STATE STREET CORP
Form 10-K
February 27, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

Form 10-K

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

For the fiscal year ended December 31, 2011

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	
	02111
Boston, Massachusetts	
(Address of principal executive office)	(Zip Code)

617-786-3000

(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

(Title of Each Class)	**(Name of each exchange on which registered)**
Common Stock, $1 par value	New York Stock Exchange

Fixed-to-Floating Rate Normal Automatic Preferred Enhanced Capital Securities of State Street Capital Trust III (and Registrant s guarantee with respect thereto)	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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

Large accelerated filer x	Accelerated filer ¨	Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the per share price ($45.09) at which the common equity was last sold as of the last business day of the registrant s most recently completed second fiscal quarter (June 30, 2011) was approximately $22.40 billion.

The number of shares of the registrant s common stock outstanding as of January 31, 2012 was 487,849,175.

Portions of the following documents are incorporated by reference into Parts of this Report on Form 10-K, to the extent noted in such Parts, as indicated below:

(1) The registrant s definitive Proxy Statement for the 2012 Annual Meeting of Shareholders to be filed pursuant to Regulation 14A on or before April 30, 2012 (Part III).

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STATE STREET CORPORATION

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PART I

ITEM 1. BUSINESS
GENERAL

State Street Corporation is a financial holding company organized in 1969 under the laws of the Commonwealth of Massachusetts. Through our subsidiaries, including our principal banking subsidiary, State Street Bank and Trust Company, or State Street Bank, we provide a broad range of financial products and services to institutional investors worldwide. At December 31, 2011, we had consolidated total assets of $216.83 billion, consolidated total deposits of $157.29 billion, consolidated total shareholders equity of $19.40 billion and 29,740 employees. Our executive offices are located at One Lincoln Street, Boston, Massachusetts 02111 (telephone (617) 786-3000).

For purposes of this Form 10-K, unless the context requires otherwise, references to State Street, we, us, our or similar terms mean State Street Corporation and its subsidiaries on a consolidated basis; references to parent company mean State Street Corporation; and references to State Street Bank mean State Street Bank and Trust Company. The parent company is a legal entity separate and distinct from its subsidiaries, assisting those subsidiaries by providing financial resources and management.

We make available through our website at *www.statestreet.com*, free of charge, all reports we electronically file with, or furnish to, the Securities and Exchange Commission, or SEC, including our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, as well as any amendments to those reports, as soon as reasonably practicable after those documents have been filed with, or furnished to, the SEC. These documents are also accessible on the SEC s website at *www.sec.gov*. We have included the website addresses of State Street and the SEC in this report as inactive textual references only. Information on those websites is not part of this Form 10-K.

We have Corporate Governance Guidelines, as well as written charters for the Executive Committee, the Examining & Audit Committee, the Executive Compensation Committee, the Risk and Capital Committee and the Nominating and Corporate Governance Committee of our Board of Directors, and a Code of Ethics for senior financial officers, a Standard of Conduct for Directors and a Standard of Conduct for our employees. Each of these documents is posted on our website.

BUSINESS DESCRIPTION

Overview

We are a leader in providing financial services and products to meet the needs of institutional investors worldwide, with $21.81 trillion of assets under custody and administration and $1.86 trillion of assets under management as of December 31, 2011. Our clients include mutual funds, collective investment funds and other investment pools, corporate and public retirement plans, insurance companies, foundations, endowments and investment managers. We operate in 29 countries and in more than 100 geographic markets worldwide. We conduct our business primarily through State Street Bank, which traces its beginnings to the founding of the Union Bank in 1792. State Street Bank s current charter was authorized by a special Act of the Massachusetts Legislature in 1891, and its present name was adopted in 1960.

Significant Developments

In 2011, we purchased approximately 16.3 million shares of our common stock, at an aggregate cost of $675 million, under the program approved by the Board of Directors and publicly announced in March 2011. In addition, we declared an aggregate of $0.72 per share, or approximately $358 million, of dividends on our common stock in 2011; this amount represented the first increase in our common stock dividend since early 2009. Additional information with respect to our common stock purchase and dividend actions is provided under Financial Condition Capital in Management s Discussion and Analysis included under Item 7.

During the fourth quarter of 2011, we completed our acquisitions of Complementa Investment Controlling AG, an investment performance measurement and analytics firm based in Switzerland, and Pulse Trading, Inc., a

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full-service agency brokerage firm based in Boston, Massachusetts. We acquired Complementa, a provider of investment performance measurement analytics to institutional and large private investors, to augment the expansion of our investment analytics capabilities and our overall presence in key markets in Europe. We acquired Pulse Trading, which provides a range of electronic trading capabilities, to enhance the electronic trading technology we provide to our institutional clients. Additional information about these acquisitions is provided in note 2 to the consolidated financial statements included under Item 8.

In November 2010, we announced a business operations and information technology transformation program. This multi-year program incorporates operational, information technology and targeted cost initiatives, including reductions in force and a plan to reduce our occupancy costs. In connection with our implementation of this program, we recorded aggregate restructuring charges of approximately $133 million in 2011, following $156 million of such charges in 2010. The 2011 charges consisted mainly of costs related to employee severance and information technology. In connection with our implementation of this program, we achieved approximately $86 million of annual pre-tax, run-rate expense savings in 2011 compared to 2010 run-rate expenses. These annual pre-tax, run-rate savings relate only to the business operations and information technology transformation program. Our actual operating expenses may increase or decrease as a result of other factors.

Additional information with respect to the program is provided under Consolidated Results of Operations Expenses in Management s Discussion and Analysis included under Item 7.

Additional Information

Additional information about our business activities is provided in the sections that follow. For information about our management of capital, liquidity, market risk, including interest-rate risk, and other risks inherent in our businesses, refer to Risk Factors included under Item 1A, Management s Discussion and Analysis included under Item 7, and our consolidated financial statements and accompanying notes included under Item 8.

LINES OF BUSINESS

We have two lines of business: Investment Servicing and Investment Management.

Investment Servicing provides products and services including custody, product- and participant-level accounting; daily pricing and administration; master trust and master custody; record-keeping; foreign exchange, brokerage and other trading services; securities finance; deposit and short-term investment facilities; loan and lease financing; investment manager and alternative investment manager operations outsourcing; and performance, risk and compliance analytics.

We are the largest provider of mutual fund custody and accounting services in the U.S. We distinguish ourselves from other mutual fund service providers by offering clients a broad array of integrated products and services, including accounting, daily pricing and fund administration. At December 31, 2011, we calculated approximately 40.6% of the U.S. mutual fund prices provided to NASDAQ that appeared daily in *The Wall Street Journal* and other publications with an accuracy rate of 99.87%. We serviced U.S. tax-exempt assets for corporate and public pension funds, and we provided trust and valuation services for more than 5,500 daily-priced portfolios at December 31, 2011.

We are a service provider outside of the U.S. as well. In Germany, Italy and France, we provide depotbank services for retail and institutional fund assets, as well as custody and other services to pension plans and other institutional clients. In the U.K., we provide custody services for pension fund assets and administration services for mutual fund assets. At December 31, 2011, we serviced approximately $711 billion of offshore assets, primarily domiciled in Ireland, Luxembourg and the Cayman Islands. At December 31, 2011, we had $1.04 trillion in assets under administration in the Asia/Pacific region, and in Japan, we held approximately 93% of the trust assets held by non-domestic trust banks in that region.

We are an alternative asset servicing provider worldwide, servicing hedge, private equity and real estate funds. At December 31, 2011, we had approximately $816 billion of alternative assets under administration.

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Our Investment Management services are provided through State Street Global Advisors, or SSgA. SSgA provides a broad array of investment management, investment research and other related services, such as securities finance. SSgA offers strategies for managing financial assets, including passive and active, such as enhanced indexing and hedge fund strategies, using quantitative and fundamental methods for both U.S. and global equities and fixed-income securities. SSgA also offers exchange-traded funds, or ETFs, such as the SPDR® ETF brand.

SSgA provides this array of investment management strategies, specialized investment management advisory services and other financial services for corporations, public funds, and other sophisticated investors. Based on assets under management at December 31, 2011, SSgA was the largest manager of institutional assets worldwide, the largest manager of assets for tax-exempt organizations (primarily pension plans) in the U.S., and the third largest investment manager overall in the world.

Additional information about our lines of business is provided under Line of Business Information in Management s Discussion and Analysis included under Item 7 and in note 24 to the consolidated financial statements included under Item 8.

COMPETITION

We operate in a highly competitive environment in all areas of our business worldwide. We face competition from other custodial banks, financial services institutions, deposit-taking institutions, investment management firms, insurance companies, mutual funds, broker/dealers, investment banking firms, benefits consultants, leasing companies, and business service and software companies. As we expand globally, we encounter additional sources of competition.

We believe that these markets have key competitive considerations. These considerations include, for investment servicing, quality of service, economies of scale, technological expertise, quality and scope of sales and marketing, required levels of capital and price; and for investment management, expertise, experience, availability of related service offerings, quality of service and performance, and price.

Our competitive success may depend on our ability to develop and market new and innovative services, to adopt or develop new technologies, to bring new services to market in a timely fashion at competitive prices, to continue and expand our relationships with existing clients and to attract new clients.

SUPERVISION AND REGULATION

The parent company is registered with the Board of Governors of the Federal Reserve System, or the Federal Reserve, as a bank holding company pursuant to the Bank Holding Company Act of 1956. The Bank Holding Company Act, with certain exceptions, limits the activities in which we and our non-banking subsidiaries may engage to those that the Federal Reserve considers to be closely related to banking, or to managing or controlling banks. These limits also apply to non-banking entities of which we own or control more than 5% of a class of voting shares. The Federal Reserve may order a bank holding company to terminate any activity or its ownership or control of a non-banking subsidiary if the Federal Reserve finds that the activity, ownership or control constitutes a serious risk to the financial safety, soundness or stability of a banking subsidiary or is inconsistent with sound banking principles or statutory purposes. The Bank Holding Company Act also requires a bank holding company to obtain prior approval of the Federal Reserve before it may acquire substantially all the assets of any bank or ownership or control of more than 5% of the voting shares of any bank.

The parent company qualifies as a financial holding company, which increases to some extent the scope of activities in which it may engage. A financial holding company and the companies under its control are permitted to engage in activities considered financial in nature as defined by the Gramm-Leach-Bliley Act and Federal Reserve interpretations, and therefore the parent company may engage in a broader range of activities than permitted for bank holding companies and their subsidiaries. Financial holding companies may engage directly or indirectly in activities considered financial in nature, either *de novo* or by acquisition, provided the financial holding company gives the Federal Reserve after-the-fact notice of the new activities. Activities defined to be financial in nature include, but are not limited to, the following: providing financial or investment advice; underwriting; dealing in or making markets in securities; merchant banking, subject to significant limitations; and any activities previously found by the Federal Reserve to be closely related to banking. In order to maintain our status as a financial holding company, each of our depository subsidiaries must be well capitalized and well managed, as judged by regulators, and must comply with Community Reinvestment Act obligations. Failure to maintain these standards may ultimately permit the Federal Reserve to take enforcement actions against us.

The Dodd-Frank Wall Street Reform and Consumer Protection Act, or Dodd-Frank Act, which became law in July 2010, will have a significant effect on the regulatory structure of the financial markets. The Dodd-Frank Act, among other things, establishes a new Financial Stability Oversight Council to monitor systemic risk posed by financial institutions, restricts proprietary trading and private fund investment activities by banking institutions, creates a new framework for the regulation of derivative instruments, alters the regulatory capital treatment of trust preferred and other hybrid capital securities, and revises the FDIC s assessment base for deposit insurance assessment. In addition, rapid regulatory change is occurring internationally with respect to financial institutions, including, but not limited to, the implementation of Basel III and the Alternative Investment Fund Managers Directive, and the potential adoption of European Union derivatives initiatives and revisions to the European collective investment fund, or UCITS, directive.

Additional information about the Dodd-Frank Act and other new or modified laws and regulations applicable to our business is provided in Risk Factors included under Item 1A, in particular the risk factor titled *We face extensive and changing government regulation, including changes to capital requirements under the Dodd-Frank Act, Basel II and Basel III, which may increase our costs and expose us to risks related to compliance.*

Many aspects of our business are subject to regulation by other U.S. federal and state governmental and regulatory agencies and self-regulatory organizations (including securities exchanges), and by non-U.S. governmental and regulatory agencies and self-regulatory organizations. Some aspects of our public disclosure, corporate governance principles and internal control systems are subject to the Sarbanes-Oxley Act of 2002, the Dodd-Frank Act and regulations and rules of the SEC and the New York Stock Exchange.

Regulatory Capital Adequacy

Like other bank holding companies, we are subject to Federal Reserve minimum risk-based capital and leverage ratio guidelines. As noted above, our status as a financial holding company also requires that we maintain specified regulatory capital ratio levels. State Street Bank is subject to similar risk-based capital and leverage ratio guidelines. As of December 31, 2011, our regulatory capital levels on a consolidated basis, and the regulatory capital levels of State Street Bank, exceeded the applicable minimum capital requirements and the requirements to qualify as a financial holding company.

We are currently in the qualification period that is required to be completed prior to our full implementation of the Basel II final rules. During the qualification period, we must demonstrate that we comply with the Basel II requirements to the satisfaction of the Federal Reserve. During or subsequent to this qualification period, the Federal Reserve may determine that we are not in compliance with certain aspects of the final rules and may require us to take certain actions to achieve compliance that could adversely affect our business operations, our capital structure, our regulatory capital ratios or our financial performance.

Basel III, the Dodd-Frank Act and the regulatory rules to be adopted for the implementation of Basel III and the Dodd- Frank Act are expected to result in an increase in the minimum regulatory capital that we will be required to maintain and changes in the manner in which our regulatory capital ratios are calculated. In addition, we are currently designated as a large bank holding company subject to enhanced supervision and prudential standards, commonly referred to as a systemically important financial institution, or SIFI, and we are one among an initial group of 29 institutions worldwide that have been identified by the Financial Stability Board and the Basel Committee on Banking Supervision as global systemically important banks, or G-SIBs. Both of these designations will require us to hold incrementally higher regulatory capital compared to financial institutions without such designations.

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Banking regulators have not yet issued final rules and guidance with respect to the regulatory capital rules under Basel III and the Dodd-Frank Act.

Failure to meet regulatory capital requirements could subject us to a variety of enforcement actions, including the termination of deposit insurance of State Street Bank by the Federal Deposit Insurance Corporation, or FDIC, and to certain restrictions on our business that are described further in this Supervision and Regulation section.

For additional information about our regulatory capital position and regulatory capital adequacy, refer to Risk Factors included under Item 1A, Financial Condition Capital in Management s Discussion and Analysis included under Item 7, and note 15 to the consolidated financial statements included under Item 8.

Subsidiaries

The Federal Reserve is the primary federal banking agency responsible for regulating us and our subsidiaries, including State Street Bank, for both our U.S. and non-U.S. operations.

Our bank subsidiaries are subject to supervision and examination by various regulatory authorities. State Street Bank is a member of the Federal Reserve System and the FDIC and is subject to applicable federal and state banking laws and to supervision and examination by the Federal Reserve, as well as by the Massachusetts Commissioner of Banks, the FDIC, and the regulatory authorities of those states and countries in which a branch of State Street Bank is located. Other subsidiary trust companies are subject to supervision and examination by the Office of the Comptroller of the Currency, other offices of the Federal Reserve System or by the appropriate state banking regulatory authorities of the states in which they are located. Our non-U.S. banking subsidiaries are subject to regulation by the regulatory authorities of the countries in which they are located. As of December 31, 2011, the capital of each of these banking subsidiaries exceeded the minimum legal capital requirements set by those regulatory authorities.

The parent company and its non-banking subsidiaries are affiliates of State Street Bank under federal banking laws, which impose restrictions on transactions involving loans, extensions of credit, investments or asset purchases from State Street Bank to the parent company and its non-banking subsidiaries. Transactions of this kind to affiliates by State Street Bank are limited with respect to each affiliate to 10% of State Street Bank s capital and surplus, as defined, and to 20% in the aggregate for all affiliates, and, in addition, are subject to collateral requirements.

Federal law also provides that certain transactions with affiliates must be on terms and under circumstances, including credit standards, that are substantially the same or at least as favorable to the institution as those prevailing at the time for comparable transactions involving other non-affiliated companies. Alternatively, in the absence of comparable transactions, the transactions must be on terms and under circumstances, including credit standards, that in good faith would be offered to, or would apply to, non-affiliated companies. State Street Bank is also prohibited from engaging in certain tie-in arrangements in connection with any extension of credit or lease or sale of property or furnishing of services. Federal law provides as well for a depositor preference on amounts realized from the liquidation or other resolution of any depository institution insured by the FDIC.

SSgA, which acts as an investment advisor to investment companies registered under the Investment Company Act of 1940, is registered as an investment advisor with the SEC. However, a major portion of our investment management activities are conducted by State Street Bank, which is subject to supervision primarily by the Federal Reserve with respect to these activities. Our U.S. broker/dealer subsidiary is registered as a broker/dealer with the SEC, is subject to regulation by the SEC (including the SEC s net capital rule) and is a member of the Financial Industry Regulatory Authority, a self-regulatory organization. Many aspects of our investment management activities are subject to federal and state laws and regulations primarily intended to benefit the investment holder, rather than our shareholders. Our activities as a futures commission merchant are subject to regulation by the Commodities Futures Trading Commission in the U.S. and various regulatory authorities internationally, as well as the membership requirements of the applicable clearinghouses. These laws and regulations generally grant supervisory agencies and bodies broad administrative powers, including the power to limit or restrict us from conducting our investment management activities in the event that we fail to comply with such laws and regulations, and examination authority. Our business related to investment management and trusteeship of collective trust funds and separate accounts offered to employee benefit plans is subject to ERISA and is regulated by the U.S. Department of Labor.

Our businesses, including our investment management and securities and futures businesses, are also regulated extensively by non-U.S. governments, securities exchanges, self-regulatory organizations, central banks and regulatory bodies, especially in those jurisdictions in which we maintain an office. For instance, the Financial Services Authority, the London Stock Exchange, and the Euronext.Liffe regulate our activities in the United Kingdom; the Federal Financial Supervisory Authority and the Deutsche Borse AG regulate our activities in Germany; and the Financial Services Agency, the Bank of Japan, the Japanese Securities Dealers Association and several Japanese securities and futures exchanges, including the Tokyo Stock Exchange, regulate our activities in Japan. We have established policies, procedures, and systems designed to comply with the requirements of these organizations. However, as a global financial services institution, we face complexity and costs in our worldwide compliance efforts.

The majority of our non-U.S. asset servicing operations are conducted pursuant to Federal Reserve Regulation K through State Street Bank s Edge Act subsidiary or through international branches of State Street Bank. An Edge Act corporation is a corporation organized under federal law that conducts foreign business activities. In general, banks may not make investments that exceed 20% of their capital and surplus in their Edge Act corporations (and similar state law corporations), and the investment of any amount in excess of 10% of capital and surplus requires the prior approval of the Federal Reserve.

In addition to our non-U.S. operations conducted pursuant to Regulation K, we also make new investments abroad directly (through the parent company or through non-banking subsidiaries of the parent company) pursuant to Federal Reserve Regulation Y, or through international bank branch expansion, which are not subject to the 20% investment limitation for Edge Act subsidiaries.

We are subject to the USA PATRIOT Act of 2001, which contains anti-money laundering and financial transparency laws and requires implementation of regulations applicable to financial services companies, including standards for verifying client identification and monitoring client transactions and detecting and reporting suspicious activities. Anti-money laundering laws outside the U.S. contain similar requirements.

We are also subject to the Massachusetts bank holding company statute. The statute requires prior approval by the Massachusetts Board of Bank Incorporation for our acquisition of more than 5% of the voting shares of any additional bank and for other forms of bank acquisitions.

