to reflect changes in our business activities or refinements to existing measurements. Enterprise Risk Management, or ERM, a dedicated corporate group, provides oversight, support and coordination across business units and is responsible for the formulation and maintenance of enterprise-wide risk management policies and guidelines. In addition, ERM establishes and reviews approved limits and, with business line management, monitors key risks. ERM is the responsibility of the Chief Risk Officer, or CRO, a member of State Street s Operating Group with direct accountability to the Chairman and Chief Executive Officer. The CRO meets regularly with the Board or a Board committee, as appropriate, and has the authority to escalate issues as necessary.

While we believe that our risk management program is effective in managing the risks in our businesses, external factors may create risks that cannot always be identified or anticipated. For example, a significant counterparty failure or a default of a significant obligor could have a material adverse effect on our consolidated results of operations. Additional information about our process for managing market risk for both our trading and asset and liability management activities, as well as credit risk, operational risk and business risk, can be found in the Financial Condition section of Management s Discussion and Analysis in our 2008 Form 10-K.

Market Risk

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

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

Trading Activities

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

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

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

Our customers use derivatives to manage the financial risks associated with their investment goals and business activities, including foreign exchange forward contracts to convert currency for international investments and to manage the currency risk in their international investment portfolios. As an active participant in the foreign exchange markets, we provide foreign exchange forward contracts and options in support of these customer needs. As part of our trading activities, we assume positions in the foreign exchange and interest-rate markets by buying and selling cash instruments and using derivatives, including foreign exchange forward contracts, foreign exchange and interest-rate options and interest-rate swaps. As of June 30, 2009, the aggregate notional amount of these derivatives was $564.15 billion, of which $522.04 billion were foreign exchange forward and spot contracts. In the aggregate, foreign exchange forward positions are closely matched to minimize currency and interest-rate risk. All foreign exchange contracts are valued daily at prevailing market rates. Additional information about trading derivatives is provided in note 12 to the consolidated financial statements included in this Form 10-Q.

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

Like all quantitative risk measures, VaR is subject to limitations and assumptions inherent in our methodology. Our methodology gives equal weight to all market-rate observations regardless of how recently the market rates were observed. The estimate is calculated using static portfolios consisting of trading positions held at the end of each business day. Therefore, implicit in the VaR estimate is the assumption that no intraday actions are taken by management during adverse market movements. As a result, the methodology does not include risk associated with intraday changes in positions or intraday price volatility.

The following table presents value-at-risk with respect to our trading activities, as measured by our VaR methodology for the periods indicated. The VaR amounts presented in the table represent value-at-risk measurements associated with trading positions held during the periods. The total VaR is generally lower than the sum of the component VaR amounts due primarily to diversification benefits across risk types. Amounts presented for 2008 have been restated to conform to current-year methodology.

	Six Months Ended June 30,					
VALUE-AT-RISK	**2009**			**2008**		
(In millions)	**Average**	**Maximum**	**Minimum**	**Average**	**Maximum**	**Minimum**
Foreign exchange rates	**$ 3.3**	**$ 9.7**	**$ 0.5**	$ 2.0	$ 4.4	$ 0.6
Interest rates	**1.6**	**2.9**	**0.6**	1.0	1.7	0.6
Total VaR for trading assets	**$ 3.9**	**$ 9.2**	**$ 1.2**	$ 2.4	$ 5.0	$ 1.1

We back-test the estimated one-day VaR on a daily basis, by comparing it against actual trading revenues. This information is reviewed and used to confirm that all relevant trading positions are properly modeled. For the twelve months ended June 30, 2009, we did not experience any back-testing exceptions.

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

During the second quarter of 2009, our VaR measurement methodology was extended to measure VaR associated with certain assets classified as trading account assets in our consolidated balance sheet. These assets are not held in connection with typical trading activities, and thus are not reflected in the foregoing VaR table. In the table below, the VaR associated with these investments is reported as VaR for non-trading assets. Total regulatory VaR is calculated as the sum of the VaR for trading assets and the VaR for non-trading assets, with no diversification benefits recognized. The average, minimum and maximum amounts are calculated for each line item separately.

