STATE STREET Corp
Form 10-Q
November 05, 2010
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2010

or

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

For the transition period from to

Commission File No. 001-07511

STATE STREET CORPORATION

(Exact name of registrant as specified in its charter)

Massachusetts	**04-2456637**

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

617-786-3000

(Registrant s telephone number, including area code)

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

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

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

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

(Do not check if a smaller reporting company)

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

The number of shares of State Street s common stock outstanding on October 29, 2010 was 502,024,979

Table of Contents

STATE STREET CORPORATION

Quarterly Report on Form 10-Q for the Quarterly Period Ended September 30, 2010

Table of Contents

	Page
PART I. FINANCIAL INFORMATION	
Management s Discussion and Analysis of Financial Condition and Results of Operations	2
Quantitative and Qualitative Disclosures About Market Risk	46
Controls and Procedures	46
Consolidated Statement of Income (Unaudited) for the three and nine months ended September 30, 2010 and 2009	47
Consolidated Statement of Condition as of September 30, 2010 (Unaudited) and December 31, 2009	48
Consolidated Statement of Changes in Shareholders Equity (Unaudited) for nine months ended September 30, 2010 and 2009	49
Consolidated Statement of Cash Flows (Unaudited) for nine months ended September 30, 2010 and 2009	50
Table of Contents for Condensed Notes to Consolidated Financial Statements (Unaudited)	51
Condensed Notes to Consolidated Financial Statements (Unaudited)	52
Report of Independent Registered Public Accounting Firm	97
FORM 10-Q PART I CROSS-REFERENCE INDEX	98
PART II. OTHER INFORMATION	
Exhibits	99
SIGNATURES	100
EXHIBIT INDEX	101

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS

GENERAL

State Street Corporation is a financial holding company headquartered in Boston, Massachusetts. Through its subsidiaries, including its principal banking subsidiary, State Street Bank and Trust Company, referred to as State Street Bank, State Street Corporation provides a full range of products and services to meet the needs of institutional investors worldwide. Unless otherwise indicated or unless the context requires otherwise, all references in this Management s Discussion and Analysis to State Street, we, us, our or similar terms mean State Street Corporation and its subsidiaries on a consolidated basis. All references in this Form 10-Q to the parent company are to State Street Corporation. At September 30, 2010, we had consolidated total assets of $172.96 billion, consolidated total deposits of $105.03 billion, consolidated total shareholders equity of $17.57 billion and employed 28,940.

Our customers include mutual funds, collective investment funds and other investment pools, corporate and public retirement plans, insurance companies, foundations, endowments and investment managers. Our two lines of business, Investment Servicing and Investment Management, provide products and services including custody, recordkeeping, daily pricing and administration, shareholder services, foreign exchange, brokerage and other trading services, securities finance, deposit and short-term investment facilities, loan and lease financing, investment manager and alternative investment operations outsourcing, performance, risk and compliance analytics, investment research services and investment management, including passive and active U.S. and non-U.S. equity and fixed-income strategies. We had $20.23 trillion of assets under custody and administration and $1.90 trillion of assets under management at September 30, 2010. Information about these assets, and financial information about our business lines, is provided in the Consolidated Results of Operations Total Revenue and Line of Business Information sections of this Management s Discussion and Analysis.

This Management s Discussion and Analysis is part of our Quarterly Report on Form 10-Q for the third quarter of 2010, which we filed with the SEC, and updates the Management s Discussion and Analysis in our Annual Report on Form 10-K for the year ended December 31, 2009, which we refer to as the 2009 Form 10-K, and in our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2010 and June 30, 2010. We previously filed these reports with the SEC. You should read the financial information in this Management s Discussion and Analysis and elsewhere in this Form 10-Q in conjunction with the financial and other information contained in those reports. Certain previously reported amounts have been reclassified to conform to current period classifications as presented in this Form 10-Q.

We prepare our consolidated financial statements in accordance with United States generally accepted accounting principles, which we refer to as GAAP, and which require management to make judgments in the application of its accounting policies that involve significant estimates and assumptions about the effect of matters that are inherently uncertain. Certain accounting policies are considered by management to be relatively more significant in this respect. These policies relate to the accounting for fair value measurement; the accounting for interest revenue recognition and other-than-temporary impairment; and the accounting for goodwill and other intangible assets. Additional information about these accounting policies is included in the Significant Accounting Estimates section of Management s Discussion and Analysis in our 2009 Form 10-K. These accounting policies were not changed during the first nine months of 2010.

Certain financial information provided in this Management s Discussion and Analysis has been prepared on both a GAAP basis and a non-GAAP, or operating basis. Management measures and compares certain financial information on an operating basis, as it believes this presentation supports meaningful comparisons from period to period and the analysis of comparable financial trends with respect to State Street s normal

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

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 effect 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. Operating-basis financial information should be considered in addition to, not as a substitute for or superior to, financial information prepared in accordance with GAAP.

FORWARD-LOOKING STATEMENTS

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

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

- 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, capital adequacy requirements and changes that expose us to risks related to compliance;

- financial market disruptions and the economic recession, whether in the U.S. or internationally, and monetary and other governmental actions, including regulation, taxes and fees, designed to address or otherwise be responsive to such disruptions and recession, including actions taken in the U.S. and internationally to address the financial and economic disruptions that began in 2007;

- increases in the volatility of, or declines in the levels of, our net interest revenue, changes in the composition of the assets on our consolidated balance sheet and the possibility that we may be required to change the manner in which we fund those assets;

- 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;

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

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;

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

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

the performance 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;

the risks that acquired businesses 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 or 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 other closing conditions;

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

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

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

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

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

the results of litigation, government investigations and similar disputes or proceedings;

adverse publicity or other reputational harm;

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

- our ability to control operating risks, information technology systems risks and outsourcing risks, 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 fail or be circumvented;

- the potential for new products and services to impose additional costs on us and expose us to increased operational risk;

- changes in accounting standards and practices; and

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

Therefore, actual outcomes and results may differ materially from what is expressed in our forward-looking statements and from our historical financial results due to the factors discussed in this section and elsewhere in this Form 10-Q or disclosed in our other SEC filings, including the risk factors discussed in our 2009 Form 10-K. Forward-looking statements should not be relied upon as representing our expectations or beliefs as of any date subsequent to the time this Form 10-Q is filed with the SEC. We undertake no obligation to revise the forward-looking statements contained in this Form 10-Q to reflect events after the time it is filed with the SEC. The factors discussed above are not intended to be a complete summary of all risks and uncertainties that may affect

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

our businesses. We cannot anticipate all potential economic, operational and financial 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*.

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

OVERVIEW OF FINANCIAL RESULTS[1]

(Dollars in millions, except per share amounts)	Quarters Ended September 30, 2010	2009	% Change	Nine Months Ended September 30, 2010	2009	% Change
Total fee revenue	**$ 1,569**	$ 1,471	7%	**$ 4,805**	$ 4,409	9%
Net interest revenue	**724**	723		**2,043**	1,867	9
Gains related to investment securities, net	**17**	42		**62**	84	
Total revenue	**2,310**	2,236	3	**6,910**	6,360	9
Provision for loan losses	**1**	16		**26**	114	
Expenses:						
Expenses from operations	**1,518**	1,472	3	**4,552**	4,111	11
Securities lending charge				**414**		
Provision for legal exposure		250			250	
Merger and integration costs and U.K. bonus tax, net	**9**	11		**84**	40	
Total expenses	**1,527**	1,733	(12)	**5,050**	4,401	15
Income before income tax expense and extraordinary loss	**782**	487	61	**1,834**	1,845	
Income tax expense	**236**	160		**361**	540	
Income before extraordinary loss	**546**	327	67	**1,473**	1,305	13
Extraordinary loss, net of taxes					(3,684)	
Net income (loss)	**$ 546**	$ 327		**$ 1,473**	$ (2,379)	
Adjustments to net income (loss):						
Preferred stock dividends and accretion/prepayment of discount[2]					(163)	
Earnings allocated to participating securities[3]	**(6)**			**(14)**		
Net income before extraordinary loss available to common shareholders	**$ 540**	$ 327		**$ 1,459**	$ 1,142	
Net income (loss) available to common shareholders	**$ 540**	$ 327		**$ 1,459**	$ (2,542)	
Earnings per common share before extraordinary loss:						
Basic	**$ 1.09**	$ .66		**$ 2.94**	$ 2.48	
Diluted	**1.08**	.66		**2.93**	2.45	
Earnings (Loss) per common share:						

Basic	**$ 1.09**	$ .66	**$ 2.94**	$ (5.47)
Diluted	**1.08**	.66	**2.93**	(5.45)
Average common shares outstanding (in thousands):				
Basic	**495,729**	493,453	**495,312**	462,900
Diluted	**498,159**	498,290	**497,715**	466,234
Cash dividends declared	**.01**	.01	**.03**	.03
Return on common shareholders equity[4]	**12.9%**	10.2%	**12.4%**	12.8%

[1] Financial results for the quarter and nine months ended September 30, 2010 included those of acquired businesses from their respective dates of acquisition, as described in the following Financial Highlights section.