Support of Subsidiary Banks

Under Federal Reserve guidelines, a bank holding company is required to act as a source of financial and managerial strength to its banking subsidiaries. Under these guidelines, the parent company is expected to commit resources to State Street Bank and any other banking subsidiary in circumstances in which it otherwise might not do so absent such guidelines. In the event of bankruptcy, any commitment by the parent company to a federal bank regulatory agency to maintain the capital of a banking subsidiary will be assumed by the bankruptcy trustee and will be entitled to a priority payment.

ECONOMIC CONDITIONS AND GOVERNMENT POLICIES

Economic policies of the U.S. government and its agencies influence our operating environment. Monetary policy conducted by the Federal Reserve directly affects the level of interest rates, which may impact overall credit conditions of the economy. Monetary policy is applied by the Federal Reserve through open market operations in U.S. government securities, changes in reserve requirements for depository institutions, and changes in the discount rate and availability of borrowing from the Federal Reserve. Government regulation of banks and bank holding companies is intended primarily for the protection of depositors of the banks, rather than for the shareholders of the institutions. We are also affected by the economic policies of non-U.S. government agencies, such as the European Central Bank.

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STATISTICAL DISCLOSURE BY BANK HOLDING COMPANIES

The following information, included under Items 6, 7 and 8, is incorporated by reference herein:

Selected Financial Data table (Item 6) presents return on average common equity, return on average assets, common dividend payout and equity-to-assets ratios.

Distribution of Average Assets, Liabilities and Shareholders Equity; Interest Rates and Interest Differential table (Item 8) presents consolidated average balance sheet amounts, related fully taxable-equivalent interest earned or paid, related average yields and rates paid and changes in fully taxable-equivalent interest revenue and expense for each major category of interest-earning assets and interest-bearing liabilities.

Investment Securities section included in Management s Discussion and Analysis and note 3, Investment Securities, to the consolidated financial statements (Item 8) disclose information regarding book values, market values, maturities and weighted-average yields of securities (by category).

Note 1, Summary of Significant Accounting Policies Loans and Leases, to the consolidated financial statements (Item 8) discloses our policy for placing loans and leases on non-accrual status.

Note 4, Loans and Leases, to the consolidated financial statements (Item 8) and Loans and Leases section included in Management s Discussion and Analysis disclose distribution of loans, loan maturities and sensitivities of loans to changes in interest rates.

Loans and Leases and Cross-Border Outstandings sections of Management s Discussion and Analysis disclose information regarding cross-border outstandings and other loan concentrations of State Street.

Credit Risk section of Management s Discussion and Analysis and note 4, Loans and Leases, to the consolidated financial statements (Item 8) present the allocation of the allowance for loan losses, and a description of factors which influenced management s judgment in determining amounts of additions or reductions to the allowance, if any, charged or credited to results of operations.

Distribution of Average Assets, Liabilities and Shareholders Equity; Interest Rates and Interest Differential table (Item 8) discloses deposit information.

Note 8, Short-Term Borrowings, to the consolidated financial statements (Item 8) discloses information regarding short-term borrowings of State Street.

ITEM 1A. RISK FACTORS

This Form 10-K, as well as other reports filed by us under the Securities Exchange Act of 1934, registration statements filed by us under the Securities Act of 1933, our annual report to shareholders and other public statements we may make, contain statements (including statements in Management s Discussion and Analysis included under Item 7) that are considered forward-looking statements within the meaning of U.S. securities laws, including statements about industry, regulatory, economic and market trends, management s expectations about our financial performance, market growth, acquisitions and divestitures, new technologies, services and opportunities and earnings, management s confidence in our strategies and other matters that do not relate strictly to historical facts. Terminology such as expect, look, believe, anticipate, intend, estimate, forecast, seek, may, will, trend, target and goal, or similar statements or variations of such terms are intended to identify forward-looking statements, although not all forward-looking statements contain such terms.

Forward-looking statements are subject to various risks and uncertainties, which change over time, are based on management s expectations and assumptions at the time the statements are made, and are not guarantees of future results. Management s expectations and assumptions, and the continued validity of the forward-looking statements, are subject to change due to a broad range of factors affecting the national and global economies, the equity, debt, currency and other financial markets, as well as factors specific to State Street

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and its subsidiaries, including State Street Bank. Factors that could cause changes in the expectations or assumptions on which forward-looking statements are based cannot be foreseen with certainty and may include, but are not limited to:

- the financial strength and continuing viability of the counterparties with which we or our clients do business and to which we have investment, credit or financial exposure including, for example, the direct and indirect effects on counterparties of the current sovereign debt risks in Europe and other regions;
- financial market disruptions or economic recession, whether in the U.S., Europe or other regions internationally;
- increases in the volatility of, or declines in the level of, our net interest revenue, changes in the composition of the assets on our consolidated statement of condition and the possibility that we may be required to change the manner in which we fund those assets;
- the liquidity of the U.S. and international securities markets, particularly the markets for fixed-income securities and inter-bank credits, and the liquidity requirements of our clients;
- the level and volatility of interest rates and the performance and volatility of securities, credit, currency and other markets in the U.S. and internationally;
- the credit quality, credit agency ratings, and fair values of the securities in our investment securities portfolio, a deterioration or downgrade of which could lead to other-than-temporary impairment of the respective securities and the recognition of an impairment loss in our consolidated statement of income;
- our ability to attract deposits and other low-cost, short-term funding, and our ability to deploy deposits in a profitable manner consistent with our liquidity requirements and risk profile;
- the manner in which the Federal Reserve and other regulators implement the Dodd-Frank Act, Basel III, European directives with respect to banking and financial instruments and other regulatory initiatives in the U.S. and internationally, including regulatory developments that result in changes to our operating model or other changes to the provision of our services;
- adverse changes in required regulatory capital ratios, whether arising under the Dodd-Frank Act, Basel II or Basel III, or due to changes in regulatory positions or regulations in jurisdictions in which we engage in banking activities;
- approvals required by the Federal Reserve or other regulators for the use, allocation or distribution of our capital or other specific capital actions or programs, including acquisitions, dividends and equity repurchases, that may restrict or limit our growth plans, distributions to shareholders, equity purchase programs or other capital initiatives;
- changes in law or regulation that may adversely affect our, our clients or our counterparties business activities and the products or services that we sell, including additional or increased taxes or assessments thereon, capital adequacy requirements and changes that expose us to risks related to compliance;

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

delays or difficulties in the execution of our previously announced business operations and information technology transformation program, which could lead to changes in our estimates of the charges, expenses or savings associated with the planned program, resulting in increased volatility of our earnings;

the results of, and costs associated with, government investigations, litigation, and similar claims, disputes, or proceedings;

the possibility that our clients will incur substantial losses in investment pools where we act as agent, and the possibility of significant reductions in the valuation of assets;

adverse publicity or other reputational harm;

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dependencies on information technology, complexities and costs of protecting the security of our systems and difficulties with protecting our intellectual property rights;

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

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

potential changes in how clients compensate us for our services, and the mix of services that clients choose from us;

the risks that acquired businesses and joint ventures will not achieve their anticipated financial and operational benefits or will not be integrated successfully, or that the integration will take longer than anticipated, that expected synergies will not be achieved or unexpected disynergies will be experienced, that client and deposit retention goals will not be met, that other regulatory or operational challenges will be experienced and that disruptions from the transaction will harm relationships with clients, employees or regulators;

the ability to complete acquisitions, divestitures and joint ventures, including the ability to obtain regulatory approvals, the ability to arrange financing as required and the ability to satisfy closing conditions;

our ability to recognize emerging clients needs and to develop products that are responsive to such trends and profitable to the company; the performance of and demand for the products and services we offer, including the level and timing of redemptions and withdrawals from our collateral pools and other collective investment products; and the potential for new products and services to impose additional costs on us and expose us to increased operational risk;

our ability to measure the fair value of the investment securities on our consolidated statement of condition;

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

changes in accounting standards and practices; and

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

Actual outcomes and results may differ materially from what is expressed in our forward-looking statements and from our historical financial results due to the factors discussed in this section and elsewhere in this Form 10-K or disclosed in our other SEC filings. Forward-looking statements should not be relied upon as representing our expectations or beliefs as of any date subsequent to the time this Form 10-K is filed with the SEC. We undertake no obligation to revise our forward-looking statements after the time they are made. The factors discussed above are not intended to be a complete summary of all risks and uncertainties that may affect our businesses. We cannot anticipate all developments that may adversely affect our consolidated results of operations and financial condition.

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

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The following is a discussion of risk factors applicable to State Street.

The failure or instability of any of our significant counterparties, many of which are major financial institutions and may have dependencies upon other financial institutions or sovereigns, and our assumption of significant credit and counterparty risk, could expose us to loss.

The financial markets are characterized by extensive interdependencies among banks, central banks, broker/dealers, collective investment funds, insurance companies and other financial institutions. Many financial institutions also hold sovereign debt securities that comprise material portions of their balance sheets, have exposures to other financial institutions that have significant sovereign debt exposures or have sought to mitigate exposures to financial counterparties by accepting collateral consisting of sovereign debt. As a result of these interdependencies, we and many of our clients have concentrated counterparty exposure to other financial institutions, particularly large and complex institutions, and sovereign issuers. Although we have procedures for monitoring both individual and aggregate counterparty risk, like other large financial institutions, the nature of our business is such that significant individual and aggregate counterparty exposure is inherent in our business as our focus is on large institutional investors and their businesses.

From time to time, we assume concentrated credit risk at the individual obligor, counterparty or guarantor level. Such concentrations may be material and can from time to time exceed 10% of our consolidated total shareholders equity. Our material counterparty exposures change daily, and the counterparties to which our risk exposure exceeds 10% of our consolidated total shareholders equity are also variable during any reported period; however, our largest exposures tend to be to other financial institutions. In some cases, our exposure to a counterparty is the result of our relationships with numerous affiliated entities. These affiliated entities and our risk exposures to them also vary. Under evolving regulatory restrictions on credit exposure, and a broadening of the measure of credit exposure under such regulations, we may be required to limit our exposures to financial institutions and sovereign issuers to levels that we may currently exceed. The credit exposure restrictions under such evolving regulations may adversely affect our businesses and may require that we modify our operating models or our balance sheet management policies and practices.

Concentration of counterparty exposure presents significant risks to us and to our clients because the failure or perceived weakness of any of our counterparties (or in some cases of our clients counterparties) has the potential to expose us to risk of loss.

The continued instability of the financial markets since 2007 and the increased pressure on European financial markets during 2011 and into 2012 have resulted in many financial institutions becoming significantly less creditworthy, as reflected in the credit downgrades of numerous large U.S. and non-U.S. financial institutions during the second half of 2011. Credit downgrades during 2011 and in early 2012 to several sovereign issuers (including the United States, France, Austria, Italy, Spain and Portugal) and other issuers have stressed the market value and perceived creditworthiness of financial institutions, many of which invest in, accept collateral in the form of, or value other transactions based upon the debt or other securities issued by, sovereign or other issuers. Further economic, political or market turmoil may lead to stress on sovereign issuers, and increase the potential for sovereign defaults or restructurings, additional credit rating downgrades or the departure of sovereign issuers from common currencies or economic unions. As a result, we may be exposed to increased counterparty risks, either resulting from our role as principal or because of commitments we make in our capacity as agent for our clients.

Changes in market perception of the financial strength of particular financial institutions or sovereign issuers can occur rapidly, are often based upon a variety of factors and are difficult to predict. In addition, as U.S. and non-U.S. governments have addressed the financial crisis in an evolving manner, the criteria for and manner of governmental support of financial institutions and other economically important sectors remain uncertain. If a significant individual counterparty defaults on an obligation to us, we could incur financial losses that materially adversely affect our businesses and our consolidated results of operations and financial condition. A counterparty default can also have adverse effects on, and financially weaken, other of our counterparties, which could also materially adversely affect our businesses and our consolidated results of operations and financial condition.

The degree of client demand for short-term credit tends to increase during periods of market turbulence, exposing us to further counterparty-related risks. For example, investors in collective investment vehicles for which we act as custodian may experience significant redemption activity due to adverse market or economic news that was not anticipated by the fund s manager. Our relationship with our clients, the nature of the settlement process and our systems may result in the extension of short-term credit in such circumstances. For some types of clients, we provide credit to allow them to leverage their portfolios, which may expose us to potential loss if the client experiences credit difficulties. In addition to our exposure to financial institutions, we are from time to time exposed to concentrated credit risk at the industry or country level, potentially exposing us to a single market or political event or a correlated set of events. We are also generally not able to net exposures across counterparties that are affiliated entities and may not be able in all circumstances to net exposures to the same legal entity across multiple products. As a consequence, we may incur a loss in relation to one entity or product even though our exposure to one of its affiliates or across product types is over-collateralized. Moreover, not all of our counterparty exposure is secured, and when our exposure is secured, the realizable market value of the collateral may have declined by the time we exercise rights against that collateral. This risk may be particularly acute if we are required to sell the collateral into an illiquid or temporarily impaired market.

In addition, our clients often purchase securities or other financial instruments from financial counterparties, including broker/dealers, under repurchase arrangements, frequently as a method of reinvesting the cash collateral they receive from lending their securities. Under these arrangements, the counterparty is obligated to repurchase these securities or financial instruments from the client at the same price at some point in the future. The anticipated value of the collateral is intended to exceed the counterparty s repayment obligation. In many cases, we agree to indemnify our clients from any loss that would arise upon a default by the counterparty if the proceeds from the disposition of the securities or other financial assets are less than the amount of the repayment obligation by the client s counterparty. In such instances of counterparty default, we, rather than our client, are exposed to the risks associated with collateral value.

We also engage in certain off-balance sheet activities that involve risks. For example, we provide benefit responsive contracts, known as wraps, to defined contribution plans that offer a stable value option to their participants. During the financial crisis, the book value of obligations under many of these contracts exceeded the market value of the underlying portfolio holdings. Concerns regarding the portfolio of investments protected by such contracts, or regarding the investment manager overseeing such an investment option, may result in redemption demands from stable value products covered by benefit responsive contracts at a time when the portfolio s market value is less than its book value, potentially exposing us to risk of loss. Similarly, we provide credit facilities in connection with the remarketing of municipal obligations, potentially exposing us to credit exposure to the municipalities issuing such bonds and to increased liquidity demands. In the current economic environment, where municipal credits are subject to increased investor concern, the risks associated with such businesses increase. Further, our off-balance sheet activities also include indemnified securities financing obligations, where we indemnify our clients against losses they incur in connection with the failure of borrowers under our program to return securities on loan.

Although our overall business is subject to these interdependencies, several of our business units are particularly sensitive to them, including our Global Treasury group, our currency and other trading activities, our securities lending business and our investment management business. Given the limited number of strong counterparties in the current market, we are not able to mitigate all of our and our clients counterparty credit risk. The current consolidation of financial service firms that began in 2008, and the failures of other financial institutions, have increased the concentration of our counterparty risk.

Our business involves significant European operations, and disruptions in European economies could have a material adverse effect on our consolidated results of operations or financial condition.

During 2011 and into 2012, Greece, Ireland, Italy, Portugal and Spain and other European economies continued to experience difficulties in financing their deficits and servicing outstanding debt. Financial markets remained highly volatile, reflecting Eurozone instability and sovereign debt concerns, and the credit ratings of associated sovereign debt and European financial institutions were further downgraded during 2011 and early

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2012. This loss of confidence has led to rescue measures for Greece, Ireland and Portugal by Eurozone countries and the International Monetary Fund. Numerous European governments, notably Italy and Spain, have also adopted austerity and other measures in an attempt to contain the spread of sovereign debt concerns.

The actions required to be taken by certain European countries as a condition to rescue packages and austerity programs, and by other countries to mitigate similar developments in their economies, have increased internal political tensions, and, in the case of Greece, Italy and Spain, have resulted in internal political changes. The complexity and severity of European sovereign debt concerns has also resulted in political discord among the Eurozone countries. Eurozone countries continue to disagree on how to manage current European sovereign debt concerns, and they have not resolved how to stabilize the Eurozone for the near- and long-term, increasing uncertainty about the further spread of sovereign debt concerns, the continuation of prevailing Eurozone treaties, economic interconnectedness and the status of the Euro. The decline in the market value of sovereign debt and the requirement as part of certain rescue packages for creditors to agree to material restructuring of outstanding sovereign debt have weakened the capital position of many European financial institutions, and such institutions will be required to raise additional capital in 2012.

These political disagreements, along with the interdependencies among European economies and financial institutions and the substantial refinancing requirements of European sovereign issuers during 2012, have exacerbated concern regarding the stability of European financial markets generally and certain institutions in particular. Given the scope of our European operations, clients and counterparties, persistent disruptions in the European financial markets, the failure to resolve and contain sovereign debt concerns, the attempt of a country to abandon the Euro, the failure of a significant European financial institution, even if not an immediate counterparty to us, or persistent weakness in the Euro, could have a material adverse impact on our consolidated results of operations or financial condition.

Our investment securities portfolio and consolidated financial condition could be adversely affected by changes in various interest, market and credit risks.

Our investment securities portfolio represented approximately 50% of our consolidated total assets as of December 31, 2011, and the interest revenue associated with our investment portfolio represented approximately 24% of our consolidated total gross revenue for the year ended December 31, 2011. As such, our consolidated results of operations and financial condition are materially exposed to the risks associated with our investment portfolio, including, without limitation, changes in interest rates, credit spreads, credit performance, credit ratings, access to liquidity, mark-to-market valuations and our ability to reinvest repayments of principal with respect to portfolio securities. The low interest rate environment that has persisted since the financial crisis began, and which is anticipated to continue in 2012 and beyond, limits our ability to maintain a net interest margin in line with our historical averages. Relative to many other major financial institutions, investment securities represent a greater percentage of our consolidated statement of condition and commercial loans represent a smaller percentage.

Our investment portfolio continues to have significant concentrations in certain classes of securities, including non-agency residential mortgage-backed securities, commercial mortgage-backed securities and other asset-backed securities and securities with concentrated exposure to consumers. These classes and types of securities experienced significant liquidity, valuation and credit quality deterioration during the financial disruption that began in mid-2007. We also have material holdings of non-U.S. mortgage-backed and asset-backed securities with exposures to European countries whose sovereign debt markets have experienced increased stress over the past year, are expected to continue to experience stress during 2012 and may continue to experience stress in the future. For further information, refer to the risk factor above titled *Our business involves significant European operations, and disruptions in European economies could have a material adverse effect on our consolidated results of operations or financial condition.*

Further, we hold a portfolio of state and municipal bonds. In view of the budget deficits that most states and many municipalities are currently incurring due to the continued depressed economic environment, the risks associated with this portfolio have increased.

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If market conditions similar to those experienced in 2007 and 2008 were to return, our investment portfolio could experience a decline in liquidity and market value, regardless of our credit view of our portfolio holdings. For example, we recorded significant non-credit losses in connection with the consolidation of our off-balance sheet asset-backed commercial paper conduits in 2009 and the repositioning of our investment portfolio in 2010 with respect to these asset classes. In addition, deterioration in the credit quality of our portfolio holdings could result in other-than-temporary impairment. Our investment portfolio is further subject to changes in both domestic interest rates and foreign interest rates (primarily in Europe) and could be negatively impacted by a quicker than anticipated increase in interest rates. In addition, while approximately 89% of the carrying value of the securities in our investment portfolio is rated AAA or AA, if a material portion of our investment portfolio were to experience credit rating declines below investment grade, our capital ratios under the requirements of Basel II and Basel III could be adversely affected, which risk is greater with portfolios of investment securities than with loans or holdings of U.S. Treasury securities.

Our business activities expose us to liquidity and interest-rate risk.