Total Regulatory VALUE-AT-RISK	**Six Months Ended June 30, 2009**			**2008**		
(In millions)	**Average**	**Maximum**	**Minimum**	**Average**	**Maximum**	**Minimum**
VaR for trading assets	**$ 3.9**	**$ 9.2**	**$ 1.2**	$ 2.4	$ 5.0	$ 1.1
VaR for non-trading assets	**1.6**	**1.6**	**1.6**	na	na	na
Total regulatory VaR	**$ 6.0**	**$ 8.3**	**$ 3.6**	$ 2.4	$ 5.0	$ 1.1

na - not measured for the period.

Asset and Liability Management Activities

The primary objective of asset and liability management is to provide sustainable and growing net interest revenue, or NIR, under varying economic environments, while protecting the economic values of our balance sheet assets and liabilities from the adverse effects of changes in interest rates. Most of our NIR is earned from the investment of deposits generated by our core Investment Servicing and Investment Management businesses. We structure our balance sheet assets to generally conform to the characteristics of our balance sheet liabilities, but we manage our overall interest-rate risk position in the context of current and anticipated market conditions and within internally-approved risk guidelines.

Our investment activities and our use of derivative financial instruments are the primary tools used in managing interest-rate risk. We invest in financial instruments with currency, repricing, and maturity characteristics we consider appropriate to manage our overall interest-rate risk position. In addition to on-balance sheet assets, we use certain derivatives, primarily interest-rate swaps, to alter the interest-rate characteristics of specific balance sheet assets or liabilities. The use of derivatives is subject to internally-approved guidelines. Additional information about our use of derivatives is in note 12 to the consolidated financial statements included in this Form 10-Q.

Non-U.S. dollar denominated customer liabilities are a significant portion of our consolidated balance sheet. These liabilities result in exposure to changes in the shape and level of non-U.S. dollar yield curves, which we include in our consolidated interest-rate risk management process.

To measure, monitor, and report on our interest-rate risk position, we use (1) NIR simulation, or NIR-at-risk, which measures the impact on NIR over the next twelve months to immediate, or rate shock, and gradual, or rate ramp, changes in market interest rates; and (2) economic value of equity, or EVE, which measures the impact on the present value of all NIR-related principal and interest cash flows of an immediate change in interest rates. NIR-at-risk is designed to measure the potential impact of changes in market interest rates on NIR in the short term. EVE, on the other hand, is a long-term view of interest-rate risk, but with a view toward liquidation of State Street. Both of these measures are subject to internally-established guidelines, and are monitored regularly, along with other relevant simulations, scenario analyses and stress tests by both Global Treasury and our Asset and Liability Committee.

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

In calculating our NIR-at-risk, we start with a base amount of NIR that is projected over the next twelve months, assuming that the then-current yield curve remains unchanged over the period. Our existing balance sheet assets and liabilities are adjusted by the amount and timing of transactions that are forecasted to occur over the next twelve months. That yield curve is then shocked, or moved immediately, ±100 basis points in a parallel fashion, or at all points along the yield curve. Two new twelve-month NIR projections are then developed using the same balance sheet and forecasted transactions, but with the new yield curves, and compared to the base scenario. We also perform the calculations using interest rate ramps, which are ±100 basis point changes in interest rates that are assumed to occur gradually over the next twelve-month period, rather than immediately as we do with interest-rate shocks.

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

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

The following table presents the estimated exposure of NIR for the next twelve months, calculated as of June 30, 2009 and December 31, 2008, due to an immediate ± 100 basis point shift in then-current interest rates. Estimated incremental exposures presented below are dependent on management s assumptions about asset and liability sensitivities under various interest-rate scenarios, such as those previously discussed, and do not reflect any actions management may undertake in order to mitigate some of the adverse effects of interest-rate changes on State Street s financial performance.

NIR-AT-RISK (In millions)	**Estimated Exposure to Net Interest Revenue**	
Rate change:	**June 30, 2009**	**December 31, 2008**
+100 bps shock	**$ 20**	$ 7
-100 bps shock	**(292)**	(439)
+100 bps ramp	**(9)**	(29)
-100 bps ramp	**(122)**	(166)

The NIR-at-risk to an immediate 100-bp increase in market interest rates became more positive during the first half of 2009. The effects of lower balances of short-term liquid assets and sales and run-off of investment securities were offset by lower levels of rate-sensitive customer deposits as well as the issuance of fixed-rate long-term debt, leaving the 100-bp-upward shock sensitivity higher.