[2] Adjustments related to preferred stock issued in connection with the U.S. Treasury s TARP program in 2008 and redeemed in June 2009. See note 15 to the consolidated financial statements in this Form 10-Q.

[3] Adjustments for the third quarter and first nine months of 2010 represent allocation of earnings to participating securities using the two-class method. See note 15 to the consolidated financial statements in this Form 10-Q.

[4] Return on common shareholders equity for the nine months ended September 30, 2009 was determined by dividing annualized net income before extraordinary loss available to common shareholders by average common shareholders equity for the respective period.

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

Financial Highlights

This section provides highlights with respect to our financial results for the third quarter of 2010 presented in the preceding table. Additional information, including information with respect to our year-to-date results, is provided under Consolidated Results of Operations, which follows this section.

During the second quarter of 2010, we completed our acquisitions of Intesa Sanpaolo s securities services business (May 17, 2010) and Mourant International Finance Administration (April 1, 2010). For the third quarter of 2010, these acquired businesses added approximately $120 million of revenue and $90 million of expenses, excluding merger and integration costs, to our consolidated statement of income, and $180 million of revenue and $140 million of expenses, excluding merger and integration costs, from the respective acquisition dates through September 30, 2010. We also recorded aggregate merger and integration costs of about $8 million in connection with these acquisitions during the third quarter of 2010 and $42 million from the respective acquisition dates through September 30, 2010.

Total revenue for the third quarter of 2010 increased 3% compared to the same period in 2009, with total fee revenue up 7% in the same comparison. Servicing fee revenue increased 19% compared to the third quarter of 2009, primarily the result of the addition of revenue from the acquired Intesa and Mourant businesses, the impact of new business won and installed in the current quarter and prior periods on current-period revenue and increases in equity market valuations. Management fee revenue declined 3% compared to the third quarter of 2009, primarily as a result of the impact of changes in business mix, as reflected in assets under management, partly offset by improvement in equity market valuations.

Trading services revenue declined 15% compared to the third quarter of 2009, primarily as a result of a 30% decline in foreign exchange trading services, related to lower spreads on foreign exchange trading and lower trading volumes, as the weakness in the trading markets continued. This decline was slightly offset by a 3% increase in brokerage and other fees, due to strength in electronic trading and transition management, the latter overseas. Securities finance revenue declined 35% compared to the third quarter of 2009, primarily as a result of lower spreads and lower levels of client demand in the securities lending market. The average balance of securities on loan for the third quarter of 2010 was $382 billion, compared to $399 billion for the third quarter of 2009. Processing fees and other revenue increased 58%, from $45 million to $71 million, primarily as a result of higher levels of net revenue related to structured products and income from joint ventures in the third quarter of 2010.

Net interest revenue was essentially flat for the third quarter of 2010 compared to the third quarter of 2009, on both a GAAP and fully taxable-equivalent basis (the latter $757 million compared to $754 million, reflecting increases from tax-equivalent adjustments of $33 million and $31 million, respectively). Generally, the impact of a larger investment securities portfolio, as we continued our re-investment strategy, combined with the full-quarter impact of the deposits added by the acquired Intesa business, was largely offset by a lower level of discount accretion ($189 million in the third quarter of 2010 compared to $279 million in the third quarter of 2009). This accretion was generated by the assets added to our consolidated balance sheet in connection with the May 2009 commercial paper conduit consolidation, which is discussed under Total Revenue Net Interest Revenue in this Management s Discussion and Analysis.

Net interest margin, computed on fully taxable-equivalent net interest revenue, decreased 11 basis points from 2.47% in the third quarter of 2009 to 2.36% in the third quarter of 2010. The above-mentioned $189 million of discount accretion accounted for 59 basis points of net interest margin for the third quarter of 2010, compared to 91 basis points for the third quarter of 2009. Excluding the effect of accretion, fully taxable-equivalent net

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

interest revenue for the third quarter of 2010 would have been $568 million ($757 million less $189 million), an increase of 20% from $475 million ($754 million less $279 million) for the third quarter of 2009, and net interest margin for the third quarter of 2010 would have been 1.77% compared to 1.56% for the third quarter of 2009.

We recorded net realized gains of $91 million from sales of available-for-sale securities during the third quarter of 2010, compared to net realized gains of $141 million during the third quarter of 2009. Separately, we recorded net other-than-temporary impairment of $74 million during the third quarter of 2010, largely related to non-agency mortgage-backed securities, compared to $99 million during the third quarter of 2009. The aggregate net realized gains and net impairment losses resulted in net gains related to investment securities of $17 million for the third quarter of 2010, compared to net gains of $42 million for the same period in 2009.

Total expenses for the third quarter of 2010 declined 12% compared to the third quarter of 2009, from $1.73 billion to $1.53 billion. If the third-quarter 2009 provision of $250 million for legal exposure related to certain active fixed-income strategies managed by State Street Global Advisors, or SSgA, is excluded, total expenses in the quarterly comparison increased 3%, from $1.48 billion ($1.73 billion less $250 million) to $1.53 billion, primarily reflective of the addition of salaries and employee benefits and information systems and communication expenses from the acquired Intesa and Mourant businesses, as well as higher expenses related to transaction processing, partly offset by a decline in other expenses associated with a $50 million insurance recovery related to legal proceedings.

We recorded income tax expense of $236 million for the third quarter of 2010, compared to $160 million for the third quarter of 2009. Our effective tax rate for the third quarter of 2010 was 30.1%, compared to 32.8% for the same period in 2009.

At September 30, 2010, we had aggregate assets under custody and administration of $20.23 trillion, which increased $1.43 trillion, or 8%, from $18.79 trillion at December 31, 2009, and increased $2.29 trillion, or 13%, from $17.94 trillion at September 30, 2009. At September 30, 2010, we had aggregate assets under management of $1.90 trillion, which decreased $7 billion from $1.91 trillion at December 31, 2009, and increased $169 billion, or 10%, from $1.74 trillion at September 30, 2009. The increases in assets under custody and administration from September 30, 2009 and December 31, 2009 to September 30, 2010 reflected the addition of servicing assets from the Intesa and Mourant acquisitions and the installation of new business, as well as higher asset valuations associated with the improvement in the global financial markets. The increase in assets under management from September 30, 2009 to September 30, 2010 primarily reflected increases in asset valuations and net new business. The decrease in assets under management from December 31, 2009 to September 30, 2010 reflected net lost business partly offset by asset appreciation.

During the third quarter and first nine months of 2010, we won mandates for approximately $477 billion and $1.07 trillion, respectively, in assets to be serviced; $114 billion of the $477 billion and $286 billion of the aggregate of $1.07 trillion was installed prior to September 30, 2010, with the remainder expected to be installed during the fourth quarter of 2010 and in 2011. The new business not installed by September 30, 2010 was not included in assets under custody and administration at that date, and had no impact on servicing fee revenue for the third quarter or first nine months of 2010, 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.