In our business activities, we assume liquidity and interest-rate risk in our investment portfolio of longer- and intermediate-term assets, and our net interest revenue is affected by the levels of interest rates in global markets, changes in the relationship between short- and long-term interest rates, the direction and speed of interest-rate changes, and the asset and liability spreads relative to the currency and geographic mix of our interest-earning assets and interest-bearing liabilities. Our ability to anticipate these changes or to hedge the related on- and off-balance sheet exposures can significantly influence the success of our asset-and liability-management activities and the resulting level of our net interest revenue. The impact of changes in interest rates will depend on the relative duration of assets and liabilities as well as the currencies in which they are denominated. Sustained lower interest rates, a flat or inverted yield curve and narrow interest-rate spreads generally have a constraining effect on our net interest revenue. In particular, if short-term interest rates rise, our net interest revenue is likely to decline, and any such decline could be material.

In addition, we may be exposed to liquidity or other risks in managing asset pools for third parties that are funded on a short-term basis, or where the clients participating in these products have a right to the return of cash or assets on limited notice. These business activities include, among others, securities finance collateral pools, money market and other short-term investment funds and liquidity facilities utilized in connection with municipal bond programs. If clients demand a return of their cash or assets, particularly on limited notice, and these investment pools do not have the liquidity to support those demands, we could be forced to sell investment securities at unfavorable prices, damaging our reputation as an asset manager and potentially exposing us to claims related to our management of the pools.

If we are unable to continuously attract deposits and other short-term funding, our consolidated financial condition, including our regulatory capital ratios, our consolidated results of operations and our business prospects could be adversely affected.

Liquidity management is critical to the management of our consolidated statement of condition and to our ability to service our client base. We generally use our sources of funds to:

- extend credit to our clients in connection with our custody business;
- meet demands for return of funds on deposit by clients; and
- manage the pool of long- and intermediate-term assets that are included in investment securities on our consolidated statement of condition.

Because the demand for credit by our clients is difficult to forecast and control, and may be at its peak at times of disruption in the securities markets, and because the average maturity of our investment portfolio is significantly longer than the contractual maturity of our client deposit base, we need to continuously attract, and are dependent upon, access to various sources of short-term funding. At the same time, during periods of market uncertainty, the level of client deposits has in recent years tended to increase; however, since such deposits are considered to be transitory, we deposit excess deposits with central banks and in other highly liquid and low yielding instruments. These levels of excess client deposits, as a consequence, can increase our net interest revenue but adversely affect our net interest margin.

In managing our liquidity, our primary source of short-term funding is client deposits, which are predominantly transaction-based deposits by institutional investors. Our ability to continue to attract these deposits, and other short-term funding sources such as certificates of deposit and commercial paper, is subject to variability based upon a number of factors, including volume and volatility in the global securities markets, the relative interest rates that we are prepared to pay for these deposits and the perception of safety of those deposits or short-term obligations relative to alternative short-term investments available to our clients, including the capital markets. For example, the contraction in the number of counterparties for which we have a favorable credit assessment as a result of ongoing market disruptions has made it difficult for us to invest our available liquidity, which has adversely affected the rate of return that we have earned on these assets, which could adversely affect our ability to attract client deposits.

The availability and cost of credit in short-term markets are highly dependent upon the markets perception of our liquidity and creditworthiness. Our efforts to monitor and manage our liquidity risk may not be successful or sufficient to deal with dramatic or unanticipated changes in the global securities markets or other event-driven reductions in liquidity. In such events, our cost of funds may increase, thereby reducing our net interest revenue, or we may need to dispose of a portion of our investment portfolio, which, depending upon market conditions, could result in the realization of a loss in our consolidated statement of income.

The global recession and financial crisis that began in mid-2007 have adversely affected us and increased the uncertainty and unpredictability we face in managing our businesses. Continued or additional disruptions in the global economy or financial markets could further adversely affect our business and financial performance.

Our businesses have been significantly affected by global economic conditions and their impact on financial markets. Since mid-2007, global credit and other financial markets have suffered from substantial volatility, illiquidity and disruption as a result of the global recession and financial crisis. The resulting economic pressure and lack of confidence in the financial markets have adversely affected our business, as well as the businesses of our clients and significant counterparties. These events, and the potential for continuing or additional disruptions, have also affected overall confidence in financial institutions, have further exacerbated liquidity and pricing issues within the fixed-income markets, have increased the uncertainty and unpredictability we face in managing our businesses and have had an adverse effect on our consolidated results of operations and financial condition.

While global economies and financial markets have shown initial signs of stabilizing, during 2011, U.S. sovereign debt, non-U.S. sovereign debt and numerous global financial services firms experienced credit downgrades, sovereign debt concerns in the Eurozone increased and key emerging economies, including those in India, China and Brazil, experienced reductions in the rate of their economic growth. The occurrence of additional disruptions in global markets or the worsening of economic conditions could adversely affect our businesses and the financial services industry in general, and also increases the difficulty and unpredictability of aligning our business strategies, infrastructure and operating costs in light of current and future market and economic conditions.

Market disruptions can adversely affect our revenue if the value of assets under custody, administration or management decline, while the costs of providing the related services remain constant due to the fixed nature of such costs. These factors can reduce our asset-based fee revenue and could adversely affect our other transaction-based revenue, such as revenues from securities finance and foreign exchange activities, and the volume of transactions that we execute for or with our clients, but the costs of providing the related services would not similarly decline. Further, the degree of volatility in foreign exchange rates can affect our foreign exchange trading revenue. In general, increased currency volatility tends to increase our market risk but also increases our foreign exchange revenue. Conversely, periods of lower currency volatility tend to decrease our market risk but also decreases our foreign exchange revenue.

In addition, as our business grows globally and as a greater percentage of our revenue is earned in currencies other than U.S. dollars, our exposure to foreign currency volatility could affect our levels of consolidated revenue, our consolidated expenses and our consolidated results of operations, as well as the value of our investment in our non-U.S. operations and our investment portfolio holdings. As our Investment Servicing product offerings within our Global Services and Global Markets businesses expand, in part to seek to take advantage of perceived opportunities arising under various regulatory reforms and resulting market changes, the degree of our exposure to various market and credit risks will evolve, potentially resulting in greater revenue volatility. We also will need to make additional investments to develop the operational infrastructure and to enhance our risk management capabilities to support these businesses, which may increase the operating expenses of such businesses or, if our risk management resources fail to keep pace with product expansion, result in increased risk of loss from our trading businesses.

We face extensive and changing government regulation, including changes to capital requirements under the Dodd-Frank Act, Basel II and Basel III, which may increase our costs and expose us to risks related to compliance.

Most of our businesses are subject to extensive regulation by multiple regulatory bodies, and many of the clients to which we provide services are themselves subject to a broad range of regulatory requirements. These regulations may affect the manner and terms of delivery of our services. As a financial institution with substantial international operations, we are subject to extensive regulatory and supervisory oversight, both in the U.S. and outside the U.S. The regulations affect, among other things, the scope of our activities and client services, our capital structure and our ability to fund the operations of our subsidiaries, our lending practices, our dividend policy, our share repurchase actions, the manner in which we market our services and our interactions with foreign regulatory agencies and officials, for example, as a result of the Foreign Corrupt Practices Act. For example, the requirement that we maintain recovery and resolution plans, and organize our operations to facilitate such plans, could require us to operate our businesses in a less efficient manner than we have historically.

The Dodd-Frank Act, which became law in July 2010, will have a significant impact on the regulatory structure of the financial markets and will impose additional costs on us. While few of the regulations required to be implemented under Dodd-Frank are in final form, and while many regulations have not yet been proposed, the regulatory proposals to date could potentially have a significant impact on our businesses and State Street. For example, the provision of the so called Volcker Rule applicable to management or sponsorship of hedge funds and private equity funds would, as currently proposed, require that unaffiliated financial institutions provide custody services to some of the funds managed by SSgA, particularly those outside the U.S. Similarly, the proposed prudential rules applicable to systemically important financial institutions, or SIFIs, could significantly increase the amount of credit exposure attracted by our securities lending business and result in limiting business volumes to comply with credit concentration limits. Our current designation as a SIFI, and our initial designation as a global systemically important bank, or G-SIB, will subject us to incrementally higher capital and prudential requirements that will not be applicable to all of the financial institutions with whom we compete as a custodian, dealer or asset manager.

The Dodd-Frank Act and regulations implementing it also could adversely affect certain of our business operations and our competitive position, or those of our clients. The Dodd-Frank Act, among other things, establishes a new Financial Stability Oversight Council to monitor systemic risk posed by financial institutions, restricts proprietary trading and private fund investment activities by banking institutions, creates a new framework for the regulation of derivatives, alters the regulatory capital treatment of trust preferred securities and other hybrid capital securities and revises the FDIC s assessment base for deposit insurance. Provisions in the Dodd-Frank Act, as well as regulation in Europe, may also restrict the flexibility of financial institutions to compensate their employees. In addition, provisions in the Dodd-Frank Act may require changes to the existing Basel II capital rules or affect their interpretations by institutions or regulators, which could have an adverse effect on our ability to comply with Basel II regulations, our business operations, regulatory capital structure,

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regulatory capital ratios or our financial performance. The final effects of the Dodd-Frank Act on our business will depend largely on the implementation of the Act by regulatory bodies, which in many cases have been delayed, and the exercise of discretion by these regulatory bodies.

In addition, rapid regulatory change is occurring internationally with respect to financial institutions, including, but not limited to, the implementation of Basel III and the Alternative Investment Fund Managers Directive and the potential adoption of the EU derivatives initiatives and revisions to the European collective investment fund, or UCITS, directive and the Markets in Financial Instruments Directive. Among current regulatory developments are proposed rules to enhance the responsibilities of custodians to their clients for asset losses. The Dodd-Frank Act and these other international regulatory changes could limit our ability to pursue certain business opportunities, increase our regulatory capital requirements and impose additional costs on us, and otherwise adversely affect our business operations and have other negative consequences, including a reduction of our credit ratings. Different countries may respond to the market and economic environment in different and potentially conflicting manners, which could have the impact of increasing the cost of compliance for us.

The evolving regulatory environment, including changes to existing regulations and the introduction of new regulations, may also contribute to decisions we may make to suspend or withdraw from existing businesses, activities or initiatives. In addition to potential lost revenue associated with any such suspensions or withdrawals, any such suspensions or withdrawals may result in significant restructuring or related costs or exposures. For example, in December 2011, in response to challenging market conditions and an evolving regulatory environment, we initiated the withdrawal from our fixed-income trading initiative. This resulted in an $83 million restructuring charge in the fourth quarter of 2011 related to fair-value adjustments to the initiative s trading portfolio resulting from our decision to withdraw from the initiative; severance and benefits costs; and costs associated with asset write-downs and contract terminations. In addition, as a result of the withdrawal from this initiative, we intend to wind down the initiative s remaining trading portfolio. At December 31, 2011, this trading portfolio consisted primarily of derivative assets with an aggregate fair value of approximately $1.89 billion and derivative liabilities with an aggregate fair value of approximately $1.78 billion. Our consolidated results of operations for future periods during which the trading portfolio is wound down may be affected, potentially materially, by the impact of economic and market conditions, including changes in credit profiles and currency and yield spreads, on the valuation of, or trade execution for, the initiative s remaining trading portfolio.

New or modified regulations and related regulatory guidance, including under Basel III and the Dodd-Frank Act, may have unforeseen or unintended adverse effects on the financial services industry. The regulatory perspective, particularly that of the Federal Reserve Board, on regulatory capital requirements may affect our ability to make acquisitions, declare dividends or repurchase our common stock unless we can demonstrate, to the satisfaction of our regulators, that such actions would not adversely affect our regulatory capital position in the event of a severely stressed market environment. In addition, the implementation of certain of the proposals with regard to regulatory capital could affect our regulatory capital position.

If we do not comply with governmental regulations, we may be subject to fines, penalties, lawsuits or material restrictions on our businesses in the jurisdiction where the violation occurred, which may adversely affect our business operations and, in turn, our consolidated results of operations. Similarly, many of our clients are subject to significant regulatory requirements, and retain our services in order for us to assist them in complying with those legal requirements. Changes in these regulations can significantly affect the services that we are asked to provide, as well as our costs. In addition, adverse publicity and damage to our reputation arising from the failure or perceived failure to comply with legal, regulatory or contractual requirements could affect our ability to attract and retain clients. If we cause clients to fail to comply with these regulatory requirements, we may be liable to them for losses and expenses that they incur. In recent years, regulatory oversight and enforcement have increased substantially, imposing additional costs and increasing the potential risks associated with our operations. If this regulatory trend continues, it could adversely affect our operations and, in turn, our consolidated results of operations.

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Our business and capital-related activities, including our ability to return capital to shareholders and repurchase our capital stock, may be adversely affected by our implementation of the revised capital requirements under Basel II, Basel III and the Dodd-Frank Act or in the event our capital structure is determined to be insufficient as a result of mandated stress testing.

We are currently in the qualification period that is required to be completed prior to our full implementation of the Basel II regulatory capital rules. During the qualification period we must demonstrate that we comply with the Basel II requirements to the satisfaction of the Federal Reserve. During or subsequent to this qualification period, the Federal Reserve may determine that we are not in compliance with certain aspects of the regulation and may require us to take certain actions to come into compliance that could adversely affect our business operations, regulatory capital structure, capital ratios or financial performance or otherwise restrict our growth plans or strategies. In addition, regulators could change the Basel II capital rules or their interpretations as they apply to State Street, potentially due to the rule-making associated with certain provisions of the Dodd-Frank Act, which could adversely affect us and our ability to comply with Basel II.

Basel III, the Dodd-Frank Act and the regulatory rules to be adopted for the implementation of Basel III and the Dodd-Frank Act will result in an increase in the minimum levels of regulatory capital and liquidity that we will be required to maintain and changes in the manner in which our regulatory capital ratios are calculated. In addition, we are required by the Federal Reserve to conduct periodic stress testing of our business operations, and our capital structure and liquidity management are subject to periodic review and stress testing by the Federal Reserve, which is used by the Federal Reserve to evaluate the adequacy of our regulatory capital and the potential requirement to maintain capital levels above regulatory minimums. Banking regulators have not yet issued final rules and guidance for our implementation of the revised capital and liquidity rules under Basel III and the Dodd-Frank Act. Consequently, we cannot determine at this time the alignment of our regulatory capital, business operations and strategies with the regulatory capital requirements to be implemented.

Our implementation of the new capital requirements may not be approved by the Federal Reserve and the Federal Reserve may impose capital requirements in excess of our expectations, and maintenance of high levels of liquidity may adversely affect our revenues. In the event our implementation of the new capital requirements under Basel III and the Dodd-Frank Act or our current capital structure are determined not to conform with current and future capital requirements, our ability to deploy capital in the operation of our business or our ability to distribute capital to shareholders or to repurchase our capital stock may be constrained and our business may be adversely affected.

Any downgrades in our credit ratings, or an actual or perceived reduction in our financial strength, could adversely affect our borrowing costs, capital costs and liquidity and cause reputational harm.

Various independent rating agencies publish credit ratings for our debt obligations based on their evaluation of a number of factors, some of which relate to our performance and other corporate developments, including financings, acquisitions and joint ventures, and some of which relate to general industry conditions. We anticipate that the rating agencies will review our ratings regularly based on our consolidated results of operations and developments in our businesses. Our credit ratings were downgraded by each of the principal rating agencies during the first quarter of 2009, and in the fourth quarter of 2011, Standard & Poor s revised its outlook for our credit ratings to negative from stable. A further downgrade or a significant reduction in our capital ratios might adversely affect our ability to access the capital markets or might increase our cost of capital. We cannot provide assurance that we will continue to maintain our current ratings.

The current market environment and our exposure to financial institutions and other counterparties, including sovereigns, increase the risk that we may not maintain our current ratings. Downgrades in our credit ratings may adversely affect our borrowing costs, our capital costs and our ability to raise capital and, in turn, our liquidity. A failure to maintain an acceptable credit rating may also preclude us from being competitive in certain products, may be negatively perceived by our clients or counterparties or may have other adverse reputational effects.

Additionally, our counterparties, as well as our clients, rely upon our financial strength and stability and evaluate the risks of doing business with us. If we experience diminished financial strength or stability, actual or

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perceived, including the effects of market or regulatory developments, our announced or rumored business developments or consolidated results of operations, a decline in our stock price or a reduced credit rating, our counterparties may become less willing to enter into transactions, secured or unsecured, with us, our clients may reduce or place limits upon the level of services we provide them or seek other service providers and our prospective clients may select other service providers. The risk that we may be perceived as less creditworthy relative to other market participants is increased in the current market environment, where the consolidation of financial institutions, including major global financial institutions, is resulting in a smaller number of much larger counterparties and competitors. If our counterparties perceive us to be a less viable counterparty, our ability to enter into financial transactions on terms acceptable to us or our clients, on our or our clients behalf, will be materially compromised. If our clients reduce their deposits with us or select other service providers for all or a portion of the services we provide them, our revenues will decrease accordingly.

We may need to raise additional capital in the future, which may not be available to us or may only be available on unfavorable terms.

We may need to raise additional capital in order to maintain our credit ratings, in response to changes in regulatory capital rules or for other purposes, including financing acquisitions. However, our ability to access the capital markets, if needed, will depend on a number of factors, including the state of the financial markets. In the event of rising interest rates, disruptions in financial markets, negative perception of our business or financial strength, or other factors that would increase our cost of borrowing, we cannot be sure of our ability to raise additional capital, if needed, on terms acceptable to us, which could adversely affect our business and ability to implement our business plan and strategic goals, including the financing of acquisitions.

We may not be successful in implementing our announced multi-year program to transform our operating model.

In order to maintain and grow our business, we must continuously make strategic decisions about our current and future business plans, including plans to target cost initiatives and enhance operational efficiencies, plans for entering or exiting business lines or geographic markets, plans for acquiring or disposing of businesses and plans to build new systems and other infrastructure, to engage third-party service providers and to address staffing needs. On November 30, 2010, we announced a multi-year program to enhance service excellence and innovation, increase efficiencies and position us for accelerated growth.

Operating model transformations, including this program, entail significant risks. The program, and any future strategic or business plan we implement, may prove to be inadequate for the achievement of the stated objectives, may result in increased or unanticipated costs or risks, may result in earnings volatility, may take longer than anticipated to implement, may involve elements reliant upon the performance of third parties and may not be successfully implemented. In particular, elements of the program include investment in new technologies, such as private processing clouds, to increase global computing capabilities, and also the development of new, and the evolution of existing, methods and tools to accelerate the pace of innovation, the introduction of new services and solutions, the use of service providers associated with components of our technology infrastructure and application maintenance and support and the enhancement of the security of our systems. The transition to new operating models and technology infrastructure may cause disruptions in our relationships with clients, employees and vendors and may present other unanticipated technical, operational or other hurdles.

The success of the program and our other strategic plans could also be affected by continuing market disruptions and unanticipated changes in the overall market for financial services and the global economy. We also may not be able to abandon or alter these plans without significant loss, as the implementation of our decisions may involve significant capital outlays, often far in advance of when we expect to generate any related revenues. Accordingly, our business, our consolidated results of operations and our consolidated financial condition may be adversely affected by any failure or delay in our strategic decisions, including the program or elements thereof. For additional information about the program, see Consolidated Results of Operations Expenses in Management s Discussion and Analysis, included under Item 7, and note 20 to the consolidated financial statements included under Item 8.

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Our businesses may be adversely affected by litigation.

From time to time, our clients, or the government on their or its own behalf, make claims and take legal action relating to, among other things, our performance of fiduciary or contractual responsibilities. In any such claims or actions, demands for substantial monetary damages may be asserted against us and may result in financial liability or an adverse effect on our reputation or on client demand for our products and services. We may be unable to accurately estimate our exposure to litigation risk when we record balance sheet reserves for probable loss contingencies. As a result, any reserves we establish to cover any settlements or judgments may not be sufficient to cover our actual financial exposure, which may have a material impact on our consolidated results of operations or financial condition.

In the ordinary course of our business, we are also subject to various regulatory, governmental and law enforcement inquiries, investigations and subpoenas. These may be directed generally to participants in the businesses in which we are involved or may be specifically directed at us. In regulatory enforcement matters, claims for disgorgement, the imposition of penalties and the imposition of other remedial sanctions are possible.