NIR-at-risk exposure to a 100-bp-downward shock in rates was significantly less negative as of June 30, 2009. Declining liquid asset and investment portfolio balances are primarily responsible for the lower exposure

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

to downward rate shocks. Short-term market interest rates and customer deposit yields both remained below 1.00% in the second quarter. The resulting inability of customer deposit yields to reprice lower to the full extent of the 100-bp-downward rate shock partially offset the effects of asset run-off.

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

The following table presents estimated EVE exposures, calculated as of June 30, 2009 and December 31, 2008, assuming an immediate and prolonged shift in interest rates, the impact of which would be spread over a number of years.

ECONOMIC VALUE OF EQUITY (In millions)	**Estimated Exposure to Economic Value of Equity**	
Rate change:	**June 30, 2009**	**December 31, 2008**
+200 bps shock	**$ (471)**	$ (1,873)
-200 bps shock	**(746)**	(740)

The second quarter 2009 interest rate environment, with U.S. interest rates near zero, prevents the 200-bp-downward shock from fully occurring, as market rates cannot fall below zero, and reduces the benefit of lower rates on the fair value of the investment portfolio. Exposure to rising rates was significantly lower at June 30, 2009, due to issuances of long-term debt and lower asset duration from investment portfolio aging, security sales and the addition of short-duration conduit securities to the investment portfolio.

Credit Risk

Credit and counterparty risk is defined as the risk of financial loss if a borrower or counterparty is either unable or unwilling to repay borrowings or settle a transaction in accordance with contractual terms. We assume credit and counterparty risk on both our on- and off-balance sheet exposures. The extension of credit and the acceptance of counterparty risk by State Street are governed by corporate guidelines based on the prospective customer s risk profile, the markets served, counterparty and country concentrations, and regulatory compliance. Our focus on large institutional investors and their businesses requires that we assume concentrated credit risk in a variety of forms. We maintain guidelines and procedures to monitor and manage all material aspects of credit and counterparty risk that we undertake. Counterparties are evaluated on an individual basis at least annually, while material exposures to counterparties are reviewed daily. Processes for credit approval and monitoring are in place for credit extensions. As part of the approval and renewal process, due diligence is conducted based on the size and term of the exposure, as well as the quality of the counterparty. At any point in time, it is not unusual that we will have one or more counterparties to which our exposure exceeds 10% of our total shareholders equity, exclusive of unrealized gains or losses.

We provide, on a limited basis, traditional loan products and services to key customers and prospects in a manner that is intended to enhance customer relationships, increase profitability and minimize risk. We employ a relationship model in which credit decisions are based upon credit quality and the overall institutional relationship. This model is typical of financial institutions that provide credit to institutional customers in the markets that we serve.

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

At June 30, 2009, total gross loans and leases were $12.66 billion compared to $9.13 billion at December 31, 2008, primarily reflecting the impact of consolidation of the commercial paper conduits, which added approximately $2.54 billion of structured asset-backed loans as well as an increase in the volume of daily overdrafts, which generally result from advances for securities settlement related to customer investment activities. Overdrafts included in total gross loans were $5.09 billion and $4.64 billion at June 30, 2009 and December 31, 2008, respectively. Average overdrafts were approximately $3.40 billion for the first six months of 2009, and $8.04 billion for the first six months of 2008. These balances do not represent a significant increase in credit risk because of their short-term nature, which is generally overnight, as well as the lack of significant concentration and their occurrence in the normal course of the securities settlement process.

We purchase securities under agreements to resell. Risk is managed through a variety of processes, including establishing the acceptability of counterparties; limiting purchases largely to low-risk U.S. government securities; taking possession or control of transaction assets; monitoring levels of underlying collateral; and limiting the duration of the agreements. Securities are revalued daily to determine if we believe that additional collateral is necessary f