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

CONSOLIDATED RESULTS OF OPERATIONS

This section discusses our consolidated results of operations for the third quarter and first nine months of 2010 compared to the same periods in 2009, and should be read in conjunction with the consolidated financial statements and accompanying condensed notes included in this Form 10-Q.

TOTAL REVENUE

	Quarters Ended September 30,			Nine Months Ended September 30,		
(Dollars in millions)	**2010**	**2009**	**% Change**	**2010**	**2009**	**% Change**
Fee revenue:						
Servicing fees	**$ 989**	$ 833	19%	**$ 2,826**	$ 2,394	18%
Management fees	**213**	219	(3)	**656**	593	11
Trading services	**228**	269	(15)	**796**	824	(3)
Securities finance	**68**	105	(35)	**249**	487	(49)
Processing fees and other	**71**	45	58	**278**	111	150
Total fee revenue	**1,569**	1,471	7	**4,805**	4,409	9
Net interest revenue:						
Interest revenue	**904**	898	1	**2,628**	2,409	9
Interest expense	**180**	175	3	**585**	542	8
Net interest revenue	**724**	723		**2,043**	1,867	9
Gains related to investment securities, net	**17**	42		**62**	84	
Total revenue	**$ 2,310**	$ 2,236	3	**$ 6,910**	$ 6,360	9

Fee Revenue

Servicing and management fees collectively comprised approximately 77% and 72%, respectively, of our total fee revenue for the third quarter and first nine months of 2010 compared to approximately 72% and 68%, respectively, for the corresponding periods in 2009. These fees are a function of several factors, including the mix and volume of assets under custody and administration and assets under management, securities positions held and the volume of portfolio transactions, and the types of products and services used by customers, and are generally affected by changes in worldwide equity and fixed-income valuations.

Generally, servicing fees are affected, in part, by changes in daily average valuations of assets under custody and administration, while management fees are affected by changes in month-end valuations of assets under management. Additional factors, such as the level of transaction volumes, changes in service level, balance credits, customer minimum balances, pricing concessions and other factors, may have a significant effect on servicing fee revenue. Generally, management fee revenue is more sensitive to market valuations than servicing fee revenue. Management fees 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 compared 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

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

corresponding change of approximately 1% in our total revenue. We would expect the foregoing relationships to exist in normalized financial markets, which we have not experienced since mid-2007. The disrupted conditions that began during the second half of 2007 have adversely affected our market-driven revenues, particularly foreign exchange trading services and securities finance. Even though the financial markets began to improve during the second half of 2009, the effect of the disrupted conditions on our total revenue, particularly our market-driven revenue, has been more significant than we would anticipate in normalized markets.

The following tables present selected equity market indices for the quarters and nine months ended September 30, 2010 and 2009. Daily averages and the averages of month-end indices demonstrate worldwide changes in equity market valuations that affect servicing and management fee revenue, respectively. Quarter-end indices are indicative of the factors influencing the values of assets under custody and administration and assets under management as of those dates. The index names listed in the table are service marks of their respective owners.

INDEX

	Daily Averages of Indices For the Quarter Ended September 30,			Average of Month-End Indices For the Quarter Ended September 30,			Quarter-End Indices As of September 30,		
	2010	**2009**	**% Change**	**2010**	**2009**	**% Change**	**2010**	**2009**	**% Change**
S&P 500®	**1,096**	996	10%	**1,097**	1,022	7%	**1,141**	1,057	8%
NASDAQ®	**2,237**	1,984	13	**2,246**	2,037	10	**2,369**	2,122	12
MSCI EAFE®	**1,472**	1,440	2	**1,487**	1,492		**1,561**	1,553	1

	Daily Averages of Indices For the Nine Months Ended September 30,			Average of Month-End Indices For the Nine Months Ended September 30,		
	2010	**2009**	**% Change**	**2010**	**2009**	**% Change**
S&P 500®	**1,118**	900	24%	**1,105**	904	22%
NASDAQ®	**2,286**	1,737	32	**2,261**	1,758	29
MSCI EAFE®	**1,493**	1,256	19	**1,480**	1,273	16

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; recordkeeping; investment manager and alternative investment manager operations outsourcing services; master trust and master custody; and performance, risk and compliance analytics.

The 19% increase in servicing fees in the quarterly comparison reflected the addition of revenue from the acquired Intesa and Mourant businesses, the impact of new business won and installed in the current quarter and prior periods on current-period revenue and increases in daily average equity market valuations. The 18% increase in the nine-month comparison reflected the impact of new business won and installed in the current quarter and prior periods on current-period revenue, increases in daily average equity market valuations and the addition of revenue from the acquired Intesa and Mourant businesses. For the third quarter and first nine months of 2010, servicing fees generated from customers outside the U.S. were approximately 44% and 41% of total servicing fees compared to approximately 37% for both the third quarter and first nine months of 2009. The following tables set forth the composition of assets under custody and administration.

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

ASSETS UNDER CUSTODY AND ADMINISTRATION

(In billions)	September 30, 2010	December 31, 2009	September 30, 2009
Mutual funds	**$ 5,018**	$ 4,734	$ 4,582
Collective funds	**4,000**	3,580	3,455
Pension products	**4,539**	4,395	4,160
Insurance and other products	**6,669**	6,086	5,738
Total	**$ 20,226**	$ 18,795	$ 17,935

FINANCIAL INSTRUMENT MIX OF ASSETS UNDER CUSTODY AND ADMINISTRATION

(In billions)	September 30, 2010	December 31, 2009	September 30, 2009
Equities	**$ 9,950**	$ 8,828	$ 7,916
Fixed-income	**7,607**	7,236	7,077
Short-term and other investments	**2,669**	2,731	2,942
Total	**$ 20,226**	$ 18,795	$ 17,935

Management Fees

Management fees declined 3% in the third quarter of 2010 compared to the third quarter of 2009 and increased 11% for the first nine months of 2010 compared to the first nine months of 2009. The quarterly decrease resulted primarily from changes in business mix, discussed below, partly offset by increases in average month-end equity market valuations. The increase in the nine-month comparison was due to the effect of net new business on current-period revenue and increases in equity market valuations. Average month-end equity market valuations, individually presented in the preceding INDEX tables, were up an average of 6% for the third quarter of 2010 compared to the third quarter of 2009, and were up an average of 23% in the nine-month comparison. The relative percentage of our assets under management at September 30, 2010 related to passive equity and fixed-income strategies, which generally earn management fees at lower rates compared with active strategies, increased compared to September 30, 2009 and December 31, 2009. For the third quarter and first nine months of 2010, management fees generated from customers outside the U.S. were approximately 31% and 32%, respectively, of total management fees compared to approximately 35% and 33% for the third quarter and first nine months of 2009, respectively.

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

ASSETS UNDER MANAGEMENT

(In billions)	September 30, 2010	December 31, 2009	September 30, 2009
Equities:			
Passive	**$ 860**	$ 787	$ 730
Active and other	**74**	88	93
Company stock/ESOP	**50**	49	48
Total equities	**984**	924	871
Fixed-income:			
Passive	**445**	445	324
Active	**24**	25	24
Cash and money market	**451**	517	516
Total fixed-income and cash/money market	**920**	987	864
Total	**$ 1,904**	$ 1,911	$ 1,735

The following table presents activity in assets under management for the twelve months ended September 30, 2010:

ASSETS UNDER MANAGEMENT

(In billions)	
September 30, 2009	$ 1,735
Net new business	142
Market appreciation	34
December 31, 2009	$ 1,911
Net new business	**(63)**
Market appreciation	**56**
September 30, 2010	**$ 1,904**

Trading Services

Trading services revenue, which includes foreign exchange trading services revenue and brokerage and other trading fees, was down 15% in the third quarter of 2010 compared to the third quarter of 2009 and down 3% in the nine-month comparison. Foreign exchange trading services revenue for the third quarter and the first nine months of 2010 totaled $107 million and $426 million, respectively, down 30% and 20% from $152 million and $533 million, respectively, compared to the corresponding prior-year periods. The quarterly decrease was primarily the result of reduced spreads, a 6% decrease in aggregate customer volumes, substantially foreign exchange trading and sales, and a slight decrease in currency volatility. The nine-month decrease was primarily the result of the effect of reduced spreads and a 24% decline in currency volatility

partly offset by a 10% increase in customer volumes, with volumes up in both custody foreign exchange services and foreign exchange trading and sales.