In view of the inherent difficulty of predicting the outcome of legal actions and regulatory matters, we cannot provide assurance as to the outcome of any pending matter or, if determined adversely against us, the costs associated with any such matter, particularly where the claimant seeks very large or indeterminate damages or where the matter presents novel legal theories, involves a large number of parties or is at a preliminary stage. The resolution of certain pending legal actions or regulatory matters, if unfavorable, could have a material adverse effect on our consolidated results of operations for the period in which such actions or matters are resolved or a reserve is established.

We face litigation and governmental and client inquiries in connection with our execution of indirect foreign exchange trades with custody clients; these issues have adversely impacted our revenue from such trading and may cause our revenue from such trading to decline in the future.

Our custody clients are not required to execute foreign exchange transactions with us. To the extent they execute foreign exchange trades with us, they generally execute a greater volume using our direct methods of execution at negotiated rates or spreads than they execute using our indirect methods at rates we establish. Where our clients or their investment managers choose to use our indirect foreign exchange execution methods, generally they elect that service for trades of smaller size or for currencies where regulatory or operational requirements cause trading in such currencies to present greater operational risk and costs. Given the nature of these trades and other features of our indirect foreign exchange service, we generally charge higher rates for indirect execution than we charge for other trades, including trades in the interbank currency market.

In October 2009, the Attorney General of the State of California commenced an action against State Street Bank under the California False Claims Act and California Business and Professional Code relating to indirect foreign exchange services State Street Bank provides to certain California state pension plans. The California Attorney General has asserted that the rates at which these plans executed indirect foreign exchange transactions were not consistent with the terms of the applicable custody contracts and related disclosures to the plans, and that, as a result, State Street Bank made false claims and engaged in unfair competition. The Attorney General has asserted actual damages of $56 million for periods from 2001 to 2009 and seeks additional penalties, including treble damages. This action is in the discovery phase.

In October 2010, we entered into a $12 million settlement with the State of Washington. This settlement resolved a dispute related to the manner in which we priced some indirect foreign exchange transactions during our ten-year relationship with the State of Washington. Our contract with the State of Washington and related disclosures to the State of Washington were significantly different from those at issue in our ongoing litigation in California.

We provide custody and principal foreign exchange services to government pension plans in other jurisdictions. Since the commencement of the litigation in California, attorneys general and other governmental authorities from a number of jurisdictions, as well as U.S. Attorney s offices, the U.S. Department of Labor and the U.S. Securities and Exchange Commission, have requested information or issued subpoenas in connection with inquiries into the pricing of our foreign exchange services. Given that many of these inquiries are ongoing, we can provide no assurance that litigation or regulatory proceedings will not be brought against us or as to the nature of the claims that might be alleged. Such litigation or proceedings may be brought on theories similar to those advanced in California or Washington or on alternative theories of liability.

We offer indirect foreign exchange services such as those we offer to the California pension plans to a broad range of custody clients in the U.S. and internationally. We have responded and are responding to information requests from a number of clients concerning our indirect foreign exchange rates. A putative class action was filed in Massachusetts in February 2011 that seeks unspecified damages on behalf of all custodial clients that executed indirect foreign exchange transactions through State Street since 1998. A second putative class action was filed in Massachusetts in November 2011 that seeks unspecified damages on behalf of all ERISA clients that executed indirect foreign exchange transactions with State Street since 2001. The putative class actions allege, among other things, that the rates at which State Street executed foreign currency trades constituted an unfair and deceptive practice, a breach of a duty of loyalty and a breach of our obligations under ERISA.

We can provide no assurance as to the outcome of the pending proceedings in California or Massachusetts, or whether any other proceedings might be commenced against us by clients or government authorities. For example, the New York Attorney General and the United States Attorney for the Southern District of New York, each of which has brought indirect foreign exchange-related legal proceedings against one of our competitors, have made inquiries to us about our indirect foreign exchange execution methods. We expect that plaintiffs will seek to recover their share of all or a portion of the revenue that we have recorded from providing indirect foreign exchange services. Our total revenue worldwide from such services was approximately $331 million for the year ended December 31, 2011, approximately $336 million for the year ended December 31, 2010, approximately $369 million for the year ended December 31, 2009 and approximately $462 million for the year ended December 31, 2008. Although we did not calculate revenue for such services prior to 2006 in the same manner, and have refined our calculation method over time, we believe that the amount of our revenue for such services has been of a similar or lesser order of magnitude for many years.

We cannot predict the outcome of any pending proceedings or whether a court, in the event of an adverse resolution, would consider our revenue to be the appropriate measure of damages. The resolution of pending proceedings or any that may be filed or threatened could have a material adverse effect on our future consolidated results of operations and our reputation. Our revenue calculations related to indirect foreign exchange services reflect a judgment concerning the relationship between the rates we charge for indirect foreign exchange execution and indicative interbank market rates near in time to execution. Our trading revenue depends upon the difference between the rates we set for indirect trades and indicative interbank market rates on the date when trades settle.

The heightened regulatory and media scrutiny on indirect foreign exchange services could result in pressure on our pricing of these services or in clients reducing the volume of trades executed through these services, each of which would have an adverse impact on the revenue from, and profitability of, these services for us. Some custody clients or their investment managers have elected to change the manner in which they execute foreign exchange with us or have decided not to use our foreign exchange execution methods. For the year ended December 31, 2011, our revenue from indirect foreign exchange services decreased by 1% compared to the year ended December 31, 2010. We expect the market, regulatory and other pressures on our indirect foreign exchange service to increase in 2012. We intend to offer our custody clients a range of execution options for their foreign exchange needs; however, the range of services, costs and profitability vary by service options. There can be no assurance that clients or investment managers who choose to use less or none of our indirect foreign exchange services, or to use alternatives to our existing indirect foreign exchange services, will choose alternatives offered by us. Accordingly, our revenue from these services may decline.

We may incur losses, which could be material to our financial performance in the periods incurred, arising from bankruptcy-related claims by and against Lehman entities in the U.S. and the U.K.

We have claims against Lehman entities in bankruptcy proceedings in the U.S. and the U.K. We also have amounts that we owe to Lehman entities. These claims and amounts owed arise from the resolution of

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transactions that existed at the time the Lehman entities entered bankruptcy, including foreign exchange transactions, securities lending arrangements and repurchase agreements. In the aggregate, the amounts that we believe we owe Lehman entities, as reflected in our submissions in the bankruptcy proceedings, are less than our estimate of the realizable value of the claims we have asserted against Lehman entities. However, we may recognize gains and losses in different periods depending in part on the timing and sequence of the resolution of the claims by us and against us in the different proceedings.

In addition, the process for resolving these claims and obligations is complex and may continue for some time. While the bankruptcy courts in the U.S. have approved the majority of our claims, the process is not as advanced in the United Kingdom. Certain of our clients had entered into securities lending arrangements and/or repurchase agreements with Lehman s U.K. affiliate. In accordance with the terms of our lending program and repurchase agreement product, we have indemnified those clients against loss in connection with the resolution of these arrangements, and we have sold or taken possession of the related collateral, which included asset-backed securities.

For purposes of the resolution of securities lending arrangements and repurchase agreements in the U.K. in connection with the Lehman bankruptcy proceedings, we valued the asset-backed securities at their assumed liquidation values, in each case reflecting the absence of an active trading market for these securities following the bankruptcy of Lehman. We subsequently recorded these assets in our consolidated statement of condition at a significantly greater value, based on relevant market conditions and our assessment of their fair value in accordance with GAAP at that time. As a result of these valuation decisions, we determined that there was a shortfall in the collateral supporting the repurchase agreements, and we applied the excess collateral supporting Lehman s obligations under securities lending. The administrators for Lehman s U.K. affiliate have and may continue to challenge our claims.

We may incur losses, which could be material to our consolidated results of operations in the period incurred, with respect to prime broker arrangements we had with Lehman entities.

In our capacity as manager and trustee, we appointed Lehman as prime broker for certain common trust funds. Of the seven investors in these funds, we have entered into settlements with three clients (one of which was entered into after the client obtained a 42 million judgment from a Dutch court), and three others have ongoing litigation against us. The aggregate net asset value, at September 15, 2008 (the date two of the Lehman entities involved entered into insolvency proceedings), of cash and securities held by Lehman entities attributable to the four clients with whom we have not entered into settlement agreements was approximately $143 million. The claims of these clients should be reduced by the value of the distributions from the Lehman entities to these common trust funds, which amounts cannot be determined at this time. There can be no assurance as to the outcome of these proceedings, and an adverse resolution could have a material adverse effect on our results of operations in the fiscal period or periods in which resolved.

Our reputation and business prospects may be damaged if our clients incur substantial losses in investment pools where we act as agent.

Our management of collective investment pools on behalf of clients exposes us to reputational risk and, in some cases, operational losses. If our clients incur substantial losses in these pools, particularly in money market funds (where there is a general market expectation that net asset value will not drop below $1.00 per share), receive redemptions as in-kind distributions rather than in cash, or experience significant under-performance relative to the market or our competitors products, our reputation could be significantly harmed, which harm could significantly and adversely affect the prospects of our associated business units. Because we often implement investment and operational decisions and actions over multiple investment pools to achieve scale, we face the risk that losses, even small losses, may have a significant effect in the aggregate. While it is currently not our intention, any decision by us to provide financial support to our investment pools to support our reputation in circumstances where we are not statutorily or contractually obligated to do so would potentially result in the recognition of significant losses and could in certain situations require us to consolidate the investment pools onto our consolidated statement of condition. A failure or inability to provide such support could damage our reputation among current and prospective clients.

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The net asset values of our collateral pools have been below $1.00 per unit.

Our securities lending operations consist of two components: a direct lending program for third-party investment managers and asset owners, the collateral pools for which we refer to as agency lending collateral pools; and investment funds with a broad range of investment objectives that are managed by SSgA and engage in securities lending, which we refer to as SSgA lending funds.

In 2007, the net asset value of the assets held by the agency lending collateral pools declined below $1.00 per unit. The agency lending collateral pools continued to transact purchases and redemptions at a constant net asset value of $1.00 per unit even though the market value of the collateral pools portfolio holdings, determined using pricing from third-party pricing sources, has been below $1.00 per unit. This difference between the transaction value used for purchase and redemption activity and the market value of the collateral pools assets arose, depending upon the collateral pool, at various points since the commencement of the financial crisis in mid-2007 and has declined but persisted throughout 2008, 2009, 2010 and 2011.

In 2008, we imposed restrictions on cash redemptions from the agency lending collateral pools. In December 2010, in order to increase participants control over the degree of their participation in the lending program, we divided certain agency lending collateral pools into liquidity pools, from which clients can obtain cash redemptions, and duration pools, which are restricted and operate as liquidating accounts. Depending upon the agency lending collateral pool, the percentage of the collateral pool s assets that were represented by interests in the liquidity pool varied as of such division date from 58% to 84%.

As of December 31, 2011, the aggregate net asset value of the duration pools was approximately $3.3 billion, and as of such date the return obligations of participants in the agency lending program represented by interests in the duration pools exceeded the market value of the assets in the duration pools by approximately $198 million, which amount is expected to be eliminated as the assets in the duration pools mature or amortize.

We may incur losses, which could be material to our consolidated results of operations in the period incurred, as a result of our past practice of effecting purchase and redemptions of interests in the collateral pools based upon a consistent $1.00 per unit net asset value during periods when those pools had a market value of less than $1.00 per unit.

We believe that our practice of effecting purchases and redemptions of units of the collateral pools at $1.00 per unit, notwithstanding that the underlying portfolios have a market value of less than $1.00 per unit, complied with the terms of our unregistered cash collateral pools and was in the best interests of participants in the agency lending program and the SSgA lending funds. We continued this practice until June 30, 2010 for the SSgA lending funds and until the end of 2010 for the agency lending collateral pools for a number of reasons, including that none of the securities in the cash collateral pools were in default or considered to be materially impaired, and that the collective investment funds restricted withdrawals.

Although the market value of the assets in the collateral pools has improved since 2008, a portion of these assets are floating rate instruments with several years of remaining maturity; consequently, the rate of valuation improvement for the duration pools has slowed and the market value may decline again as a result of changes in market sentiment or in the credit quality of such instruments. In addition, the assets of the liquid pools are currently insufficient to satisfy in full the obligations of participants in the agency lending program to return cash collateral to borrowers. Participants in the agency lending program who received units of the duration pool, or who previously received in-kind redemptions from the agency lending collateral pools, could seek to assert claims against us in connection with either their loss of liquidity or unrealized mark-to-market losses. If such claims were successfully asserted, such a resolution could adversely affect our results of operations in future periods.

The illiquidity and volatility of global fixed-income and equity markets has affected our ability to effectively and profitably manage assets on behalf of clients and may make our products less attractive to clients.

We manage assets on behalf of clients in several forms, including in collective investment pools, money market funds, securities finance collateral pools, cash collateral and other cash products and short-term investment funds. In addition to the impact on the market value of client portfolios, at various times since 2007 the illiquidity and volatility of both the global fixed-income and equity markets have negatively affected our ability to manage client inflows and outflows from our pooled investment vehicles. Within our asset management business, we manage investment pools, such as mutual funds and collective investment funds that generally offer our clients the ability to withdraw their investments on short notice, generally daily or monthly. This feature requires that we manage those pools in a manner that takes into account both maximizing the long-term return on the investment pool and retaining sufficient liquidity to meet reasonably anticipated liquidity requirements of our clients.

During the market disruption that accelerated following the bankruptcy of Lehman, the liquidity in many asset classes, particularly short- and long-term fixed-income securities, declined dramatically, and providing liquidity to meet all client demands in these investment pools without adversely affecting the return to non-withdrawing clients became more difficult. For clients that have invested directly or indirectly in certain of the collateral pools and have sought to terminate their participation in lending programs, we have required, in accordance with the applicable client arrangements, that these withdrawals from the collateral pools take the form of partial in-kind distributions of securities.

In the case of SSgA funds that engage in securities lending, we implemented limitations, which were terminated in 2010, on the portion of an investor s interest in such fund that may be withdrawn during any month, although such limitations do not apply to participant-directed activity in defined contribution plans. If higher than normal demands for liquidity from our clients were to return to post-Lehman-bankruptcy levels or increase, managing the liquidity requirements of our collective investment pools could become more difficult and, as a result, we may elect to support the liquidity of these pools. If such liquidity problems were to re-occur, our relationships with our clients may be adversely affected; we could, in certain circumstances, be required to consolidate the investment pools, levels of redemption activity could increase and our consolidated results of operations and business prospects could be adversely affected.

In addition, if a money market fund that we manage were to have unexpected liquidity demands from investors in the fund that exceeded available liquidity, the fund could be required to sell assets to meet those redemption requirements, and selling the assets held by the fund at a reasonable price, if at all, may then be difficult.

Alternatively, although we have no such obligations or arrangements currently in place, we have in the past guaranteed, and may in the future guarantee, liquidity to investors desiring to make withdrawals from a fund, and making a significant amount of such guarantees could adversely affect our own liquidity and financial condition. Because of the size of the investment pools that we manage, we may not have the financial ability or regulatory authority to support the liquidity demands of our clients. The extreme volatility in the equity markets has led to potential for the return on passive and quantitative products deviating from their target returns. The temporary closures of securities exchanges in certain markets create a risk that client redemptions in pooled investment vehicles may result in significant tracking error and under-performance relative to stated benchmarks. Any failure of the pools to meet redemption requests or to under-perform relative to similar products offered by our competitors could harm our business and our reputation.

Our businesses may be negatively affected by adverse publicity or other reputational harm.

Our relationship with many of our clients is predicated upon our reputation as a fiduciary and a service provider that adheres to the highest standards of ethics, service quality and regulatory compliance. Adverse publicity, regulatory actions, litigation, operational failures, the failure to meet client expectations and other issues with respect to one or more of our businesses, counterparties, clients or vendors could materially and adversely affect our reputation, our ability to attract and retain clients or our sources of funding for the same or other businesses. Preserving and enhancing our reputation also depends on maintaining systems, procedures and relationships that address known risks and regulatory requirements, as well as our ability to identify and mitigate additional risks that arise due to changes in our businesses and the marketplaces in which we operate, the regulatory environment and client expectations. If any of these developments has a material effect on our reputation, our business will suffer. For example, in the latter part of 2011, our transition management revenue

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was adversely affected by compliance issues in our U.K. business, the reputational impact of which may adversely affect our revenue from transition management in 2012. Similar or other reputational effects in this or other businesses could similarly or more significantly affect our business or financial performance.

Cost shifting to non-U.S. jurisdictions may expose us to increased operational risk and reputational harm and may not result in expected cost savings.

We actively strive to achieve cost savings by shifting certain business processes to lower-cost geographic locations, including by forming joint ventures and by establishing operations in lower cost locations, such as Poland, India, the Philippines and China, and by outsourcing to vendors in various jurisdictions. This effort exposes us to the risk that we may not maintain service quality, control or effective management within these business operations, as well as the relevant macroeconomic, political and similar risks generally involved in doing business in those jurisdictions. The increased elements of risk that arise from conducting certain operating processes in some jurisdictions could lead to an increase in reputational risk. During periods of transition, greater operational risk and client concern exist regarding the continuity of a high level of service delivery. The extent and pace at which we are able to move functions to lower-cost locations may also be impacted by regulatory and client acceptance issues. Such relocation of functions also entails costs, such as technology and real estate expenses, that may offset or exceed the expected financial benefits of the lower-cost locations.

We depend on information technology, and any failures of or damage to, attack on or unauthorized access to our information technology systems could result in significant costs and reputational damage.

Our businesses depend on information technology infrastructure, both internal and external, to record and process a large volume of increasingly complex transactions and other data, in many currencies, on a daily basis, across numerous and diverse markets. During 2011 and 2010, several financial services firms suffered successful computer systems hacking launched domestically and from abroad, resulting in the disruption of services to clients, loss or misappropriation of sensitive or private data and reputational harm. We, like other financial services firms, will continue to face increasing cyber security threats. Any interruptions, delays, breakdowns or breach, including as a result of cyber security breaches, of our, or of our counterparties or business partners , information technology infrastructure, including improper employee actions, could result in significant costs and exposures to us, including regulatory fines, loss of confidential, personal or proprietary information and damage to our reputation, and they may also jeopardize our ability to perform our services to clients.

It may be difficult and costly to protect our intellectual property rights, and we may not be able to ensure their protection.

We may be unable to protect our intellectual property and proprietary technology effectively, which may allow competitors to duplicate our technology and products and may adversely affect our ability to compete with them. To the extent that we do not protect our intellectual property effectively through patents or other means, other parties, including former employees, with knowledge of our intellectual property may leave and seek to exploit our intellectual property for their own or others advantage. In addition, we may infringe upon claims of third-party patents, and we may face intellectual property challenges from other parties. We may not be successful in defending against any such challenges or in obtaining licenses to avoid or resolve any intellectual property disputes. The intellectual property of an acquired business may be an important component of the value that we agree to pay for such a business. However, such acquisitions are subject to the risks that the acquired business may not own the intellectual property that we believe we are acquiring, that the intellectual property is dependent upon licenses from third parties, that the acquired business infringes upon the intellectual property rights of others or that the technology does not have the acceptance in the marketplace that we anticipated.

Competition for our employees is intense, and we may not be able to attract and retain the highly skilled people we need to support our business.

Our success depends, in large part, on our ability to attract and/or retain key people. Competition for the best people in most activities in which we engage can be intense, and we may not be able to hire people or retain them, particularly in light of uncertainty concerning evolving compensation restrictions applicable, or which may become applicable, to banks and that potentially are not applicable to other financial services firms. The unexpected loss of services of one or more of our key personnel could have a material adverse impact on our business because of their skills, their knowledge of our markets, their years of industry experience and, in some cases, the difficulty of promptly finding qualified replacement personnel. Similarly, the loss of key employees, either individually or as a group, can adversely affect our clients perception of our ability to continue to manage certain types of investment management mandates or to provide other services to them.

We are subject to intense competition in all aspects of our business, which could negatively affect our ability to maintain or increase our profitability.

The markets in which we operate across all facets of our business are both highly competitive and global. These markets are changing as a result of new and evolving laws and regulations applicable to financial services institutions. Regulatory-driven market changes cannot always be anticipated, and may adversely affect the demand for, and profitability of, the products and services that we offer. In addition, new market entrants and competitors may address changes in the markets more rapidly than we do, or may provide clients with a more attractive offering of products and services, adversely affecting our business. We have also experienced, and anticipate that we will continue to experience, pricing pressure in many of our core businesses. Many of our businesses compete with other domestic and international banks and financial services companies, such as custody banks, investment advisors, broker-dealers, outsourcing companies and data processing companies. Ongoing consolidation within the financial services industry could pose challenges in the markets we serve, including potentially increased downward pricing pressure across our businesses.

Some of our competitors, including our competitors in core services, have substantially greater capital resources than we do. In some of our businesses, we are service providers to significant competitors. These competitors are in some instances significant clients, and the retention of these clients involves additional risks, such as the avoidance of actual or perceived conflicts of interest and the maintenance of high levels of service quality. The ability of a competitor to offer comparable or improved products or services at a lower price would likely negatively affect our ability to maintain or increase our profitability. Many of our core services are subject to contracts that have relatively short terms or may be terminated by our client after a short notice period. In addition, pricing pressures as a result of the activities of competitors, client pricing reviews, and rebids, as well as the introduction of new products, may result in a reduction in the prices we can charge for our products and services.

Acquisitions, strategic alliances and divestiture pose risks for our business.

As part of our business strategy, we acquire complementary businesses and technologies, enter into strategic alliances and joint ventures and divest portions of our business. In 2011, we completed our acquisitions of Bank of Ireland Asset Management, or BIAM; Complementa Investment-Controlling AG, or Complementa; and Pulse Trading, Inc., or Pulse. Also during 2011, we continued the integration of our 2010 acquisitions of Intesa Sanpaolo s securities services business and Mourant International Finance Administration, or MIFA. We undertake transactions of varying sizes such as these to, among other reasons, expand our geographic footprint, access new clients, technologies or services, develop closer relationships with our business partners, efficiently deploy capital or leverage cost savings or other financial opportunities. We may not achieve the expected benefits of these transactions, which could result in increased costs, lowered revenues, ineffective deployment of capital and diminished competitive position or reputation.

Transactions of this nature also involve a number of risks and financial, accounting, tax, regulatory, managerial, operational and employment challenges, which could adversely affect our consolidated results of operations and financial condition. For example, the businesses that we acquire or our strategic alliances may under-perform relative to the price paid or the resources committed by us, we may not achieve anticipated cost savings or we may otherwise be adversely affected by acquisition-related charges. Further, past acquisitions, including the acquisitions of the Intesa securities services business, MIFA, BIAM, Complementa and Pulse, have resulted in the recording of goodwill and other significant intangible assets on our consolidated statement of condition. These assets are not eligible for inclusion in regulatory capital under current proposals, and we may be required to record impairment in our consolidated statement of income in future periods if we determine that we will not realize the value of these assets. Through our acquisitions we may also assume unknown or undisclosed business, operational, tax, regulatory and other liabilities, fail to properly assess known contingent liabilities or assume businesses with internal control deficiencies. While in most of our transactions we seek to mitigate these risks through, among other things, due diligence and indemnification provisions, these or other risk mitigants we put in place may not be sufficient to address these liabilities and contingencies.

Various regulatory approvals or consents are generally required prior to closing of acquisitions, which may include approvals of the Federal Reserve and other domestic and non-U.S. regulatory authorities. These regulatory authorities may impose conditions on the completion of the acquisition or require changes to its terms that materially affect the terms of the transaction or our ability to capture some of the opportunities presented by the transaction. Any such conditions, or any associated regulatory delays, could limit the benefits of the transaction. Some acquisitions we announce may not be completed, if we do not receive the required regulatory approvals, if regulatory approvals are significantly delayed or if other closing conditions are not satisfied.

The integration of our acquisitions results in risks to our business and other uncertainties.

The integration of acquisitions presents risks that differ from the risks associated with our ongoing operations. Integration activities are complicated and time consuming. We may not be able to effectively assimilate services, technologies, key personnel or businesses of acquired companies into our business or service offerings, as anticipated, alliances may not be successful, and we may not achieve related revenue growth or cost savings. We also face the risk of being unable to retain, or cross-sell our products or services to, the clients of acquired companies. Acquisitions of investment servicing businesses entail information technology systems conversions, which involve operational risks and may result in client dissatisfaction and defection. Clients of asset servicing businesses that we have acquired may be competitors of our non-custody businesses. The loss of some of these clients or a significant reduction in revenues generated from them, for competitive or other reasons, could adversely affect the benefits that we expect to achieve from these acquisitions. With any acquisition, the integration of the operations and resources of the businesses could result in the loss of key employees, the disruption of our and the acquired company s ongoing businesses or inconsistencies in standards, controls, procedures or policies that could adversely affect our ability to maintain relationships with clients or employees or to achieve the anticipated benefits of the acquisition. Integration efforts may also divert management attention and resources.

Development of new products and services may impose additional costs on us and may expose us to increased operational risk.

Our financial performance depends, in part, on our ability to develop and market new and innovative services and to adopt or develop new technologies that differentiate our products or provide cost efficiencies, while avoiding increased related expenses. The introduction of new products and services can entail significant time and resources. Substantial risks and uncertainties are associated with the introduction of new products and services, including technical and control requirements that may need to be developed and implemented, rapid technological change in the industry, our ability to access technical and other information from our clients and the significant and ongoing investments required to bring new products and services to market in a timely manner at competitive prices. Regulatory and internal control requirements, capital requirements, competitive alternatives, vendor relationships and shifting market preferences may also determine if such initiatives can be brought to market in a manner that is timely and attractive to our clients. Failure to successfully manage these risks in the development and implementation of new products or services could have a material adverse effect on our business and reputation, as well as on our consolidated results of operations and financial condition.

Long-term contracts expose us to pricing and performance risk.

We enter into long-term contracts to provide middle office or investment manager and alternative investment manager operations outsourcing services, primarily for conversions, to clients, including services related but not limited to certain trading activities, cash reporting, settlement and reconciliation activities, collateral management and information technology development. These arrangements generally set forth our fee schedule for the term of the contract and, absent a change in service requirements, do not permit us to re-price the contract for changes in our costs or for market pricing. The long-term contracts for these relationships require, in some cases, considerable up-front investment by us, including technology and conversion costs, and carry the risk that pricing for the products and services we provide might not prove adequate to generate expected operating margins over the term of the contracts. The profitability of these contracts is largely a function of our ability to accurately calculate pricing for our services, efficiently assume our contractual responsibilities in a timely manner, control our costs and maintain the relationship with the client for an adequate period of time to recover our up-front investment. Our estimate of the profitability of these arrangements can be adversely affected by declines in the assets under the clients management, whether due to general declines in the securities markets or client-specific issues. In addition, the profitability of these arrangements may be based on our ability to cross-sell additional services to these clients, and we may be unable to do so.

In addition, performance risk exists in each contract, given our dependence on successful conversion and implementation onto our own operating platforms of the service activities provided. Our failure to meet specified service levels may also adversely affect our revenue from such arrangements, or permit early termination of the contracts by the client. If the demand for these types of services were to decline, we could see our revenue decline.

Our controls and procedures may fail or be circumvented, our risk management policies and procedures may be inadequate, and operational risk could adversely affect our consolidated results of operations.

We may fail to identify and manage risks related to a variety of aspects of our business, including, but not limited to, operational risk, interest-rate risk, trading risk, fiduciary risk, legal and compliance risk, liquidity risk and credit risk. We have adopted various controls, procedures, policies and systems to monitor and manage risk. While we currently believe that our risk management process is effective, we cannot provide assurance that those controls, procedures, policies and systems will always be adequate to identify and manage the internal and external, including service provider, risks in our various businesses. Among risks realized by other financial institutions resulting from inadequate controls is the risk that an individual in a position to engage in trading on the institution s behalf, or on behalf of the institution s clients, exceeds authorized limits or causes trading losses to be unrecognized. The financial and reputational impact of such control failures can be significant.

In addition, our businesses and the markets in which we operate are continuously evolving. We may fail to fully understand the implications of changes in our businesses or the financial markets and fail to adequately or timely enhance our risk framework to address those changes. If our risk framework is ineffective, either because it fails to keep pace with changes in the financial markets, our businesses, our counterparties, clients or service providers or for other reasons, we could incur losses, suffer reputational damage or find ourselves out of compliance with applicable regulatory or contractual mandates or expectations.

Operational risk is inherent in all of our business activities. As a leading provider of services to institutional investors, we provide a broad array of services, including research, investment management, trading services and investment servicing that give rise to operational risk. In addition, these services generate a broad array of complex and specialized servicing, confidentiality and fiduciary requirements. We face the risk that the policies, procedures and systems we have established to comply with our operational requirements will fail, be inadequate or become outdated. We also face the potential for loss resulting from inadequate or failed internal processes, employee supervisory or monitoring mechanisms, service provider processes or other systems or controls, which could materially affect our future consolidated results of operations. Operational errors that result in us remitting funds to a failing or bankrupt entity may be irreversible, and may subject us to losses.

We may also be subject to disruptions from external events that are wholly or partially beyond our control, which could cause delays or disruptions to operational functions, including information processing and financial market settlement functions. In addition, our clients, vendors and counterparties could suffer from such events. Should these events affect us, or the clients, vendors or counterparties with which we conduct business, our consolidated results of operations could be negatively affected. When we record balance sheet reserves for probable loss contingencies related to operational losses, we may be unable to accurately estimate our potential exposure, and any reserves we establish to cover operational losses may not be sufficient to cover our actual financial exposure, which may have a material impact on our consolidated results of operations or financial condition for the periods in which we recognize the losses.

Changes in accounting standards may be difficult to predict and may adversely affect our consolidated financial statements.

New accounting standards, including the potential adoption of International Financial Reporting Standards, or changes in the interpretation of existing accounting standards, by the Financial Accounting Standards Board, the International Accounting Standards Board or the SEC, can potentially affect our consolidated results of operations, cash flows and financial condition. These changes are difficult to predict, and can materially affect how we record and report our consolidated results of operations, cash flows and financial condition and other financial information. In some cases, we could be required to apply a new or revised standard retroactively, resulting in the revised treatment of certain transactions or activities, and, in some cases, the restatement of prior period consolidated financial statements.

Changes in tax laws, rules or regulations, challenges to our tax positions with respect to historical transactions, and changes in the composition of our pre-tax earnings may increase our effective tax rate and thus adversely affect our consolidated financial statements.

Our businesses can be directly or indirectly affected by new tax legislation, the expiration of existing tax laws or the interpretation of existing tax laws worldwide. The U.S. federal government, state governments and jurisdictions around the world continue to review proposals to amend tax laws, rules and regulations applicable to our business that could have a negative impact on our after-tax earnings. In addition, the expiration at the end of 2011 of certain U.S. tax laws that favorably affected the taxation of our overseas operations could begin to affect the results of those operations by the end of 2012. Although these U.S. tax laws have previously expired and been re-enacted, it is uncertain whether they will be re-enacted again.

In the normal course of our business, we are subject to review by U.S. and non-U.S. tax authorities. A review by any such authority could result in an increase in our recorded tax liability. In addition to the aforementioned risks, our effective tax rate is dependent on the nature and geographic composition of our pre-tax earnings and could be negatively affected by changes in these factors.

Any theft, loss or other misappropriation of the confidential information we possess could have an adverse impact on our business and could subject us to regulatory actions, litigation and other adverse effects.

Our businesses and relationships with clients are dependent upon our ability to maintain the confidentiality of our and our clients trade secrets and confidential information (including client transactional data and personal data about our employees, our clients and our clients clients). Unauthorized access to such information may occur, resulting in theft, loss or other misappropriation. Any theft, loss or other misappropriation of confidential information could have a material adverse impact on our competitive positions, our relationships with our clients and our reputation and could subject us to regulatory inquiries and enforcement, civil litigation and possible financial liability or costs.

The quantitative models we use to manage our business may contain errors that result in imprecise risk assessments, inaccurate valuations or poor business decisions.

We use quantitative models to help manage many different aspects of our businesses. As an input to our overall assessment of capital adequacy, we use models to measure the amount of credit risk, market risk, operational risk, interest rate risk and business risk we face. During the preparation of our consolidated financial statements, we sometimes use models to measure the value of asset and liability positions for which reliable market prices are not available. We also use models to support many different types of business decisions including trading activities, hedging, asset management and liability management and whether to change business strategy. In all of these uses, errors in the underlying model or model assumptions, or inadequate model

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assumptions, could result in unanticipated and adverse consequences. Because of our widespread usage of models, potential errors in models pose an ongoing risk to us.

Additionally, we may fail to accurately quantify the magnitude of the risks we face. Our measurement methodologies rely upon many assumptions and historical analyses and correlations. These assumptions may be incorrect, and the historical correlations we rely on may not continue to be relevant. Consequently, the measurements that we make for regulatory and economic capital may not adequately capture or express the true risk profiles of our businesses. Additionally, as businesses and markets evolve, our measurements may not accurately reflect those changes. While our risk measures may indicate sufficient capitalization, we may in fact have inadequate capital to conduct our businesses.

We may incur losses as a result of unforeseen events, including terrorist attacks, the emergence of a pandemic or acts of embezzlement.

Acts of terrorism or the emergence of a pandemic could significantly affect our business. We have instituted disaster recovery and continuity plans to address risks from terrorism and pandemic; however, forecasting or addressing all potential contingencies is not possible for events of this nature. Acts of terrorism, either targeted or broad in scope, could damage our physical facilities, harm our employees and disrupt our operations. A pandemic, or concern about a possible pandemic, could lead to operational difficulties and impair our ability to manage our business. Acts of terrorism and pandemics could also negatively affect our clients, counterparties and service providers, as well as result in disruptions in general economic activity and the financial markets.

Terrorism may also take the form of the theft or misappropriation of property, confidential information or financial assets. Due to our role as a financial services institution, our businesses are already subject to similar risks of theft, misappropriation and embezzlement with respect to our and our clients property, information and assets. Our employees and contractors and other partners have access to our facilities and internal systems and may seek to create the opportunity to engage in these activities. In the event our controls and procedures to prevent theft, misappropriation or embezzlement fail or are circumvented, our business would be negatively affected by, among other things, the related financial losses, diminished reputation and threat of litigation and regulatory inquiry and investigation.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We occupy a total of approximately 8.7 million square feet of office space and related facilities around the world, of which approximately 7.7 million square feet are leased. Of the total leased space, approximately 3.3 million square feet are located in eastern Massachusetts. An additional 1.5 million square feet are located elsewhere throughout the U.S. and in Canada. We lease approximately 1.9 million square feet in the U.K. and elsewhere in Europe, and approximately 1.0 million square feet in the Asia/Pacific region.

Our headquarters is located at State Street Financial Center, One Lincoln Street, Boston, Massachusetts, a 36-story office building. Various divisions of our two lines of business, as well as support functions, occupy space in this building. We lease the entire 1,025,000 square feet of this building, as well as the entire 366,000-square-foot parking garage at One Lincoln Street, under 20-year, non-cancelable capital leases expiring in 2023. A portion of the lease payments is offset by subleases for 153,390 square feet of the building. We occupy three buildings located in Quincy, Massachusetts, one of which we own and two of which we lease. The buildings, containing a total of approximately 1,100,000 square feet (720,000 square feet owned and 380,000 square feet leased), function as State Street Bank s principal operations facilities. We occupy an office building in the U.K., utilized by certain of our operations in that country, where we lease approximately 362,000 square feet under a 20-year capital lease expiring in 2028.

We believe that our owned and leased facilities are suitable and adequate for our business needs. Additional information about our occupancy costs, including our commitments under non-cancelable leases, is provided in note 19 to the consolidated financial statements included under Item 8.

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ITEM 3. LEGAL PROCEEDINGS

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

SSgA

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

One of the four lawsuits by investors was filed by Prudential Retirement Insurance and Annuity Co. in 2007 in New York federal court. Prudential sought damages in excess of the compensation it received from the fair fund established by State Street in the first quarter of 2010 in connection with the regulatory settlement noted above. Prudential is also seeking related costs, including pre-judgment interest and attorneys fees. On February 3, 2012, the Court issued a ruling finding that Prudential is entitled to a payment from State Street, after adjustment for the compensation received from the fair fund, in the amount of $28.1 million. This award may ultimately be increased if the Court awards Prudential interest and costs. We intend to appeal the Court s February 3, 2012 ruling. The timing of the remaining phases of further trial proceedings or of any appeal cannot currently be determined. Two of the other three lawsuits by individual investors are in federal court in Texas, with one scheduled for trial in March 2012, and the other is in federal court in New York. The plaintiffs in these lawsuits also seek to recover amounts in excess of their compensation from the fair fund established by the 2010 settlement, along with pre-judgment interest, attorneys fees and punitive damages.

We estimate that our exposure in the Prudential and three other lawsuits may be, in the aggregate, in a range from $0 to approximately $90 million. This estimated exposure range includes estimated pre-judgment interest and attorneys fees, if awarded. The estimated exposure range does not include any potential awards of claimed punitive damages, which cannot reasonably be estimated. The actual amount, if any, of our ultimate aggregate liability in the Prudential and three other lawsuits may be more or less than the top of the estimated range. We have not established a reserve with respect to these matters.

We are currently defending a putative ERISA class action by investors in unregistered SSgA-managed funds which challenges the division of our securities lending-related revenue between the SSgA lending funds and State Street in its role as lending agent. The action alleges, among other things, that State Street breached its fiduciary duty to investors in the SSgA lending funds. The plaintiff contends that State Street s agency lending clients received more favorable fee splits than did clients of the SSgA lending funds.

As previously reported, we managed, through SSgA, four common trust funds for which, in our capacity as manager and trustee, we appointed various Lehman entities as prime broker. As of September 15, 2008 (the date two of the Lehman entities involved entered insolvency proceedings), these funds had cash and securities held by Lehman with net asset values of approximately $312 million. Some clients who invested in the funds managed by us brought litigation against us seeking compensation and additional damages, including double or treble damages, for their alleged losses in connection with our prime brokerage arrangements with Lehman s entities. A total of seven clients were invested in such funds, of which three currently have suits pending against us. Two cases are pending in federal court in Boston and the third is pending in Nova Scotia. We have entered into settlements with three clients, one of which was entered into after the client obtained a 42 million judgment from a Dutch court. As of September 15, 2008, the four clients with whom we have not entered into settlement agreements had approximately $143 million invested in the funds at issue. We have not established a reserve with respect to any of the unsettled claims.

Through SSgA, we acted as collateral manager for several collateralized debt obligation, or CDO, transactions structured and offered through other financial institutions. A CDO is an asset-backed security constructed from a portfolio of fixed-income assets such as residential mortgage-backed securities or other CDO securities. In April 2011, a purchaser of $10 million of notes from one CDO (Markov CDO I, Ltd.) commenced an action against us and the offering bank in federal court in New York. The suit alleges, among other things, that the offering bank had financial interests that conflicted with those of the investors, and designed the CDO to fail. The complaint also alleges that SSgA failed to independently manage the CDO portfolio, and that, as a result, misrepresented its role as collateral manager. The plaintiff asserts various fraud-related claims and seeks compensatory and punitive damages. In addition, the Massachusetts Secretary of State is conducting an investigation of disclosures we made to prospective investors in our role as collateral manager for a second CDO (Carina CDO, Ltd.).