Brokerage and other trading fees totaled $121 million for the third quarter of 2010, up 3% from $117 million for the third quarter of 2009, and for the first nine months of 2010 totaled $370 million, up 27% from

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

$291 million for the first nine months of 2009. The increases in both comparisons were primarily the result of higher electronic trading volumes and increased levels of transition management revenue, particularly non-U.S. transitions.

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. Additional information with respect to the SSgA lending funds is also provided under Line of Business Information Investment Management in this Management s Discussion and Analysis.

Securities finance revenue for the third quarter of 2010 decreased 35% compared to the third quarter of 2009, primarily the result of lower spreads across all lending programs as well as a 4% decline in the average volume of securities on loan, from $399 billion for the third quarter of 2009 to $382 billion for the third quarter of 2010. For the first nine months of 2010, securities finance revenue declined 49% compared to the first nine months of 2009, principally the result of lower spreads, as average lending volume ($405 billion for both periods) was flat compared to the first nine months of 2009.

Market influences are expected to continue to affect our revenue from, and the profitability of, our securities lending activities for the remainder of 2010. While the average volume of securities on loan has generally stabilized over the past six quarters, spreads have declined significantly compared to those earned in late 2007 and throughout 2008 (which were extraordinarily high), reflecting prevailing interest rates and the effects of government actions taken to stimulate the economy.

In August 2010, SSgA removed the redemption restrictions from the SSgA lending funds, and we anticipate providing participants in the collateral pools underlying certain agency lending funds with greater control over their use of liquidity within such pools by the end of 2010 or in early 2011. These actions are expected to provide an opportunity for increased securities lending volumes, although their effect will be influenced by overall market and customer-specific factors and could, particularly in the short-term, result in decreased lending volumes. As long as securities lending spreads remain below the more normal levels generally experienced prior to late 2007, customer 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 over the past two years.

During the disruption in the global financial markets that began in mid-2007, we have been able to manage the outflows from the cash collateral pools supporting the agency lending funds, as well as the effect of the disruptions in the credit markets, in a manner that substantially reduced the risk of loss to our clients. We imposed in 2008 and 2009, and continued to impose during the first nine months of 2010, restrictions on participant redemptions from the agency lending collateral pools in order to manage the liquidity in those pools. The net asset value of the agency lending collateral pools, determined using pricing information from independent third parties, fell, and has remained, below $1.00 per unit since 2007. As of September 30, 2010, the net asset value per unit, based on the market value of the agency lending collateral pools, ranged from $0.96 to $1.00, with the weighted-average net asset value per unit as of that date equal to $0.993, compared to a weighted-average net asset value per unit of $0.986 as of December 31, 2009.

At September 30, 2010, the aggregate net asset value of the agency lending collateral pools, assuming a constant net asset value of $1.00 per unit, would have been approximately $63 billion, which exceeded the aggregate market value of those collateral pools as of the same date by approximately $423 million. However, we

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

continue to transact purchases into and redemptions out of these pools at $1.00 per unit. We continue this practice for a number of reasons, including the fact that none of the securities in the cash collateral pools is currently in default or considered to be materially impaired, and the fact that there are restrictions on withdrawals from the agency lending collateral pools, which, absent a substantial reduction in the lending program, should permit the securities in the collateral pools to be held until they recover to their par value.

As of September 30, 2010, approximately 48% of the aggregate assets in the agency lending collateral pools had expected maturities of greater than 90 days. During the third quarter of 2010, as referenced earlier in this section, we announced plans to increase our agency lending clients ability to manage their access to liquidity in the agency lending collateral pools. We intend to separate certain agency lending collateral pools into two separate funds, one with complete liquidity and the other which will hold only longer-dated securities and which will only transact in-kind redemptions. We currently anticipate that such split will occur by the end of 2010 or in early 2011. This approach is intended to provide participants in these agency lending collateral pools with greater ability to manage their level of participation in the lending program and their access to liquidity.

As previously disclosed, in 2009, we determined that withdrawals by two related participants in one of the agency lending collateral pools were inconsistent with our redemption restrictions. In response, we redeemed in-kind the remaining units of such participants, effectively distributing, together with prior cash withdrawals, the same amount of cash and longer-dated securities that the participants would have received under the redemption restrictions. We remain in litigation with these participants; see note 7 to the consolidated financial statements included in this Form 10-Q. We also undertook a review of our implementation of the redemption restrictions with respect to other participants in the agency lending collateral pools. This review identified potential inconsistencies in connection with our implementation of the redemption policy. As a result of this review, and based on our assessment of the amount required to compensate clients for the dilutive effect of redemptions which may not have been consistent with the intent of the policy, we recorded a pre-tax charge of $75 million in our second-quarter 2010 consolidated statement of income to establish a reserve to address these potential inconsistencies.

Processing Fees and Other

Processing fees and other revenue was $71 million and $278 million for the third quarter and first nine months of 2010, respectively, compared to $45 million and $111 million, respectively, for the same periods in 2009. The increase in the quarterly comparison was due primarily to higher net revenue from structured products, including fees from our tax-exempt investment program, and an increase in income from joint ventures. In the nine-month comparison, the increase primarily resulted from higher net revenue from structured products, including fees from our tax-exempt investment program, net revenue related to certain tax-advantaged investments and an increase in income from joint ventures.

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

NET INTEREST REVENUE

	For the Quarters Ended September 30,					
	2010			2009		
(Dollars in millions; fully taxable-equivalent basis)	Average Balance	Interest Revenue/ Expense	Rate	Average Balance	Interest Revenue/ Expense	Rate
Interest-bearing deposits with banks	**$ 13,024**	**$ 22**	**.68%**	$ 20,139	$ 29	.56%
Securities purchased under resale agreements	**3,211**	**7**	**.85**	4,424	6	.55
Federal funds sold				16		
Trading account assets	**427**			157		
Investment securities	**98,169**	**837**	**3.39**	84,811	827	3.87
Investment securities purchased under AMLF[(1)]				18		.55
Loans and leases	**12,083**	**70**	**2.29**	10,131	66	2.60
Other interest-earning assets	**711**	**1**	**.28**	1,140	1	.15
Total interest-earning assets	**$ 127,625**	**$ 937**	**2.91**	$ 120,836	$ 929	3.05
Interest-bearing deposits:						
U.S	**$ 9,841**	**$ 14**	**.56%**	$ 6,085	$ 8	.47%
Non-U.S	**70,512**	**48**	**.27**	63,411	28	.18
Securities sold under repurchase agreements	**8,000**	**1**	**.08**	11,972	1	.02
Federal funds purchased	**2,121**	**1**	**.08**	1,368		.07
Short-term borrowings under AMLF[(1)]				18		.48
Other short-term borrowings	**12,892**	**42**	**1.29**	15,699	54	1.39
Long-term debt	**8,566**	**72**	**3.33**	8,949	82	3.67
Other interest-bearing liabilities	**1,013**	**2**	**.89**	961	2	.73
Total interest-bearing liabilities	**$ 112,945**	**$ 180**	**.63**	$ 108,463	$ 175	.64
Interest-rate spread			**2.28%**			2.41%
Net interest revenue fully taxable-equivalent basis[(2)]		**$ 757**			$ 754	
Net interest margin fully taxable-equivalent basis			**2.36%**			2.47%
Net interest revenue GAAP basis		**$ 724**			$ 723	

(1) Amounts represent averages of asset-backed commercial paper purchases under the Federal Reserve s AMLF, and associated borrowings. The AMLF expired in February 2010.

(2) Amounts include tax-equivalent adjustments of $33 million for 2010 and $31 million for 2009.

15

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

	For the Nine Months Ended September 30,					
	2010			2009		
(Dollars in millions; fully taxable-equivalent basis)	Average Balance	Interest Revenue/ Expense	Rate	Average Balance	Interest Revenue/ Expense	Rate
Interest-bearing deposits with banks	**$ 12,500**	**$ 63**	**.67%**	$ 27,404	$ 133	.65%
Securities purchased under resale agreements	**2,826**	**17**	**.81**	4,170	20	.64
Federal funds sold	**1**		**.30**	89		.30
Trading account assets	**249**			2,509	19	1.02
Investment securities	**96,111**	**2,386**	**3.32**	76,862	2,134	3.71
Investment securities purchased under AMLF[1]				1,180	25	2.86
Loans and leases	**11,710**	**256**	**2.92**	9,310	170	2.45
Other interest-earning assets	**959**	**2**	**.32**	1,396	2	.19
Total interest-earning assets	**$ 124,356**	**$ 2,724**	**2.93**	$ 122,920	$ 2,503	2.72
Interest-bearing deposits:						
U.S	**$ 8,707**	**$ 27**	**.41%**	$ 8,218	$ 54	.88%
Non-U.S	**65,832**	**114**	**.23**	61,070	101	.22
Securities sold under repurchase agreements	**8,292**	**4**	**.07**	11,760	3	.03
Federal funds purchased	**1,861**	**1**	**.06**	946		.05
Short-term borrowings under AMLF[1]				1,173	18	2.02
Other short-term borrowings	**14,875**	**220**	**1.98**	15,208	137	1.21
Long-term debt	**8,719**	**215**	**3.28**	7,602	225	3.95
Other interest-bearing liabilities	**820**	**4**	**.71**	1,163	4	.41
Total interest-bearing liabilities	**$ 109,106**	**$ 585**	**.72**	$ 107,140	$ 542	.67
Interest-rate spread			**2.21%**			2.05%
Net interest revenue fully taxable-equivalent basis[2]		**$ 2,139**			$ 1,961	
Net interest margin fully taxable-equivalent basis			**2.30%**			2.13%
Net interest revenue GAAP basis		**$ 2,043**			$ 1,867	

(1) Amounts represent averages of asset-backed commercial paper purchases under the Federal Reserve s AMLF, and associated borrowings. The AMLF expired in February 2010.

(2) Amounts include tax-equivalent adjustments of $96 million for 2010 and $94 million for 2009.

Net interest revenue is defined as the total of interest revenue earned on interest-earning assets less interest expense incurred on interest-bearing liabilities. Interest-earning assets, which principally consist of investment securities, interest-bearing deposits with banks, repurchase agreements, loans and leases and other liquid assets, are financed primarily by customer deposits and short-term borrowings. Net interest margin represents the relationship between annualized fully taxable-equivalent net interest revenue and average total interest-earning assets for the period. Changes in the components of average 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 12 to the consolidated financial statements included in this Form 10-Q.

For the third quarter of 2010, on both a GAAP and fully taxable-equivalent basis, net interest revenue was essentially flat compared to the third quarter of 2009 (with fully taxable-equivalent net interest revenue of

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

$757 million compared to $754 million, reflecting increases from tax-equivalent adjustments of $33 million and $31 million, respectively). For the nine months ended September 30, 2010, net interest revenue increased 9% on both a GAAP and fully taxable-equivalent basis compared to the corresponding 2009 period (with fully taxable-equivalent net interest revenue of $2.14 billion compared to $1.96 billion, reflecting increases from tax-equivalent adjustments of $96 million and $94 million, respectively). If the discount accretion related to former conduit securities, more fully described below, is excluded, fully taxable-equivalent net interest revenue for the third quarter of 2010 compared to the third quarter of 2009 increased to $568 million ($757 million less accretion of $189 million) from $475 million ($754 million less $279 million), an increase of 20%. The increase was primarily the result of the impact of a higher portfolio allocation to fixed-rate investment securities, U.S. and non-U.S. investment portfolio growth, and the impact of the Intesa deposits added in May 2010 in connection with that acquisition, partly offset by lower spreads on both floating-rate investment securities and non-U.S. transaction deposits.

The increases in the nine-month comparison referenced above were the result of a higher level of discount accretion in 2010; if the accretion ($573 million for the nine months ended September 30, 2010 and $391 million from the date of the conduit consolidation through September 30, 2009) is excluded, net interest revenue for the first nine months of 2010 was flat compared to the first nine months of 2009.

In May 2009, we elected to take action that required the consolidation onto our balance sheet, for financial reporting purposes, of the assets and liabilities of the asset-backed commercial paper conduits that we sponsored and administered. Upon consolidation, the aggregate fair value of the conduits investment securities of approximately $16.6 billion was established as their carrying amount, resulting in a $6.1 billion discount to the assets aggregate par value of approximately $22.7 billion. To the extent that the expected future cash flows from the securities exceed their carrying amount, the portion of the discount not related to credit will accrete into interest revenue over the securities remaining terms.

The timing and ultimate recognition of this accretion depends 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 accretion can also be influenced by our ongoing management of the risk and other characteristics associated with our investment portfolio, including any resulting sales of securities from which we would otherwise generate accretion. Subsequent to the May 2009 consolidation, we have recorded aggregate discount accretion in interest revenue of $1.19 billion, composed of $621 million in 2009 and $573 million in the first nine months of 2010, the latter composed of $212 million, $172 million and $189 million in the first, second and third quarters of 2010, respectively. Depending on the factors discussed above, among others, we anticipate that, until the securities mature or are sold, discount accretion will be a material component of our net interest revenue, and may increase the volatility of our net interest revenue and margin.

Interest-bearing deposits with banks, including cash balances held at the Federal Reserve to satisfy reserve requirements, averaged $13.02 billion for the third quarter of 2010, a decrease of 35% compared to $20.14 billion for the third quarter of 2009, and for the first nine months of 2010 averaged $12.50 billion, a decrease of 54% compared to $27.40 billion for the same period in 2009. An average of $3.23 billion was held at the Federal Reserve Bank during the third quarter of 2010, a decrease of 56% compared to $7.38 billion for the same period in 2009. Balances for both periods exceeded minimum reserve requirements. The overall decreases in all comparisons reflected excess liquidity held by us during 2009 due to the then-ongoing financial markets instability, that was re-allocated to higher-yielding investment securities.

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

Average securities purchased under resale agreements decreased 27%, from $4.42 billion for the third quarter of 2009 to $3.21 billion in the third quarter of 2010, and decreased 32% from $4.17 billion to $2.83 billion in the nine-month comparison, mainly due to lower customer demand.

Average trading account assets decreased 90% from $2.51 billion for the first nine months of 2009 to $249 million for the first nine months of 2010. The decrease was due to the absence of conduit asset-backed commercial paper purchased by us, which was eliminated for financial reporting purposes when the conduits were consolidated onto our balance sheet in May 2009 as previously described.

Our average investment securities portfolio increased 16% from $84.81 billion for the third quarter of 2009 to $98.17 billion for the third quarter of 2010, and increased 25% in the nine-month comparison. The increases in both comparisons were due to significant improvement in the unrealized losses on our available-for-sale securities and the partial re-allocation of excess cash balances previously held at the Federal Reserve into higher-yielding investment securities as the financial markets stabilized. The year-to-date period also reflected the effect of the May 2009 conduit consolidation. During the first nine months of 2010, we continued to execute our strategy of investing primarily in AAA and AA rated securities. Securities rated AAA and AA comprised approximately 82% of our investment securities portfolio (approximately 71% AAA rated) at September 30, 2010, compared to 80% AAA and AA rated (approximately 69% AAA rated) at September 30, 2009.