Securities Finance

Two related participants in our agency securities lending program have brought suit against us challenging actions taken by us in response to their withdrawal from the program. We believe that certain withdrawals by these participants were inconsistent with the redemption policy applicable to the agency lending collateral pools and, consequently, redeemed their remaining interests through an in-kind distribution that reflected the assets these participants would have received had they acted in accordance with the collateral pools redemption policy. The participants have asserted damages of $120 million, an amount that plaintiffs have stated was the difference between the amortized cost and market value of the assets that State Street proposed to distribute to the plans in-kind in or about August 2009. While management does not believe that such difference is an appropriate measure of damages, as of September 30, 2010, the last date on which State Street acted as custodian for the participants, the difference between the amortized cost and market value of the in-kind distribution was approximately $49 million, and if such securities were still held by the participants on such date, would have been approximately $28.5 million as of December 31, 2011. In taking these actions, we believe that we acted in the best interests of all participants in the collateral pools. We have not established a reserve with respect to this litigation.

We have been informed by the Staff of the SEC that its investigation, previously reported by us, with respect to the SSgA lending funds and the agency lending program has been closed.

Foreign Exchange

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

In October 2009, the Attorney General of the State of California commenced an action under the California False Claims Act and California Business and Professional Code related to services State Street provides to California state pension plans. The California Attorney General asserts that the pricing of certain foreign exchange transactions for these pension plans was governed by the custody contracts for these plans and that our pricing was not consistent with the terms of those contracts and related disclosures to the plans, and that, as a result, State Street made false claims and engaged in unfair competition. The Attorney General asserted actual damages of $56 million for periods from 2001 to 2009 and seeks additional penalties, including treble damages. This action is in the discovery phase.

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

We provide custody and principal foreign exchange services to government pension plans in other jurisdictions. Since the commencement of the litigation in California, attorneys general and other governmental authorities from a number of jurisdictions, as well as U.S. Attorney s offices, the U.S. Department of Labor and the U.S. Securities and Exchange Commission, have requested information or issued subpoenas in connection with inquiries into the pricing of our foreign exchange services. We continue to respond to such inquiries and subpoenas.

We offer indirect foreign exchange services such as those we offer to the California pension plans to a broad range of custody clients in the U.S. and internationally. We have responded and are responding to information requests from a number of clients concerning our indirect foreign exchange rates. In February 2011, a putative class action was filed in federal court in Boston seeking unspecified damages, including treble damages, on behalf of all custodial clients that executed certain foreign exchange transactions with State Street from 1998 to 2009. The putative class action alleges, among other things, that the rates at which State Street executed foreign currency trades constituted an unfair and deceptive practice under Massachusetts law and a breach of the duty of loyalty. A second putative class action is currently pending in federal court in Boston alleging various violations of ERISA on behalf of all ERISA plans custodied with us that executed indirect foreign exchange transactions with State Street between 2001 and 2009. The complaint, originally filed in federal court in Baltimore, alleges that State Street caused class members to pay unfair and unreasonable rates for indirect foreign exchange transactions with State Street. The complaint seeks unspecified damages, disgorgement of profits, and other equitable relief.

We have not established a reserve with respect to any of the pending legal proceedings relating to our indirect foreign exchange services. There can be no assurance as to the outcome of the pending proceedings in California or Massachusetts, or whether any other proceedings might be commenced against us by clients or government authorities. We expect that plaintiffs will seek to recover their share of all or a portion of the revenue that we have recorded from providing indirect foreign exchange services. Our total revenue worldwide from such services was approximately $331 million for the year ended December 31, 2011, approximately $336 million for the year ended December 31, 2010, approximately $369 million for the year ended December 31, 2009 and approximately $462 million for the year ended December 31, 2008. Although we did not calculate revenue for such services prior to 2006 in the same manner, and have refined our calculation method over time, we believe that the amount of our revenue for such services has been of a similar or lesser order of magnitude for many years.

We cannot predict the outcome of any pending proceedings or whether a court, in the event of an adverse resolution, would consider our revenue to be the appropriate measure of damages. The resolution of pending proceedings or any that may be filed or threatened could have a material adverse effect on our future consolidated results of operations and our reputation. Our revenue calculations reflect a judgment concerning the relationship between the rates we charge for indirect foreign exchange execution and indicative interbank market rates near in time to execution. Our trading revenue depends on the difference between the rates we set for indirect trades and indicative interbank market rates on the date trades settle.

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Shareholder Litigation

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

Lehman Entities

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

Investment Servicing

State Street Bank is named as a defendant in three complaints filed in federal court in Boston in January 2012 by investment management clients of TAG Virgin Islands, Inc., or TAG, which hold custodial accounts with State Street. The complaints, collectively, allege claims for breach of contract, gross negligence, negligence, negligent misrepresentation, unjust enrichment, breach of fiduciary duty and aiding and/or abetting a breach of fiduciary duty, in connection with certain assets managed by TAG and custodied with State Street. One complaint is an individual action. Two of the complaints are putative class actions asserted on behalf of certain persons or entities who were clients of TAG and entered into a custodial relationship with State Street and/or its predecessors in interest. Collectively, the complaints seek relief including claimed damages in excess of $100 million.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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EXECUTIVE OFFICERS OF THE REGISTRANT

The following table sets forth certain information with regard to each of our executive officers as of February 24, 2012.

Name	Age	Position
Joseph L. Hooley	54	Chairman, President and Chief Executive Officer
Joseph C. Antonellis	57	Vice Chairman
Jeffrey N. Carp	55	Executive Vice President, Chief Legal Officer and Secretary
John L. Klinck, Jr.	48	Executive Vice President
Andrew Kuritzkes	51	Executive Vice President and Chief Risk Officer
James J. Malerba	57	Executive Vice President, Corporate Controller and Chief Accounting Officer
Peter O Neill	53	Executive Vice President
James S. Phalen	61	Executive Vice President
Scott F. Powers	52	President and Chief Executive Officer of State Street Global Advisors
Alison A. Quirk	50	Executive Vice President
Edward J. Resch	59	Executive Vice President and Chief Financial Officer
Michael F. Rogers	54	Executive Vice President

All executive officers are appointed by the Board of Directors. All officers hold office at the discretion of the Board. No family relationships exist among any of our directors and executive officers.

Mr. Hooley joined State Street in 1986 and has served as our President and Chief Executive Officer since March 2010, prior to which he had served as President and Chief Operating Officer since April 2008. From 2002 to April 2008, Mr. Hooley served as Executive Vice President and head of Investor Services and, in 2006, was appointed Vice Chairman and Global Head of Investment Servicing and Investment Research and Trading. Mr. Hooley was elected to serve on the Board of Directors effective October 22, 2009, and he was appointed Chairman of the Board effective January 1, 2011.

Mr. Antonellis joined State Street in 1991 and has served as head of all Europe and Asia/Pacific Global Services and Global Markets businesses since March 2010. Prior to this, in 2003, he was named head of Information Technology and Global Securities Services. In 2006, he was appointed Vice Chairman with additional responsibility as head of Investor Services in North America and Global Investment Manager Outsourcing Services.

Mr. Carp joined State Street in 2006 as Executive Vice President and Chief Legal Officer. In 2006, he was also appointed Secretary. From 2004 to 2005, Mr. Carp served as executive vice president and general counsel of Massachusetts Financial Services, an investment management and research company. From 1989 until 2004, Mr. Carp was a senior partner at the law firm of Hale and Dorr LLP, where he was an attorney since 1982. Mr. Carp served as interim Chief Risk Officer from February 2010 until September 2010.

Mr. Klinck joined State Street in 2006 and has served as Executive Vice President and global head of Corporate Development and Global Relationship Management since March 2010, prior to which he served as Executive Vice President and global head of Alternative Investment Solutions. Prior to joining State Street, Mr. Klinck was with Mellon Financial Corporation, a global financial services company, from 1997 to 2006. During that time, he served as vice chairman and president of its Investment Manager Solutions group and before that as chairman for Mellon Europe, where he was responsible for the company s investor services business in the region.

Mr. Kuritzkes joined State Street in 2010 as Executive Vice President and Chief Risk Officer. Prior to joining State Street, Mr. Kuritzkes was a partner at Oliver, Wyman & Company, an international management consulting firm, and led the firm s Public Policy practice in North America. He joined Oliver, Wyman & Company in 1988, was a managing director in the firm s London office from 1993 to 1997, and served as vice chairman of Oliver, Wyman & Company globally from 2000 until the firm s acquisition by MMC in 2003. From 1986 to 1988, he worked as an economist and lawyer for the Federal Reserve Bank of New York.

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Mr. Malerba joined State Street in 2004 as Deputy Corporate Controller. In 2006, he was appointed Corporate Controller. Prior to joining State Street, he served as Deputy Controller at FleetBoston Financial Corporation from 2000 and continued in that role after the merger with Bank of America Corporation in 2004.

Mr. O Neill has served as Executive Vice President and head of Global Markets and Global Services in the Asia/Pacific region since April 2009. He joined State Street in 1985 and has held several senior positions during his tenure, including his appointment in January 2000 as managing director of State Street Global Markets in Europe. This role was expanded in June 2006 to include responsibility for Investor Services for the United Kingdom, Middle East and Africa.

Mr. Phalen joined State Street in 1992 and has served as Executive Vice President and head of Global Operations, Technology and Product Development since March 2010. Prior to that, starting in 2003, he served as Executive Vice President of State Street and Chairman and Chief Executive Officer of CitiStreet, a global benefits provider and retirement plan record keeper. In February 2005, he was appointed head of Investor Services in North America. In 2006, he was appointed head of international operations for Investment Servicing and Investment Research and Trading, based in Europe. From January 2008 until May 2008, he served on an interim basis as President and Chief Executive Officer of SSgA, following which he returned to his role as head of international operations for Investment Servicing and Investment Research and Trading.

Mr. Powers joined State Street in 2008 as President and Chief Executive Officer of State Street Global Advisors. Prior to joining State Street, Mr. Powers served as Chief Executive Officer of Old Mutual US, the U.S. operating unit of London-based Old Mutual plc, an international savings and wealth management company, from 2001 through 2008.

Ms. Quirk joined State Street in 2002, and since January 2012 has served as Chief Human Resources and Citizenship Officer. She has served as Executive Vice President and head of Global Human Resources since March 2010. Prior to that, Ms. Quirk served as Executive Vice President in Global Human Resources and held various senior roles in that group.

Mr. Resch joined State Street in 2002 as Executive Vice President and Chief Financial Officer. He also served as Treasurer from 2006 until January 2008. Prior to joining State Street, Mr. Resch was Chief Financial Officer of Pershing, a Credit Suisse First Boston subsidiary, and prior to that, he served as Managing Director and Chief Accounting Officer of Donaldson, Lufkin & Jenrette, Inc. and as Chief Financial and Administrative Officer of that firm s capital markets group.

Mr. Rogers joined State Street in 2007 as part of our acquisition of Investors Financial Services Corp., and he has served as Executive Vice President and head of Global Markets and Global Services - Americas since November 2011. He has served as head of Global Services, including alternative investment solutions, for all of the Americas since March 2010. Mr. Rogers was previously head of the Relationship Management group, a role which he held since 2009. From State Street s acquisition of Investors Financial Services Corp. in July 2007 to 2009, Mr. Rogers headed the post-acquisition Investors Financial Services Corp. business and its integration into State Street. Before joining State Street at the time of the acquisition, Mr. Rogers spent 27 years at Investors Financial Services Corp. in various capacities, most recently as President beginning in 2001.

PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

MARKET FOR REGISTRANT S COMMON EQUITY

Our common stock is listed on the New York Stock Exchange under the ticker symbol STT. There were 3,749 shareholders of record as of January 31, 2012. Information concerning the market prices of, and dividends on, our common stock during the past two years is included under Item 8, under the caption Quarterly Summarized Financial Information, and is incorporated herein by reference.

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In March 2011, we announced a new program under which the purchase by us of up to $675 million of our common stock in 2011 was authorized by our Board of Directors. During 2011, we purchased approximately 16.3 million shares of our common stock under this program, and as of December 31, 2011, no purchase authority remained under the program.

The following table presents purchases of our common stock and related information for the three months ended December 31, 2011.

(Dollars in millions, except per share amounts, shares in thousands)

Period	Total Number of Shares Purchased Under Publicly Announced Program	Average Price Paid per Share	Approximate Dollar Value of Shares Purchased Under Publicly Announced Program	Approximate Dollar Value of Shares Yet to be Purchased Under Publicly Announced Program
October 1 - October 31, 2011	1,528	$ 40.15	$ 61	$ 164
November 1 - November 30, 2011	4,086	40.05	164	
December 1 - December 31, 2011				
Total	5,614	$ 40.08	$ 225	

Additional information about our common stock, including Board of Directors authorization with respect to purchases by us of our common stock, is provided under Capital-Regulatory Capital in Management s Discussion and Analysis, included under Item 7, and in note 12 to the consolidated financial statements included under Item 8, and is incorporated herein by reference.

RELATED STOCKHOLDER MATTERS

As a bank holding company, the parent company is a legal entity separate and distinct from its principal banking subsidiary, State Street Bank, and its non-banking subsidiaries. The right of the parent company to participate as a shareholder in any distribution of assets of State Street Bank upon its liquidation, reorganization or otherwise is subject to the prior claims by creditors of State Street Bank, including obligations for federal funds purchased and securities sold under repurchase agreements and deposit liabilities.

Payment of common stock dividends by State Street Bank is subject to the provisions of Massachusetts banking law, which provide that dividends may be paid out of net profits provided (i) capital stock and surplus remain unimpaired, (ii) dividend and retirement fund requirements of any preferred stock have been met, (iii) surplus equals or exceeds capital stock, and (iv) losses and bad debts, as defined, in excess of reserves specifically established for such losses and bad debts, have been deducted from net profits. Under the Federal Reserve Act and Massachusetts state law, regulatory approval of the Federal Reserve and the Massachusetts Division of Banks would be required if dividends declared by State Street Bank in any year exceeded the total of its net profits for that year combined with its retained net profits for the preceding two years, less any required transfers to surplus.

In 2011, the parent company declared aggregate common stock dividends of $0.72 per share, or approximately $358 million. In 2010, the parent company declared aggregate common stock dividends of $0.04 per share, or $20 million. The 2011 common stock dividends represented the first increase in our common stock dividend since we announced a reduction of such dividends in the first quarter of 2009. The prior approval of the Federal Reserve is required for us to pay future common stock dividends. Information about dividends from the parent company and from our subsidiary banks is provided under Capital Regulatory Capital in Management s Discussion and Analysis, included under Item 7, and in note 15 to the consolidated financial statements included under Item 8, and is incorporated herein by reference. Future dividend payments of State Street Bank and other non-banking subsidiaries cannot be determined at this time.

As of December 31, 2011, the parent company had $500 million outstanding in aggregate liquidation preference of its series A preferred stock. Holders of shares of the preferred stock are entitled to receive non-cumulative cash dividends, only when, as and if declared by the parent company s Board of Directors. Any dividends on the preferred stock are calculated at a rate per annum equal to the three-month LIBOR for the relevant three-month period plus 4.99%, with such dividend rate applied to the outstanding liquidation preference

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of the preferred stock. Dividend payment dates for the preferred stock are March 15, June 15, September 15 and December 15 of each year. The parent company may pay a partial dividend or skip a dividend payment on the preferred stock at any time. However, unless full dividends are paid (or declared, with funds set aside for payment) on all outstanding shares of preferred stock, in general and among other restrictions, no cash dividend may be declared on the common stock nor may the parent company purchase shares of its common stock. For a complete description of our preferred stock, including dividend rights and related provisions, refer to our restated articles of organization, as amended, included in Exhibit 3.1 to this Form 10-K.

Information about our equity compensation plans is included under Item 12 and in note 14 to the consolidated financial statements included under Item 8, and is incorporated herein by reference.

SHAREHOLDER RETURN PERFORMANCE PRESENTATION

The graph presented below compares the cumulative total shareholder return on State Street s common stock to the cumulative total return of the S&P 500 Index and the S&P Financial Index over a five-year period. The cumulative total shareholder return assumes the investment of $100 in State Street common stock and in each index on December 31, 2006 at the closing price on the last trading day of 2006, and also assumes reinvestment of common stock dividends. The S&P Financial Index is a publicly available measure of 81 of the Standard & Poor s 500 companies, representing 27 diversified financial services companies, 22 insurance companies, 17 real estate companies and 15 banking companies.

Comparison of Five-Year Cumulative Total Shareholder Return

	2006	2007	2008	2009	2010	2011
State Street Corporation	$ 100	$ 122	$ 60	$ 67	$ 71	$ 63
S&P 500 Index	100	105	66	84	97	99
S&P Financial Index	100	81	36	43	48	40

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ITEM 6. SELECTED FINANCIAL DATA

(Dollars in millions, except per share amounts or where otherwise noted)

FOR THE YEAR ENDED DECEMBER 31:	2011	2010	2009	2008	2007
Total fee revenue	**$ 7,194**	$ 6,540	$ 5,935	$ 7,747	$ 6,633
Net interest revenue	**2,333**	2,699	2,564	2,650	1,730
Gains (Losses) related to investment securities, net[1]	**67**	(286)	141	(54)	(27)
Gain on sale of CitiStreet interest, net of exit and other associated costs				350	
Total revenue	**9,594**	8,953	8,640	10,693	8,336
Provision for loan losses		25	149		
Expenses:					
Expenses from operations	**6,789**	6,176	5,667	6,780	5,768
Provision for fixed-income litigation exposure[2]			250		467
Securities lending charge		414			
Provision for investment account infusion				450	
Acquisition costs[3]	**16**	96	49	115	198
Restructuring charges	**253**	156		306	
Provision for indemnification exposure				200	
Total expenses	**7,058**	6,842	5,966	7,851	6,433
Income before income tax expense and extraordinary loss	**2,536**	2,086	2,525	2,842	1,903
Income tax expense[4][5]	**616**	530	722	1,031	642
Income before extraordinary loss	**1,920**	1,556	1,803	1,811	1,261
Extraordinary loss, net of taxes			(3,684)		
Net income (loss)	**$ 1,920**	$ 1,556	$ (1,881)	$ 1,811	$ 1,261
Adjustments to net income (loss)[6]	**(38)**	(16)	(163)	(22)	
Net income before extraordinary loss available to common shareholders	**$ 1,882**	$ 1,540	$ 1,640	$ 1,789	$ 1,261
Net income (loss) available to common shareholders	**$ 1,882**	$ 1,540	$ (2,044)	$ 1,789	$ 1,261
PER COMMON SHARE:					
Earnings per common share before extraordinary loss:					
Basic	**$ 3.82**	$ 3.11	$ 3.50	$ 4.32	$ 3.49
Diluted	**3.79**	3.09	3.46	4.30	3.45
Earnings (Loss) per common share:					
Basic	**$ 3.82**	$ 3.11	$ (4.32)	$ 4.32	$ 3.49
Diluted	**3.79**	3.09	(4.31)	4.30	3.45
Cash dividends declared	**.72**	.04	.04	.95	.88
Closing market price (at year end)	**$ 40.31**	$ 46.34	$ 43.54	$ 39.33	$ 81.20
AT YEAR END:					
Investment securities	**$ 109,153**	$ 94,130	$ 93,576	$ 76,017	$ 74,559
Total assets	**216,673**	160,505	157,946	173,631	142,543
Deposits	**157,287**	98,345	90,062	112,225	95,789
Long-term debt	**8,134**	8,550	8,838	4,419	3,636
Total shareholders equity	**19,398**	17,787	14,491	12,774	11,299
Assets under custody and administration (in billions)	**21,807**	21,527	18,795	15,907	20,213
Assets under management (in billions)	**1,858**	2,010	1,951	1,466	1,996
Number of employees	**29,740**	28,670	27,310	28,475	27,110
RATIOS:					
Return on common shareholders equity before extraordinary loss	**10.0%**	9.5%	13.2%	14.8%	13.4%
Return on average assets before extraordinary loss	**1.09**	1.02	1.12	1.11	1.02
Common dividend payout before extraordinary loss	**18.83**	1.29	1.17	22.40	25.25

Average common equity to average total assets	**10.9**	10.8	8.5	7.5	7.6
Net interest margin, fully taxable-equivalent basis	**1.67**	2.24	2.19	2.08	1.71
Tier 1 risk-based capital	**18.8**	20.5	17.7	20.3	11.2
Total risk-based capital	**20.5**	22.0	19.1	21.6	12.7
Tier 1 leverage ratio	**7.3**	8.2	8.5	7.8	5.3

(1) Amount for 2010 included a net sale loss related to a repositioning of the investment portfolio.