Loans and leases averaged $12.08 billion for the third quarter of 2010, up 19% from $10.13 billion for the third quarter of 2009 and $11.71 billion for the nine months ended September 30, 2010, up 26% from $9.31 billion for the first nine months of 2009. The increase in the quarterly comparison was primarily related to increased customer demand for short-term liquidity. The increase in the nine-month comparison primarily reflected the structured asset-backed loans added in connection with the May 2009 conduit consolidation. For the third quarter of 2010, approximately 29% of the average loan and lease portfolio, compared to 24% for the same period in 2009, was composed of U.S. and non-U.S. short-duration advances that provide liquidity to customers in support of their transaction flows. U.S. short-duration advances averaged approximately $2.02 billion for the third quarter of 2010, up 10% compared to $1.84 billion for the third quarter of 2009, and $1.85 billion for the nine months ended September 30, 2010, down 20% from the first nine months of 2009. Non-U.S. short-duration advances increased 140% to $1.45 billion in the quarterly comparison, and 46% to $1.14 billion in the nine-month comparison, mainly due to activity associated with customers added in connection with the Intesa acquisition.

The lower average level of liquidity provided to U.S. customers during the first nine months of 2010 compared to the first nine months of 2009 was primarily the result of a decrease in customer demand and not a reduction in credit availability from, or committed lines provided by, State Street. As transaction flows returned to levels more consistent with those experienced prior to late 2007, domestic customer demand for short-term liquidity declined.

Average interest-bearing deposits increased 16% from $69.50 billion for the third quarter of 2009 to $80.35 billion for the third quarter of 2010. For the nine-month period, average interest-bearing deposits increased 8% to $74.54 billion from $69.29 billion in the 2009 period. For both periods, the increases reflected the deposits added in connection with the Intesa acquisition, partly offset by the return of customer deposits to levels more consistent with those experienced prior to late 2007.

Average other short-term borrowings decreased 18% to $12.89 billion for the third quarter of 2010 from the same period in 2009 and decreased 2% to $14.88 billion for the first nine months of 2010 compared to the

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

corresponding period in 2009. In both comparisons, the decrease reflected the absence of borrowings under the Federal Reserve s term auction facility, which is further discussed under Liquidity in this Management s Discussion and Analysis.

Average long-term debt decreased 4% to $8.57 billion for the third quarter of 2010 compared to $8.95 billion for the third quarter of 2009 and increased 15% to $8.72 billion compared to $7.60 billion in the nine-month comparison. The decrease in the quarterly comparison resulted from a maturity of subordinated debt in the second quarter of 2010. The increase in the nine-month comparison resulted from the issuance of an aggregate of approximately $4 billion of unsecured senior notes by State Street and State Street Bank in March 2009 under the FDIC s Temporary Liquidity Guarantee Program, as well as the May 2009 issuance of unsecured senior notes, partly offset by the subordinated debt maturity.

Several factors could affect future levels of our net interest revenue and margin, including the mix of customer liabilities, actions of the various central banks, changes in U.S. and non-U.S. interest rates, the shapes of the various yield curves around the world and the amount of discount accretion generated by the former conduit securities in our investment portfolio (discussed earlier in this section). In the second half of 2009, based on market conditions, we re-initiated our strategy of re-investing proceeds from amortizing and maturing securities into highly rated investment securities, such as U.S. Treasuries and federal agency mortgage-backed securities and asset-backed securities. The pace at which we continue to re-invest and the types of securities purchased will depend on market conditions over time. These factors and the level of interest rates worldwide are expected to dictate what effect the re-investment program will have on future levels of our net interest revenue and net interest margin.

Gains (Losses) Related to Investment Securities, Net

In connection with our ongoing management of the investment portfolio, we may, from time to time, sell available-for-sale securities, including former conduit securities, to manage risk, to reduce our risk profile, to take advantage of favorable market conditions, or for other reasons. We recorded net realized gains of $91 million from sales of approximately $4 billion of available-for-sale securities in the third quarter of 2010, and net realized gains of $286 million from sales of approximately $18 billion of available-for-sale securities during the first nine months of 2010, compared to net realized gains of $141 million and $260 million, respectively, during the 2009 periods. Of the $91 million of net gains realized during the third quarter of 2010, none related to sales of former conduit securities, and of the $286 million of gains realized during the first nine months of 2010, $110 million related to sales of former conduit securities. For the third quarter and the period from the the conduit consolidation through September 30, 2009, gross realized gains related to sales of former conduit securities were $78 million for both periods, and gross realized losses related to sales of former conduit securities were $24 million for both periods.

The aggregate unrealized losses on securities for which other-than-temporary impairment was recorded in the third quarter and first nine months of 2010 were $132 million and $612 million, respectively. Of these totals, $58 million and $388 million, respectively, related to factors other than credit, and were recorded, net of related taxes, as a component of other comprehensive income in our consolidated statement of condition. For the third quarter of 2010, we recorded the remaining $74 million (with $3 million related to former conduit securities) in our consolidated statement of income, compared to $99 million (with $18 million related to former conduit securities) for the third quarter of 2009. For the first nine months of 2010, we recorded the remaining $224 million (with $29 million related to former conduit securities) in our consolidated statement of income, compared to $176 million (with $18 million related to former conduit securities) for the first nine months of 2009.

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

For the third quarter and first nine months of 2010, the substantial majority of the impairment losses related to non-agency mortgage-backed securities, which management concluded had experienced credit losses resulting from deterioration in financial performance of those securities during the period. The securities are reported as asset-backed securities in note 3 to the consolidated financial statements included in this Form 10-Q.

(In millions)	Quarters Ended September 30, 2010	Quarters Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Net realized gains from sales of available-for-sale securities	**$ 91**	$ 141	**$ 286**	$ 260
Gross losses from other-than-temporary impairment	**(132)**	(828)	**(612)**	(1,008)
Losses not related to credit[1]	**58**	729	**388**	832
Net impairment losses	**(74)**	(99)	**(224)**	(176)
Gains related to investment securities, net	**$ 17**	$ 42	**$ 62**	$ 84
Impairment associated with expected credit losses	**$ (71)**	$ (63)	**$ (201)**	$ (110)
Impairment associated with management s intent to sell the impaired securities prior to their recovery in value	**(1)**	(23)	**(1)**	(53)
Impairment associated with adverse changes in timing of expected future cash flows	**(2)**	(13)	**(22)**	(13)
Net impairment losses	**$ (74)**	$ (99)	**$ (224)**	$ (176)

(1) Pursuant to new accounting standards adopted on April 1, 2009, these losses were not recorded in our consolidated statement of income, but were recognized as a component of other comprehensive income, net of related taxes, in our consolidated balance sheet; refer to the following discussion and to note 9 to the consolidated financial statements included in this Form 10-Q.

Management regularly reviews the investment securities portfolio to identify other-than-temporary impairment of individual securities. Impairment related to expected losses represents the difference between the discounted values of the expected future cash flows from the securities compared to their current amortized cost basis, with each discount rate commensurate with the effective yield on the underlying security. For debt securities held to maturity, other-than-temporary impairment remaining after credit-related impairment (which credit-related impairment is recorded in our consolidated statement of income) is recognized, net of related taxes, as a component of other comprehensive income in the shareholders equity section of our consolidated balance sheet, and is accreted prospectively over the remaining terms of the securities based on the timing of their estimated future cash flows. For other-than-temporary impairment of debt securities that results from management s decision to sell the security prior to its recovery in value, the entire difference between the security s fair value and its amortized cost basis is recorded in our consolidated statement of income.

The accounting for other-than-temporary impairment was adopted by us, pursuant to new accounting standards, on April 1, 2009. Prior to that date, we recognized losses from other-than-temporary impairment of debt and equity securities for either a change in management s intent to hold the securities or expected credit losses, and such impairment losses, which reflected the entire difference between the fair value and amortized cost basis of each individual security, were recorded in our consolidated statement of income.

Additional information about investment securities, the gross realized gains and losses that compose the net realized sale gains and our process to identify other-than-temporary impairment, is provided in note 3 to the consolidated financial statements included in this Form 10-Q.

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

PROVISION FOR LOAN LOSSES

We recorded provisions for loan losses of $1 million during the third quarter of 2010 and $26 million during the first nine months of 2010, compared to $16 million during the third quarter of 2009 and $114 million during the first nine months of 2009. The majority of the provision recorded in 2010 resulted from a revaluation of the collateral supporting certain of the commercial real estate loans acquired in 2008 in connection with indemnified repurchase agreements with an affiliate of Lehman.

The commercial real estate loans are reviewed on a quarterly basis, and any provisions for loan losses that are recorded reflect management s current expectations with respect to future cash flows from these loans, based on an assessment of economic conditions in the commercial real estate market and other factors. Future changes in expectations with respect to these loans could result in additional provisions for loan losses.

EXPENSES

	Quarters Ended September 30,			Nine Months Ended September 30,		
(Dollars in millions)	**2010**	**2009**	**% Change**	**2010**	**2009**	**% Change**
Salaries and employee benefits	**$ 857**	$ 819	5%	**$ 2,589**	$ 2,246	15%
Information systems and communications	**181**	165	10	**522**	493	6
Transaction processing services	**165**	148	11	**482**	425	13
Occupancy	**112**	118	(5)	**346**	360	(4)
Securities lending charge				**414**		
Provision for legal exposure		250			250	
Merger and integration costs	**23**	11	109	**77**	40	93
Other:						
Professional services	**58**	76	(24)	**224**	184	22
Amortization of other intangible assets	**52**	36	44	**132**	104	27
Regulator fees and assessments	**9**	9		**35**	61	(43)
Securities processing	**24**	16	50	**68**	35	94
Other	**46**	85	(46)	**161**	203	(21)
Total other	**189**	222	(15)	**620**	587	6
Total expenses	**$ 1,527**	$ 1,733	(12)	**$ 5,050**	$ 4,401	15
Number of employees at quarter end	**28,940**	27,130				

Salaries and employee benefits expenses increased in the third-quarter and nine-month comparisons, primarily in connection with the addition of employees and associated expenses of the acquired Intesa and Mourant businesses, the impact of higher staffing levels in other units and, with respect to the nine-month comparison, the effect of our reinstatement of cash incentive compensation accruals. In addition, the nine-month comparison was affected by higher benefits requirements in payroll taxes, medical insurance and pensions. During the first nine months of 2009, salaries and employee benefits expenses were abnormally low, as we did not accrue cash incentive compensation for the first six months of 2009 as part of our plan to increase our tangible common equity.

Information systems and communications expenses for the third quarter and first nine months of 2010 reflected higher levels of spending on telecommunications hardware and software for our global infrastructure, as

21

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

well as the addition of expenses from the acquired Intesa and Mourant businesses. The increase in transaction processing services expense resulted from higher external contract services costs, as well as higher levels of sub-custody expenses.

As previously reported, on June 30, 2010, we recorded an aggregate pre-tax charge of $414 million, which included $9 million of associated legal costs. In connection with the charge, we made a one-time cash contribution of $330 million to the cash collateral pools underlying the SSgA lending funds. The cash contribution reflected the cost to us to restore the net asset value per unit of such collateral pools to $1.00 as of June 30, 2010. As a result of this contribution, SSgA removed the redemption restrictions from these SSgA lending funds in August 2010. We also established a $75 million reserve to address potential inconsistencies in connection with our implementation of redemption restrictions applicable to the collateral pools underlying our agency lending program.

Our decision with respect to the one-time cash contribution was based on many factors, including our assessment with respect to previously disclosed asserted and unasserted claims and our evaluation of the ultimate resolution of such claims, as well as the effect of the redemption restrictions originally imposed by SSgA on the lending funds. The contribution was not the result of any obligation by State Street to support the SSgA lending funds or the underlying collateral pools. State Street has no obligation to provide cash or other support to the SSgA lending funds or the collateral pools underlying the SSgA lending funds at any future date, and has no intention to provide any such support associated with realized or unrealized losses in the collateral pools that may arise in the future.

The $75 million reserve was based on the results of a review of our implementation of the redemption restrictions with respect to participants in the agency lending collateral pools, and our assessment of the amount required to compensate clients for the dilutive effect of redemptions which may not have been consistent with the intent of the policy.

Other expenses declined in the quarterly comparison, primarily due to a $50 million insurance recovery related to legal proceedings, partly offset by higher securities processing costs and a higher level of other intangible assets amortization associated with the Intesa and Mourant acquisitions. Other expenses increased in the nine-month comparison, primarily due to higher legal costs, higher other intangible assets amortization related to the acquisitions and higher securities processing costs, partly offset by reduced FDIC assessments and the insurance recoveries.

Income Tax Expense

We recorded income tax expense of $236 million for the third quarter of 2010, compared to income tax expense of $160 million for the third quarter of 2009. For the first nine months of 2010, income tax expense was $361 million, compared to $540 million for the corresponding 2009 period. Our effective tax rates for the third quarter and first nine months of 2010 were 30.1% and 19.7%, respectively, compared to 32.8% and 29.3%, respectively, for the third quarter and first nine months of 2009. Our effective tax rate for the first nine months of 2010 included a discrete tax benefit of $180 million, recorded in the second quarter of 2010, generated by the restructuring of former non-U.S. conduit assets. Excluding the discrete tax benefit, the effective tax rate for the first nine months of 2010 was 29.5%.

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

LINE OF BUSINESS INFORMATION

We have two lines of business: Investment Servicing and Investment Management. Given our services and management organization, the results of operations for these lines of business are not necessarily comparable with those of other companies, including companies in the financial services industry. Information about revenues, expenses and capital allocation methodologies with respect to these lines of business is provided in note 23 to the consolidated financial statements included in our 2009 Form 10-K.

The following is a summary of our line of business results. The amounts presented in the Other column for 2010 represent merger and integration costs recorded in connection with acquisitions. The amounts presented in the Other column for 2009 represent merger and integration costs recorded in connection with our acquisition of Investors Financial, and, for the nine months ended September 30, 2009, also include net interest revenue earned in connection with our participation in the AMLF. The amounts presented in both Other columns were not allocated to State Street s business lines.

(Dollars in millions, except where otherwise noted)	For the Quarters Ended September 30, Investment Servicing		Investment Management		Other		Total	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
Fee revenue:								
Servicing fees	**$ 989**	$ 833					**$ 989**	$ 833
Management fees			**$ 213**	$ 219			**213**	219
Trading services	**228**	269					**228**	269
Securities finance	**62**	67	**6**	38			**68**	105
Processing fees and other	**39**	18	**32**	27			**71**	45
Total fee revenue	**1,318**	1,187	**251**	284			**1,569**	1,471
Net interest revenue	**707**	704	**17**	19			**724**	723
Gains related to investment securities, net	**17**	42					**17**	42
Total revenue	**2,042**	1,933	**268**	303			**2,310**	2,236
Provision for loan losses	**1**	16					**1**	16
Expenses from operations	**1,327**	1,268	**177**	204			**1,504**	1,472
Provision for legal exposure				250				250
Merger and integration costs					**$ 23**	$ 11	**23**	11
Total expenses	**1,327**	1,268	**177**	454	**23**	11	**1,527**	1,733
Income (Loss) from continuing operations before income taxes	**$ 714**	$ 649	**$ 91**	$ (151)	**$ (23)**	$ (11)	**$ 782**	$ 487
Pre-tax margin	**35%**	34%	**34%**	nm				
Average assets (in billions)	**$ 150.3**	$ 141.7	**$ 3.7**	$ 3.4			**$ 154.0**	$ 145.1