(2) Amount for 2007 was composed of a provision for legal exposure of $600 million, a reduction of compensation and employee benefits expense of $141 million, and other expenses of $8 million.

(3) Amount for 2011 reflected a $55 million indemnification benefit for an income tax claim related to the 2010 acquisition of the Intesa securities services business; amount for 2010 included a $7 million tax on bonus payments to employees in the U.K.

(4) Amount for 2011 reflected a discrete income tax benefit of $103 million related to former conduit assets, and included income tax expense of $55 million related to the tax indemnification benefit described in note (3).

(5) Amount for 2010 reflected a discrete income tax benefit of $180 million related to former conduit assets.

(6) Amount for 2011 represented preferred stock dividends and the allocation of earnings to participating securities using the two-class method. Amount for 2010 represented the allocation of earnings to participating securities using the two-class method. Amounts for 2009 and 2008 represented dividends and discount related to preferred stock issued in connection with the U.S. Treasury s TARP program in 2008 and redeemed in 2009.

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STATE STREET CORPORATION

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS

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ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS GENERAL

State Street Corporation, the parent company, is a financial holding company headquartered in Boston, Massachusetts. Unless otherwise indicated or unless the context requires otherwise, all references in this Management s Discussion and Analysis to State Street, we, us, our or similar terms mean State Street Corporation and its subsidiaries on a consolidated basis. Our principal banking subsidiary is State Street Bank and Trust Company, or State Street Bank. At December 31, 2011, we had total assets of $216.83 billion, total deposits of $157.29 billion, total shareholders equity of $19.40 billion and 29,740 employees. With $21.81 trillion of assets under custody and administration and $1.86 trillion of assets under management at year-end 2011, we are a leading specialist in meeting the needs of institutional investors worldwide.

We have two lines of business:

Investment Servicing provides services for U.S. mutual funds, collective investment funds and other investment pools, corporate and public retirement plans, insurance companies, foundations and endowments worldwide. Products include custody, product- and participant-level accounting, daily pricing and administration; master trust and master custody; record-keeping; foreign exchange, brokerage and other trading services; securities finance; deposit and short-term investment facilities; loans and lease financing; investment manager and alternative investment manager operations outsourcing; and performance, risk and compliance analytics to support institutional investors.

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

For financial and other information about our lines of business, refer to Line of Business Information in this Management s Discussion and Analysis and note 24 to the consolidated financial statements included under Item 8.

This Management s Discussion and Analysis should be read in conjunction with the consolidated financial statements and accompanying notes to consolidated financial statements included under Item 8. Certain previously reported amounts presented have been reclassified to conform to current period classifications. We prepare our consolidated financial statements in conformity with accounting principles generally accepted in the U.S., referred to as GAAP. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions in the application of certain accounting policies that materially affect the reported amounts of assets, liabilities, revenue and expenses. Accounting policies that require management to make assumptions that are difficult, subjective or complex about matters that are uncertain and may change in subsequent periods are discussed in more depth under Significant Accounting Estimates in this Management s Discussion and Analysis.

Certain financial information provided in this Management s Discussion and Analysis, or in other public statements, announcements or reports filed by us with the SEC, is prepared on both a GAAP, or reported, basis and a non-GAAP, or operating, basis. Management measures and compares certain financial information on an operating basis, as it believes that this presentation supports meaningful comparisons from period to period and the analysis of comparable financial trends with respect to State Street s normal ongoing business operations. 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 conformity with GAAP.

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This Management s Discussion and Analysis contains statements that are considered forward-looking statements within the meaning of U.S. securities laws. Forward-looking statements are based on our current expectations about revenue and market growth, acquisitions and divestitures, new technologies, services, opportunities, earnings and other matters that do not relate strictly to historical facts. These forward-looking statements involve certain risks and uncertainties which could cause actual results to differ materially. We undertake no obligation to revise the forward-looking statements contained in this Management s Discussion and Analysis to reflect events after the time we file this Form 10-K with the SEC. Additional information about forward-looking statements and related risks and uncertainties is provided in Risk Factors included under Item 1A.

OVERVIEW OF FINANCIAL RESULTS

Years ended December 31, **(Dollars in millions, except per share amounts)**	**2011[1]**	**2010[1]**	**2009**
Total fee revenue	**$ 7,194**	$ 6,540	$ 5,935
Net interest revenue	**2,333**	2,699	2,564
Gains (Losses) related to investment securities, net	**67**	(286)	141
Total revenue	**9,594**	8,953	8,640
Provision for loan losses		25	149
Expenses:			
Expenses from operations	**6,789**	6,176	5,667
Provision for fixed-income litigation exposure			250
Securities lending charge		414	
Acquisition costs[2]	**16**	96	49
Restructuring charges	**253**	156	
Total expenses	**7,058**	6,842	5,966
Income before income tax expense and extraordinary loss	**2,536**	2,086	2,525
Income tax expense[3][4]	**616**	530	722
Income before extraordinary loss	**1,920**	1,556	1,803
Extraordinary loss, net of taxes			(3,684)
Net income (loss)	**$ 1,920**	$ 1,556	$ (1,881)
Adjustments to net income (loss):			
Preferred stock dividends and accretion/prepayment of discount[5]	**(20)**		(163)
Earnings allocated to participating securities[6]	**(18)**	(16)	
Net income before extraordinary loss available to common shareholders	**$ 1,882**	$ 1,540	$ 1,640
Net income (loss) available to common shareholders	**$ 1,882**	$ 1,540	$ (2,044)
Earnings per common share before extraordinary loss:			
Basic	**$ 3.82**	$ 3.11	$ 3.50
Diluted	**3.79**	3.09	3.46
Earnings (Loss) per common share:			
Basic	**$ 3.82**	$ 3.11	$ (4.32)
Diluted	**3.79**	3.09	(4.31)
Average common shares outstanding (in thousands):			
Basic	**492,598**	495,394	470,602
Diluted	**496,072**	497,924	474,003
Return on common shareholders equity[7]	**10.0%**	9.5%	13.2%

(1) Financial results for 2011 and 2010 included those of acquired businesses from their respective dates of acquisition, as described in this Management s Discussion and Analysis and in note 2 to the consolidated financial statements included under Item 8.

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(2) Amount for 2011 reflected a $55 million indemnification benefit for an income tax claim related to the 2010 acquisition of the Intesa securities services business; amount for 2010 included a $7 million tax on bonus payments to employees in the U.K.

(3) Amount for 2011 reflected a discrete income tax benefit of $103 million related to former conduit assets, and included income tax expense of $55 million related to the tax indemnification benefit described in note (2).

(4) Amount for 2010 reflected a discrete income tax benefit of $180 million related to former conduit assets.

(5) Adjustment for 2011 represented dividends related to preferred stock; adjustment for 2009 represented dividends and discount related to preferred stock issued in connection with the U.S. Treasury s TARP program in 2008 and redeemed in 2009.

(6) Adjustments represented the allocation of earnings to participating securities using the two-class method. Refer to note 23 to the consolidated financial statements included under Item 8.

(7) For 2009, return on common shareholders equity was determined using net income before extraordinary loss available to common shareholders.

Financial Highlights

This section provides information related to significant actions we took in 2011, as well as highlights of our financial results for 2011 presented in the preceding table. Additional information is provided under Consolidated Results of Operations, which follows this section.

Significant actions taken by us in 2011 included the following:

We declared aggregate common stock dividends of $0.72 per share, or approximately $358 million, during the year. In 2010, we declared aggregate common stock dividends of $0.04 per share, or $20 million. The 2011 dividends represented the first increase in our common stock dividend since early 2009. Refer to Capital under Financial Condition in this Management s Discussion and Analysis.

From May through November, we purchased approximately 16.3 million shares of our common stock under the publicly announced program approved by the Board of Directors in March 2011, at an aggregate cost of approximately $675 million. Shares remaining from these purchases were recorded as treasury stock in our consolidated statement of condition as of December 31, 2011. We had no remaining purchase authority under the program as of December 31, 2011. Refer to Capital under Financial Condition in this Management s Discussion and Analysis.

We recorded aggregate restructuring charges of approximately $253 million, primarily in connection with two significant actions: the continuing implementation of our business operations and information technology transformation program ($133 million), and expense control measures designed to calibrate our expenses to our outlook for our capital markets-facing businesses in 2012 ($120 million). The charges for the business operations and information technology transformation program consisted mainly of costs related to employee severance and information technology. In connection with our implementation of the program, we achieved approximately $86 million of pre-tax, run-rate expense savings in 2011 compared to 2010 run-rate expenses, and we are seeking to achieve an additional $94 million of pre-tax, run-rate expense savings in 2012. These annual pre-tax run-rate savings relate only to the business operations and information technology transformation program. Our actual operating expenses may increase or decrease as a result of other factors. Refer to Expenses under Consolidated Results of Operations in this Management s Discussion and Analysis.

We completed our acquisitions of Bank of Ireland s asset management business, or BIAM, Complementa Investment-Controlling AG, an investment performance measurement and analytics firm based in Switzerland, and Pulse Trading, Inc., a full-service agency brokerage firm based in Boston, Massachusetts. Refer to note 2 to the consolidated financial statements included under Item 8.

We issued approximately $500 million of 4.956% junior subordinated debentures due 2018, in connection with a remarketing of the 6.001% junior subordinated debentures due 2042 originally issued to State Street

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Capital Trust III in 2008. The 6.001% junior subordinated debentures were issued in connection with our concurrent offering of the trust s 8.25% fixed- to-floating rate normal automatic preferred enhanced capital securities, referred to as normal APEX. The original 6.001% junior subordinated debentures were canceled as a result of the remarketing transaction. Refer to Capital under Financial Condition in this Management s Discussion and Analysis and note 9 to the consolidated financial statements included under Item 8.

We issued $500 million of our non-cumulative perpetual preferred stock, series A, $100,000 liquidation preference per share, in connection with the above-referenced remarketing transaction. The preferred stock was purchased by State Street Capital Trust III using the ultimate proceeds from the remarketing transaction, and now constitutes the principal asset of the trust. The preferred stock qualifies for inclusion in tier 1 regulatory capital under federal regulatory capital guidelines. We also issued an aggregate of $2 billion of senior notes, composed of $1 billion of 2.875% notes due 2016, $750 million of 4.375% notes due 2021 and $250 million of floating-rate notes due 2014. Refer to Capital under Financial Condition in this Management s Discussion and Analysis and notes 9 and 12 to the consolidated financial statements included under Item 8.

Our financial results for 2011 included the following:

Total revenue increased 7% compared to 2010. A 10% increase in total fee revenue from 2010 levels (primarily associated with increases in our core servicing and management fees) and higher net gains related to investment securities (mainly gains from sales of available-for-sale securities) were partly offset by a 14% decrease in net interest revenue. Net interest revenue was significantly affected by a 69% decline in discount accretion associated with former conduit securities, mainly the result of our December 2010 investment portfolio repositioning.

Servicing and management fees were both up 11% from 2010. Servicing fee revenue increased mainly due to the impacts of new business and prior-year acquisitions, and improvement in average equity market valuations compared to the prior year. Servicing fees generated outside the U.S. in 2011 were approximately 42% of total servicing fees, compared to approximately 41% in 2010. Management fee revenue increased primarily due to the improvement in equity markets, as well as the addition of revenue from the acquired BIAM business. Management fees generated outside the U.S. in 2011 were approximately 41% of total management fees, compared to 34% in 2010.

Trading services revenue increased 10%, mainly from higher volumes of foreign exchange trading and higher electronic trading revenue in brokerage and other fees. Securities finance revenue increased 19% as a result of higher spreads, partly offset by lower lending volumes. Processing fees and other revenue declined 15%, mainly as a result of fair-value adjustments related to positions in the fixed-income trading initiative, as well as lower levels of net revenue from joint ventures.

In 2011, we recorded net interest revenue of $2.33 billion, a 14% decline compared to $2.70 billion in 2010. These amounts included $220 million and $712 million, respectively, of discount accretion related to investment securities added to our consolidated statement of condition in connection with the 2009 conduit consolidation. Discount accretion is more fully discussed in Net Interest Revenue under Consolidated Results of Operations in this Management s Discussion and Analysis.

On a fully taxable-equivalent basis, 2011 net interest revenue declined 13%, from $2.83 billion in 2010 to $2.46 billion. These amounts reflect increases from tax-equivalent adjustments of $128 million and $129 million, respectively. Both declines (reported basis and fully taxable-equivalent) were primarily associated with the above-described decline in discount accretion. The impact of these declines was partly offset by lower funding costs and the effect of higher levels of client deposits. Net interest margin, calculated on fully taxable-equivalent net interest revenue, declined 57 basis points to 1.67% in 2011 from 2.24% in 2010.

Total expenses of $7.06 billion increased 3% from $6.84 billion in 2010, and included acquisition and restructuring costs of $269 million. These costs were composed of $16 million associated with acquisitions (consisted of $71 million of acquisition-related costs reduced by a $55 million indemnification benefit described in note 2 to the consolidated financial statements included under Item 8) and $253 million associated with restructuring charges. Expenses from operations of $6.79 billion ($7.06 billion net of $269 million delineated

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above) increased 10% compared to 2010 expenses from operations of $6.18 billion ($6.84 billion net of $666 million, composed of a $7 million tax on bonus payments to employees in the U.K., a $414 million securities lending charge and $245 million of acquisition and restructuring costs). The increase mainly resulted from increases in compensation and employee benefits expenses from merit adjustments and acquisitions, and higher levels of professional services expenses.

In 2011, we secured mandates for approximately $1.41 trillion in assets to be serviced; of the total, $1.14 trillion was installed prior to December 31, 2011, with the remaining $270 billion expected to be installed in 2012. The new business not installed by December 31, 2011 was not included in assets under custody and administration at that date, and had no impact on servicing fee revenue for 2011, as the assets are not included until their installation is complete and we begin to service them. Once installed, the assets generate servicing fee revenue in subsequent periods. We will provide various services for these assets including accounting, fund administration, custody, foreign exchange, securities finance, transfer agency, performance analytics, compliance reporting and monitoring, hedge fund servicing, private equity administration, real estate administration, depository banking services, wealth management services and investment manager operations outsourcing.

CONSOLIDATED RESULTS OF OPERATIONS

This section discusses our consolidated results of operations for 2011 compared to 2010, and should be read in conjunction with the consolidated financial statements and accompanying notes included under Item 8. A comparison of consolidated results of operations for 2010 with those for 2009 is provided under Comparison of 2010 and 2009 in this Management s Discussion and Analysis.

TOTAL REVENUE

Years ended December 31, (Dollars in millions)	**2011**	**2010**	**2009**	**% Change 2010-2011**
Fee revenue:				
Servicing fees	**$ 4,382**	$ 3,938	$ 3,334	11%
Management fees	**917**	829	766	11
Trading services	**1,220**	1,106	1,094	10
Securities finance	**378**	318	570	19
Processing fees and other	**297**	349	171	(15)
Total fee revenue	**7,194**	6,540	5,935	10
Net interest revenue:				
Interest revenue	**2,946**	3,462	3,286	(15)
Interest expense	**613**	763	722	(20)
Net interest revenue	**2,333**	2,699	2,564	(14)
Gains (Losses) related to investment securities, net	**67**	(286)	141	
Total revenue	**$ 9,594**	$ 8,953	$ 8,640	7

Our broad range of services generates fee revenue and net interest revenue. Fee revenue generated by our investment servicing and investment management businesses is augmented by trading services, securities finance and processing fees and other revenue. We earn net interest revenue from client deposits and short-term investment activities by providing deposit services and short-term investment vehicles, such as repurchase agreements and commercial paper, to meet clients needs for high-grade liquid investments, and investing these sources of funds and additional borrowings in assets yielding a higher rate.

Fee Revenue

Servicing and management fees collectively composed approximately 74% of our total fee revenue for 2011 and 73% for 2010. The level of these fees is influenced by several factors, including the mix and volume of assets under custody and administration and assets under management, securities positions held and the volume of portfolio transactions, and the types of products and services used by clients, and are generally affected by changes in worldwide equity and fixed-income security valuations.

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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, client minimum balances, pricing concessions and other factors, may have a significant effect on our servicing fee revenue. Generally, management fee revenue is more sensitive to market valuations than servicing fee revenue. Management fees for enhanced index and actively managed products are generally earned at higher rates than those for passive products. Enhanced index and actively managed products may also involve performance fee arrangements. Performance fees are generated when the performance of certain managed funds exceeds benchmarks specified in the management agreements. Generally, we experience more volatility with performance fees 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 approximately 2%. If fixed-income security values were to increase or decrease by 10%, we would anticipate a corresponding change of approximately 1% in our total revenue.

The following table presents selected equity market indices as of and for the years ended December 31, 2011 and 2010. Daily averages and the averages of month-end indices demonstrate worldwide changes in equity market valuations that affect our servicing and management fee revenue, respectively. Year-end indices affect the value of assets under custody and administration and assets under management at those dates. The index names listed in the table are service marks of their respective owners.

INDEX

	Daily Averages of Indices			Averages of Month-End Indices			Year-End Indices		
	2011	**2010**	**% Change**	**2011**	**2010**	**% Change**	**2011**	**2010**	**% Change**
S&P 500®	**1,268**	1,140	11%	**1,281**	1,131	13%	**1,258**	1,258	
NASDAQ®	**2,677**	2,350	14	**2,701**	2,334	16	**2,605**	2,653	(2)%
MSCI EAFE®	**1,590**	1,525	4	**1,609**	1,511	6	**1,413**	1,658	(15)

FEE REVENUE

Years ended December 31, **(Dollars in millions)**	**2011**	**2010**	**2009**	**% Change 2010-2011**
Servicing fees	**$ 4,382**	$ 3,938	$ 3,334	11%
Management fees	**917**	829	766	11
Trading services	**1,220**	1,106	1,094	10
Securities finance	**378**	318	570	19
Processing fees and other	**297**	349	171	(15)
Total fee revenue	**$ 7,194**	$ 6,540	$ 5,935	10

Servicing Fees

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

We are the largest provider of mutual fund custody and accounting services in the U.S. We distinguish ourselves from other mutual fund service providers by offering clients a broad range of integrated products and services, including accounting, daily pricing and fund administration. At December 31, 2011, we calculated approximately 40.6% of the U.S. mutual fund prices provided to NASDAQ that appeared daily in *The Wall*

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Street Journal and other publications with an accuracy rate of 99.87%. We serviced U.S. tax-exempt assets for corporate and public pension funds, and we provided trust and valuation services for more than 5,500 daily-priced portfolios at December 31, 2011.

We are a service provider outside of the U.S. as well. In Germany, Italy and France, we provide depotbank services for retail and institutional fund assets, as well as custody and other services to pension plans and other institutional clients. In the U.K., we provide custody services for pension fund assets and administration services for mutual fund assets. At December 31, 2011, we serviced approximately $711 billion of offshore assets, primarily domiciled in Ireland, Luxembourg and the Cayman Islands. At December 31, 2011, we had $1.04 trillion of assets under administration in the Asia/Pacific region, and in Japan, we held approximately 93% of the trust assets held by non-domestic trust banks in that region.

We are an alternative asset servicing provider worldwide, servicing hedge, private equity and real estate funds. At December 31, 2011, we had approximately $816 billion of alternative assets under administration.

The 11% increase in servicing fees from 2010 primarily resulted from the impact on current-period revenue of new business awarded to us and installed during 2011 and prior periods, the addition of a full year of revenue generated by the acquired Intesa securities services and Mourant International Finance Administration, or MIFA, businesses and increases in daily average equity market valuations. For 2011, servicing fees generated outside the U.S. were approximately 42% of total servicing fees compared to approximately 41% for 2010.

At year-end 2011, our total assets under custody and administration were $21.81 trillion, compared to $21.53 trillion a year earlier. The increase compared to 2010 was primarily the result of a higher level of new servicing business won and installed prior to December 31, 2011, partly offset by net client redemptions and distributions, as well as decreases in worldwide equity market valuations. These asset levels as of year-end did not reflect new business awarded to us during 2011 that had not been installed prior to December 31, 2011. The value of assets under custody and administration is a broad measure of the relative size of various markets served. Changes in the values of assets under custody and administration do not necessarily result in proportional changes in our servicing fee revenue.

Assets under custody and administration consisted of the following as of December 31:

ASSETS UNDER CUSTODY AND ADMINISTRATION

As of December 31, (Dollars in billions)	2011	2010	2009	2008	2007	2010-2011 Annual Growth Rate	2007-2011 Compound Annual Growth Rate
Mutual funds	**$ 5,265**	$ 5,540	$ 4,734	$ 4,093	$ 5,200	(5)%	
Collective funds	**4,437**	4,350	3,580	2,679	3,968	2	3%
Pension products	**4,837**	4,726	4,395	3,621	5,246	2	(2)
Insurance and other products	**7,268**	6,911	6,086	5,514	5,799	5	6
Total	**$ 21,807**	$ 21,527	$ 18,795	$ 15,907	$ 20,213	1	2

FINANCIAL INSTRUMENT MIX OF ASSETS UNDER CUSTODY AND ADMINISTRATION

As of December 31, (In billions)	2011	2010	2009
Equities	**$ 10,849**	$ 11,000	$ 8,828
Fixed-income	**8,317**	7,875	7,236
Short-term and other investments	**2,641**	2,652	2,731
Total	**$ 21,807**	$ 21,527	$ 18,795

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GEOGRAPHIC MIX OF ASSETS UNDER CUSTODY AND ADMINISTRATION(1)

As of December 31, (In billions)	2011	2010	2009
United States	**$ 15,745**	$ 15,889	$ 14,585
Other Americas	**622**	599	606
Europe/Middle East/Africa	**4,400**	4,067	2,773
Asia/Pacific	**1,040**	972	831
Total	**$ 21,807**	$ 21,527	$ 18,795

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

Management Fees

Through SSgA, we provide a broad range of investment management strategies, specialized investment management advisory services and other financial services for corporations, public funds, and other sophisticated investors. Based on assets under management at December 31, 2011, SSgA was the largest manager of institutional assets worldwide, the largest manager of assets for tax-exempt organizations (primarily pension plans) in the U.S., and the third largest investment manager overall in the world. SSgA offers a broad array of investment management strategies, including passive and active, such as enhanced indexing and hedge fund strategies, using quantitative and fundamental methods for both U.S. and global equities and fixed-income securities. SSgA also offers exchange traded funds, or ETFs, such as the SPDR® ETF brand.

The 11% increase in management fees from 2010 resulted primarily from the impact of increases in average month-end equity market valuations, the addition of revenue from the acquired BIAM business and, to a lesser extent, the impact of new business won and installed during 2011 and prior periods. Average month-end equity market valuations, individually presented in the foregoing INDEX table, increased an average of 12% compared to 2010. Management fees generated outside the U.S. were approximately 41% of total management fees for 2011, up from 34% for 2010.

At year-end 2011, assets under management were $1.86 trillion, compared to $2.01 trillion at year-end 2010. Such amounts include assets of the SPDR® Gold ETF, for which we act as distribution agent rather than investment manager, and certain assets managed for the U.S. government under programs adopted during the financial crisis. While certain management fees are directly determined by the value of assets under management and the investment strategy employed, management fees reflect other factors as well, including our relationship pricing for clients who use multiple services, and the benchmarks specified in the respective management agreements related to performance fees.

The overall decrease in assets under management at December 31, 2011 compared to December 31, 2010, which can be seen in the tables that follow this discussion, generally reflected net lost business (including the planned reduction associated with the U.S. Treasury s winding down of its portfolio of agency-guaranteed mortgage-backed securities) and depreciation in the values of the assets managed. These decreases were partly offset by the addition of approximately $23 billion of managed assets from the BIAM acquisition. Passive fixed-income assets under management declined 32% year over year, mainly reflective of the sale of U.S. government securities associated with the U.S. Treasury s winding down of its mortgage-backed securities portfolio. Managed cash balances declined 11%, and reflected the effect of reductions of securities lending volumes associated with continued weak loan demand. These declines were partly offset by an increase in sales of passive exchange-traded funds as well as other actively managed products.

The net lost business of $140 billion for 2011 presented in the following analysis of activity in assets under management does not reflect $20 billion of new business awarded to us during 2011 that had not been installed prior to December 31, 2011. This new business will be reflected in assets under management in future periods after installation, and will generate management fee revenue in subsequent periods.

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Assets under management consisted of the following as of December 31:

ASSETS UNDER MANAGEMENT

As of December 31, (Dollars in billions)	2011	2010	2009	2008	2007	2010-2011 Annual Growth Rate	2007-2011 Compound Annual Growth Rate
Passive:							
Equities	**$ 638**	$ 655	$ 504	$ 344	$ 522	(3)%	5%
Fixed-income	**246**	363	395	200	178	(32)	8
Exchange-traded funds[(1)]	**274**	255	205	170	171	7	13
Other	**208**	210	211	163	171	(1)	5
Total Passive	**1,366**	1,483	1,315	877	1,042	(8)	7
Active:							
Equities	**50**	55	66	72	179	(9)	(27)
Fixed-income	**19**	17	25	32	38	12	(16)
Other	**45**	28	28	17	105	61	(19)
Total Active	**114**	100	119	121	322	14	(23)
Cash	**378**	427	517	468	632	(11)	(12)
Total	**$ 1,858**	$ 2,010	$ 1,951	$ 1,466	$ 1,996	(8)	(2)

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

GEOGRAPHIC MIX OF ASSETS UNDER MANAGEMENT[(1)]

As of December 31, (In billions)	2011	2010	2009
United States	**$ 1,298**	$ 1,425	$ 1,397
Other Americas	**30**	29	29
Europe/Middle East/Africa	**320**	341	345
Asia/Pacific	**210**	215	180
Total	**$ 1,858**	$ 2,010	$ 1,951

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

The following table presents activity in assets under management for the three years ended December 31:

ASSETS UNDER MANAGEMENT

Years Ended December 31, (In billions)	2011	2010	2009
Balance at beginning of year	**$ 2,010**	$ 1,951	$ 1,466
Net new (lost) business[1]	**(140)**	(68)	261
Assets added from BIAM acquisition	**23**		
Market appreciation (depreciation)	**(35)**	127	224
Balance at end of year	**$ 1,858**	$ 2,010	$ 1,951

(1) Amount for 2011 included the sale of approximately $125 billion of U.S. government securities associated with the U.S. Treasury s winding down of its portfolio of agency-guaranteed mortgage-backed securities. Future sales by the U.S. Treasury of the remaining portfolio of approximately $47 billion, which are anticipated to occur in 2012, will further reduce our assets under management.

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Trading Services

Trading services revenue includes revenue from foreign exchange trading, as well as brokerage and other trading services. We earn foreign exchange trading revenue by acting as a market maker. We offer a range of foreign exchange, or FX, products, services and execution models which focus on clients global requirements for our proprietary research and the execution of trades in any time zone. Most of our FX products and execution models can be grouped into three broad categories: direct FX, indirect FX, and electronic trading. Foreign exchange trading revenue is influenced by three principal factors: the volume and type of client foreign exchange transactions; currency volatility; and the management of currency market risks. We also offer a range of brokerage and other trading products tailored specifically to meet the needs of the global pension community, including transition management, commission recapture and self-directed brokerage. These products are differentiated by our position as an agent of the institutional investor. Direct and indirect FX revenue is recorded in foreign exchange trading revenue; revenue from electronic trading is recorded in brokerage and other trading services revenue.

Trading services revenue increased 10%, to $1.22 billion, for the year ended December 31, 2011 from $1.11 billion for the year ended December 31, 2010. In the same comparison, foreign exchange trading revenue increased 14% to $683 million for 2011 from $597 million for 2010. The increase resulted from higher client volumes, which were up 10%, partly offset by a 4% decline in currency volatility.

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

For the years ended December 31, 2011 and 2010, our indirect FX revenue was approximately $331 million and $336 million, respectively, a decline of approximately 1% year over year. All other FX revenue not included in this indirect FX revenue, and unrelated to electronic trading, is considered by us to be direct FX revenue. For the years ended December 31, 2011 and 2010, our direct FX revenue was $352 million and $261 million, respectively, an increase of approximately 35% year over year. For the year ended December 31, 2009, our indirect FX revenue was approximately $369 million, and our direct FX revenue was $308 million.

Our clients may choose to execute FX transactions through one of our electronic trading platforms. This service generates revenue through a click fee. For the years ended December 31, 2011 and 2010, our revenue from electronic FX trading platforms, which is recorded in brokerage and other trading services revenue, was $282 million and $240 million, respectively, an increase of approximately 18% year over year.

During 2011, particularly in the second half of the year, some of our clients who relied on our indirect model to execute their FX transactions transitioned to other methods to conduct their FX transactions. Through State Street, they can transition to either direct FX execution, including our Street FX service where trades are executed at agreed-upon benchmarks, where State Street continues to act as a principal market maker, or to one of our electronic trading platforms.

Brokerage and other trading services revenue increased 6% to $537 million for the year ended December 31, 2011, compared to $509 million for the year ended December 31, 2010. The increase was largely related to higher electronic trading volumes and higher trading profits, partly offset by lower levels of revenue from transition management. Our transition management revenue was adversely affected by compliance issues in our U.K. business, the reputational impact of which may adversely affect our revenue from transition management in 2012.

Securities Finance

Our securities finance business consists of two components: investment funds with a broad range of investment objectives which are managed by SSgA and engage in agency securities lending, which we refer to as the SSgA lending funds; and an agency lending program for third-party investment managers and asset owners, which we refer to as the agency lending funds.

Our securities finance business provides liquidity to the financial markets, as well as an effective means for clients to earn incremental revenue on their securities portfolios. By acting as a lending agent and coordinating loans between lenders and borrowers, we lend securities and provide liquidity to clients worldwide. Borrowers provide collateral in the form of cash or securities to State Street in return for loaned securities. Borrowers are generally required to provide collateral equal to a contractually agreed percentage equal to or in excess of the fair value of the loaned securities. As the fair value of the loaned securities changes, additional collateral is provided by the borrower or collateral is returned to the borrower. Such movements are typically referred to as daily mark-to-market collateral adjustments.

We also participate in securities lending transactions as a principal, rather than an agent. As principal, we borrow securities from the lending client and then lend such securities to the subsequent borrower, either a State Street client or a broker/dealer. Our involvement as principal is utilized when the lending client is unable to transact directly with the market and requires us to execute the transaction and furnish the securities. We provide our credit rating to the transaction as well as our ability to source securities through our assets under custody and administration.

For cash collateral, our clients pay a usage fee to the provider of the cash collateral, and we invest the cash collateral in certain investment vehicles or managed accounts as directed by the owner of the loaned securities. In some cases, the investment vehicles or managed accounts may be managed by SSgA. The spread between the yield on the investment vehicle and the usage fee paid to the provider of the collateral is split between the lender of the securities and State Street as agent. For non-cash collateral, the borrower pays a fee for the loaned securities, and the fee is split between the lender of the securities and State Street.

Securities finance revenue, composed of our split of both the spreads related to cash collateral and the fees related to non-cash collateral, is principally a function of the volume of securities on loan and the interest-rate spreads and fees earned on the underlying collateral. For 2011, securities finance revenue increased 19% from 2010, substantially the result of higher spreads across all lending programs, partly offset by a 9% decrease in average lending volumes. Average spreads increased 28% for 2011 compared to 2010, and securities on loan averaged $361 billion for 2011 compared to $396 billion for 2010.

As previously reported, in December 2010, we divided certain of the agency lending collateral pools into liquidity pools, from which clients can obtain cash redemptions, and duration pools, which are restricted and operate as liquidating accounts. These actions were taken to provide greater flexibility to participants with respect to their control of their level of participation in our agency lending program. As of December 31, 2011, the aggregate net assets of the liquidity pools and duration pools were $25.3 billion and $3.5 billion, respectively, compared to $26.2 billion and $11.8 billion, respectively, as of December 31, 2010.

The decline in the aggregate net assets of the duration pools from year-end 2010 reflected both pay-downs on securities held by some of the pools and in-kind redemptions by clients into separately managed accounts. These declines were partly offset by improvement in the market value of securities held by the pools. The return obligations of participants in the agency lending program represented by interests in the duration pools exceeded the market value of the assets in the duration pools by approximately $198 million as of December 31, 2011, compared to $319 million as of December 31, 2010. This amount is expected to be eliminated as the assets in the duration pools mature or pay down.

Market influences continued to affect our revenue from, and the profitability of, our securities lending activities during 2011, and may do so in future periods. As long as securities lending spreads remain below the levels generally experienced prior to late 2007, client demand is likely to remain at a reduced level and our revenues from our securities lending activities will be adversely affected relative to the revenues we earned in 2007, 2008 (which were extraordinarily high) and 2009. In addition, proposed or anticipated regulatory changes may affect the volume of our securities lending activity and related revenue in future periods.

Processing Fees and Other

Processing fees and other revenue includes diverse types of fees and revenue, including fees from our structured products business, fees from software licensing and maintenance, equity income from our joint venture

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investments, gains and losses on sales of leased equipment and other assets, and amortization of our investments in tax-advantaged financings. Processing fees and other revenue declined 15% to $297 million for 2011, from $349 million for 2010. This decrease primarily resulted from fair-value adjustments related to positions in the fixed-income trading initiative, as well as lower net revenue from joint ventures.

NET INTEREST REVENUE

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

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

Years ended December 31, (Dollars in millions; fully taxable-equivalent basis)	**2011 Average Balance**	**2011 Interest Revenue/ Expense**	**2011 Rate**	**2010 Average Balance**	**2010 Interest Revenue/ Expense**	**2010 Rate**	**2009 Average Balance**	**2009 Interest Revenue/ Expense**	**2009 Rate**
Interest-bearing deposits with banks	**$ 20,241**	**$ 149**	**.74%**	$ 13,550	$ 93	.69%	$ 24,162	$ 156	.64%
Securities purchased under resale agreements	**4,686**	**28**	**.61**	2,957	24	.83	3,701	24	.65
Federal funds sold							68		.29
Trading account assets	**2,013**		**.01**	376			1,914	20	1.02
Investment securities	**103,075**	**2,615**	**2.54**	96,123	3,140	3.27	81,190	2,943	3.63
Investment securities purchased under AMLF(1)							882	25	2.86
Loans and leases	**12,180**	**280**	**2.30**	12,094	331	2.73	9,703	242	2.49
Other interest-earning assets	**5,462**	**2**	**.03**	1,156	3	.24	1,303	2	.15
Total interest-earning assets	**$ 147,657**	**$ 3,074**	**2.08**	$ 126,256	$ 3,591	2.84	$ 122,923	$ 3,412	2.78
Interest-bearing deposits:									
U.S.	**$ 4,049**	**$ 11**	**.27%**	$ 8,632	$ 37	.43%	$ 7,616	$ 61	.81%
Non-U.S.	**84,011**	**209**	**.25**	68,326	176	.26	61,551	134	.22
Securities sold under repurchase agreements	**9,040**	**10**	**.11**	8,108	4	.05	11,065	3	.03
Federal funds purchased	**845**		**.05**	1,759	1	.05	956		.04
Short-term borrowings under AMLF(1)							877	18	2.02
Other short-term borrowings	**5,134**	**86**	**1.67**	13,590	252	1.86	16,847	197	1.17
Long-term debt	**8,966**	**289**	**3.22**	8,681	286	3.30	7,917	304	3.84
Other interest-bearing liabilities	**3,535**	**8**	**.24**	940	7	.69	1,131	5	.46
Total interest-bearing liabilities	**$ 115,580**	**$ 613**	**.53**	$ 110,036	$ 763	.69	$ 107,960	$ 722	.67
Interest-rate spread			**1.55%**			2.15%			2.11%
Net interest revenue - fully taxable-equivalent basis		**$ 2,461**			$ 2,828			$ 2,690	
Net interest margin - fully taxable-equivalent basis			**1.67%**			2.24%			2.19%
Tax-equivalent adjustment		**$ (128)**			$ (129)			$ (126)	
Net interest revenue - GAAP basis		**$ 2,333**			$ 2,699			$ 2,564	

(1) Amounts represent averages of asset-backed commercial paper purchases from eligible unaffiliated money market mutual funds under the Federal Reserve s Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility, or AMLF, and associated borrowings. The AMLF expired in February 2010.

For the year ended December 31, 2011 compared to 2010, average interest-earning assets were higher, mainly as a result of the impact of increases in interest-bearing and noninterest-bearing client deposits, as well as growth in the investment portfolio. The increases in average deposits resulted from the additional deposits placed with us by clients amid market and public concerns related to various economic events, as well as the full year-to-date impact of the acquired Intesa securities services business on 2011 aggregate deposits. The growth in the investment portfolio resulted from our continued re-investment strategy.

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

For the year ended December 31, 2011, fully taxable-equivalent net interest revenue declined 13% compared to the same period in 2010. On a GAAP basis, net interest revenue declined 14% compared to the same period in 2010. The declines were mainly the result of lower discount accretion, more fully described below. The level of accretion recorded was affected by sales of securities, particularly the December 2010 investment portfolio repositioning, and pay-downs.

If the conduit-related discount accretion were excluded, fully taxable-equivalent net interest revenue for 2011 would have been $2.24 billion ($2.46 billion presented in the preceding table less accretion of $220 million) compared to $2.12 billion ($2.83 billion presented in the preceding table less accretion of $712 million) for 2010. This increase was primarily the result of lower funding costs, as market rates dropped throughout the year. In addition, higher levels of client deposits replaced interest-bearing short-term funding, with the excess deposits invested with the Federal Reserve and non-U.S. central banks.

Subsequent to the 2009 conduit consolidation, we have recorded aggregate discount accretion in interest revenue of $1.55 billion ($621 million in 2009, $712 million in 2010 and $220 million in 2011). The timing and ultimate recognition of discount accretion depends, in part, on factors that are outside of our control, including anticipated prepayment speeds and credit quality. The impact of these factors is uncertain and can be significantly influenced by general economic and financial market conditions. The timing and recognition of discount accretion can also be influenced by our ongoing management of the risks and other characteristics associated with our investment portfolio, including sales of securities which would otherwise generate accretion, such as the December 2010 investment portfolio repositioning.

Depending on the factors discussed above, among others, we anticipate that, until the former conduit securities remaining in our portfolio mature or are sold, discount accretion will continue to contribute to our net interest revenue, and may increase the volatility of our net interest revenue and margin. The December 2010 portfolio repositioning resulted in a significant decrease in the discount accretion that we recognized in 2011, and that we expect to recognize in future periods. Assuming that we hold the remaining former conduit securities to maturity, all other things equal, we expect the remaining former conduit securities carried in our investment portfolio as of December 31, 2011 to generate aggregate discount accretion in future periods of approximately $1.10 billion over their remaining terms, with approximately half of this aggregate discount accretion to be recorded over the next four years.

Changes in the components of interest-earning assets and interest-bearing liabilities are discussed in more detail below. Additional detail about the components of interest revenue and interest expense is provided in note 17 to the consolidated financial statements included under Item 8.

Interest-bearing deposits with banks, including cash balances maintained at the Federal Reserve to satisfy reserve requirements, averaged $20.24 billion for the year ended December 31, 2011, a significant increase compared to $13.55 billion for the year ended December 31, 2010. An average of $9.50 billion was held at the Federal Reserve Bank during 2011, compared to $4.98 billion held during 2010, with balances in both periods exceeding minimum reserve requirements. The significant increase in the annual comparison reflected growth in noninterest-bearing client deposits.

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