nm - not meaningful

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

(Dollars in millions, except where otherwise noted)	For the Nine Months Ended September 30, Investment Servicing		Investment Management		Other		Total	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
Fee revenue:								
Servicing fees	**$ 2,826**	$ 2,394					**$ 2,826**	$ 2,394
Management fees			**$ 656**	$ 593			**656**	593
Trading services	**796**	824					**796**	824
Securities finance	**204**	325	**45**	162			**249**	487
Processing fees and other	**192**	41	**86**	70			**278**	111
Total fee revenue	**4,018**	3,584	**787**	825			**4,805**	4,409
Net interest revenue	**1,995**	1,807	**48**	53		$ 7	**2,043**	1,867
Gains related to investment securities, net	**62**	84					**62**	84
Total revenue	**6,075**	5,475	**835**	878		7	**6,910**	6,360
Provision for loan losses	**26**	114					**26**	114
Expenses from operations	**3,937**	3,559	**622**	552			**4,559**	4,111
Securities lending charge	**75**		**339**				**414**	
Provision for legal exposure				250				250
Merger and integration costs					**$ 77**	40	**77**	40
Total expenses	**4,012**	3,559	**961**	802	**77**	40	**5,050**	4,401
Income (Loss) from continuing operations before income taxes	**$ 2,037**	$ 1,802	**$ (126)**	$ 76	**$ (77)**	$ (33)	**$ 1,834**	$ 1,845
Pre-tax margin	**34%**	33%	**nm**	9%				
Average assets (in billions)	**$ 145.5**	$ 143.6	**$ 3.9**	$ 3.3			**$ 149.4**	$ 146.9

nm - not meaningful

Investment Servicing

Total revenue for the third quarter of 2010 increased 6% compared to the third quarter of 2009, and 11% in the nine-month comparison. Total fee revenue in the same comparisons increased 11% and 12%, respectively, with the increases mainly attributable to growth in servicing fees and processing fees and other revenue. The growth in servicing fees in the quarterly comparison resulted from the addition of servicing fee revenue from the acquired Intesa and Mourant businesses, the impact of new business won and installed in the current and prior periods on current-period revenue, and increases in daily average equity market valuations. In the nine-month comparison, the growth was associated with the impact of new business won and installed, increases in equity valuations and the addition of revenue from the acquired Intesa and Mourant businesses.

Processing fees and other revenue for the third quarter and first nine months of 2010 increased compared to the 2009 periods, primarily as a result of higher net revenue from structured products and higher levels of income from joint ventures and, in the nine-month comparison, net revenue related to certain tax-advantaged investments.

The increases in servicing fees and processing fees and other revenue were partly offset by a decline in securities finance revenue in both the quarterly and nine-month comparisons, primarily due to lower spreads across all lending programs, as the comparative levels of average securities on loan were down slightly (in the quarterly comparison, $382 billion compared to $399 billion) or flat (in the nine-month comparison, $405 billion for both periods).

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

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

Net interest revenue for the third quarter of 2010 was essentially flat compared to the third quarter of 2009, and up 10% for the first nine months of 2010 compared to the corresponding 2009 period. In the quarterly comparison, higher levels of investment securities and the impact of the deposits added in connection with the Intesa acquisition were offset by a lower level of discount accretion generated by the former conduit assets. In the nine-month comparison, the increase was generally due to a higher level of discount accretion. The discount accretion is discussed more fully under Total Revenue Net Interest Revenue in this Management s Discussion and Analysis. A portion of consolidated net interest revenue is recorded in our Investment Management business line based on the volume of customer liabilities attributable to that business.

Total expenses from operations increased 5% for the third quarter and 11% for the first nine months of 2010 compared to the corresponding periods in 2009. In the quarterly comparison, expenses were added from the acquired Intesa and Mourant businesses. The increase in the nine-month comparison resulted primarily from the absence of cash incentive compensation accruals during the first six months of 2009, as we did not accrue cash incentive compensation as part of our plan to increase our tangible common equity, and the addition of expenses from the acquired Intesa and Mourant businesses.

Investment Management

Total revenue for the third quarter of 2010 decreased 12% compared to the third quarter of 2009, and decreased 5% for the first nine months of 2010 compared to the first nine months of 2009, generally as a result of changes in management fees and securities finance revenue. In the quarterly comparison, both management fees and securities finance revenue declined; in the nine-month comparison, an 11% increase in management fees was more than offset by a 72% decline in securities finance revenue.

Management fees, which are generated by SSgA, decreased 3% in the third quarter of 2010 compared to the third quarter of 2009, and increased 11% in the nine-month comparison. The decrease in the quarterly comparison was mainly due to changes in business mix, as customers moved from active management strategies to passive strategies, partly offset by increases in average month-end equity market valuations. The year-to-date increase generally resulted from the effect of net new business on current-period revenue and increases in equity market valuations.

The declines in securities finance revenue both from the third quarter of 2009 to the third quarter of 2010 and from the first nine months of 2009 to the first nine months of 2010 generally resulted from lower spreads across all lending programs.

Management fees for the Investment Management business line are identical to the respective consolidated results. Refer to the Fee Revenue Management Fees section under Total Revenue in this Management s Discussion and Analysis for a more-in depth discussion.

Total expenses from operations for the third quarter of 2010 decreased 13% compared to the third quarter of 2009, and increased 13% for the first nine months of 2010 compared to the first nine months of 2009. The

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

decrease in the quarterly comparison largely resulted from reduced information systems and communications costs and an insurance recovery related to legal proceedings. The increase in the nine-month comparison was primarily associated with higher salaries and employee benefits expenses related to higher staffing levels and higher expenses for securities processing.

As previously reported, on June 30, 2010, we made a one-time cash contribution of $330 million to the collateral pools underlying the SSgA lending funds, which restored the net asset value per unit of the pools to $1.00 as of that date. The cash contribution was equal to the aggregate excess of the amortized cost of the collateral pools assets over their fair value on the date of the payment. The cash contribution, combined with continuing improvement in market conditions during 2010, enabled us to remove the redemption restrictions from the pools during the third quarter of 2010. As of June 30, 2010, subsequent to the cash contribution, and as of September 30, 2010, the net asset value per unit of the collateral pools, based on the fair value of the underlying assets, was equal to $1.00. SSgA will not have an ongoing interest in the lending funds as a result of the cash contribution. Specifically, the increase in fund liquidity will benefit the third-party investors in the funds.

Our decision with respect to the cash contribution was based on many factors, including our assessment relative to previously disclosed asserted and unasserted claims and our evaluation of the ultimate resolution of such claims, as well as the effect of the redemption restrictions originally imposed by SSgA on the lending funds. The contribution was not the result of any obligation by State Street to support the SSgA lending funds or the underlying collateral pools. State Street has no obligation to provide cash or other support to the SSgA lending fund or the collateral pools underlying the SSgA lending funds at any future date, and has no intention to provide any such support associated with realized or unrealized losses in the collateral pools that may arise in the future.

FINANCIAL CONDITION

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

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

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

(In millions)	For the Nine Months Ended September 30, 2010 Average Balance	2009 Average Balance
Assets:		
Interest-bearing deposits with banks	**$ 12,500**	$ 27,404
Securities purchased under resale agreements	**2,826**	4,170
Federal funds sold	**1**	89
Trading account assets	**249**	2,509
Investment securities	**96,111**	76,862
Investment securities purchased under AMLF[(1)]		1,180
Loans and leases	**11,710**	9,310
Other interest-earning assets	**959**	1,396
Total interest-earning assets	**124,356**	122,920
Cash and due from banks	**2,518**	2,326
Other assets	**22,493**	21,683
Total assets	**$ 149,367**	$ 146,929
Liabilities and shareholders equity:		
Interest-bearing deposits:		
U.S.	**$ 8,707**	$ 8,218
Non-U.S.	**65,832**	61,070
Total interest-bearing deposits	**74,539**	69,288
Securities sold under repurchase agreements	**8,292**	11,760
Federal funds purchased	**1,861**	946
Short-term borrowings under AMLF[(1)]		1,173
Other short-term borrowings	**14,875**	15,208
Long-term debt	**8,719**	7,602
Other interest-bearing liabilities	**820**	1,163
Total interest-bearing liabilities	**109,106**	107,140
Non-interest-bearing deposits	**13,223**	16,421
Other liabilities	**11,161**	10,321
Shareholders equity	**15,877**	13,047
Total liabilities and shareholders equity	**$ 149,367**	$ 146,929

(1) Amounts represent averages of asset-backed commercial paper purchases and associated borrowings in connection with our participation in the AMLF. The AMLF expired in February 2010.

27

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS (Continued)

Investment Securities

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

(In millions)	September 30, 2010	December 31, 2009
Available for sale:		