

State Street

STATE STREET CORPORATION

12.31.2002



STATE STREET
For Everything You Invest InSM

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State Street is a world leader in financial services, serving the specialized needs of sophisticated global investors. Powered by our technological competence, deep understanding of global markets, and the ability to integrate services throughout the investment process, we provide innovative investment solutions that help our clients succeed in complex times.

State Street has world-leading capabilities in investment servicing, investment management, research and analytics, and trading services. We integrate these offerings to provide solutions that increase our clients' productivity and performance. Our clients think of us as a trusted partner because they have confidence in our ability to help them meet their investment goals today ... and in our commitment to helping them prepare for future challenges.

State Street ist ein weltweit führender Finanzdienstleister, der die speziellen Bedürfnisse anspruchsvoller internationaler Investoren bedient. Dank modernster Technologie, fundierter Kenntnis globaler Märkte und der Stärke, Dienstleistungen während des gesamten Investmentprozesses zu integrieren, können wir unseren Kunden auch in schwierigen Zeiten helfen, mit innovativen Investmentlösungen hervorragende Ergebnisse zu erzielen.

Als führender Anbieter von Dienstleistungen im Bereich Anlagebetreuung, Investment-Management, Research und Analyse, sowie Unterstützung im Wertpapierhandel, entwickelt State Street Lösungskonzepte, die unseren Kunden Produktivitäts- und Leistungssteigerung sichern. Unsere Kunden wählen uns zu ihrem Partner des Vertrauens, weil sie davon überzeugt sind, dass wir sie mit unserem Fachwissen und unserer Kompetenz bei ihren Bemühungen, heute ihre Investmentziele zu erreichen, unterstützen und sie auch in Zukunft mit bewährtem Engagement hierbei begleiten.

ステート・ストリートは、高度なサービスを求めるグローバル投資家の独特のニーズにお応えする、資産運用・管理サービス分野における世界屈指のリーダーです。最先端のテクノロジーとグローバル市場で培ったノウハウ、そして投資プロセスの全過程を網羅した総合的なサービスにより、複雑化する投資環境下においてもお客様を成功に導くソリューションを提供いたします。

世界最高水準のステート・ストリートのサービス機能は、資産管理、資産運用、インベストメント・リサーチとアナリティクス、トレーディング・サービスに大別されます。これらのサービスを統合したソリューションを提供することにより、お客様の生産性とパフォーマンスを改善いたします。私たちは、お客様が掲げる今日の投資目標の達成に貢献すると同時に、将来的な課題に備えるためのソリューションの開発に尽力することで、信頼できる真のパートナーという評価をいただいております。

State Street est un leader mondial en matière de services financiers, répondant aux besoins spécifiques des investisseurs internationaux les plus exigeants. Fort de notre compétence technologique, de notre compréhension approfondie des marchés mondiaux et de notre capacité à offrir des services intégrés, tout au long du processus d'investissement, nous proposons des solutions d'investissement innovantes qui contribuent à assurer le succès de nos clients dans les temps difficiles.

State Street offre des compétences de tout premier plan en matière de services d'administration de titres, de gestion de portefeuille, de recherche et d'analyse financière, et de transactions boursières. L'intégration de ces services nous permet de fournir à nos clients des solutions qui accroissent leur productivité et leur performance. Nos clients nous considèrent comme un partenaire fiable : ils ont confiance en notre capacité à les aider à atteindre leurs objectifs actuels et comptent sur notre engagement pour se préparer aux défis de l'avenir...

State Street es un líder mundial en servicios financieros que atiende las necesidades especiales de sofisticados inversionistas mundiales. El sólido respaldo de nuestra competencia tecnológica, combinada con un profundo conocimiento de los mercados mundiales y la habilidad de integrar servicios a lo largo del proceso de inversiones, nos permiten brindar soluciones de inversiones innovadoras que contribuyen al éxito de nuestros clientes en estos tiempos tan complejos.

State Street cuenta con recursos líderes en el mundo para la prestación de servicios de inversiones, administración, investigación y análisis de inversiones así como operaciones de comercialización. Todas estas soluciones se integran para brindar a nuestros clientes soluciones que incrementan la productividad y el rendimiento. Nuestros clientes nos consideran sus socios leales pues confían en nuestra habilidad para ayudarles a cumplir con sus objetivos de inversión hoy... y en nuestro compromiso para ayudarles a prepararse en los desafíos futuros.

美国道富 是环球金融服务界的领导者，致力于为全球不同的投资机构提供专业的金融服务。凭着领先的科技实力，和对全球金融市场的洞悉，我们将服务融会于整个投资过程，为客户提供具有创意的投资方案，从而帮助客户在复杂的市场风云中稳操胜券。

美国道富 在投资服务、投资管理、投资研究和交易服务等领域，一直居于业界的领先地位。我们将这些优势融会贯通，以完美的投资方案确保客户提高竞争力和投资回报。我们不仅协助客户实现其当前的投资目标 ... 还致力于协助客户迎接未来的挑战。因此，客户对我们的能力一贯充满信心，并将我们视为值得信赖的合作伙伴。

highlights

OF OUR 210TH YEAR

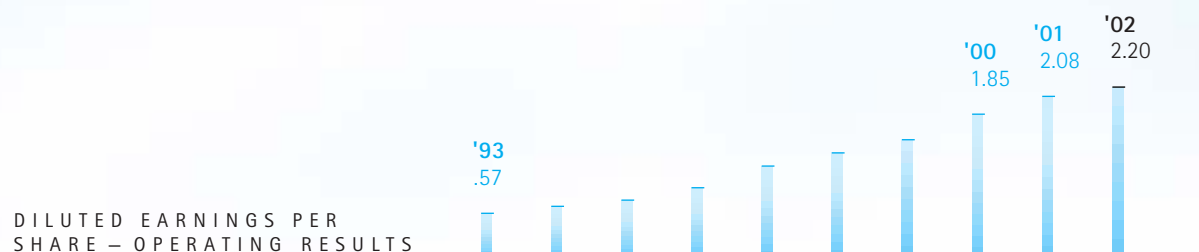
FINANCIAL RESULTS

(Dollars in millions, except per share data)	2002	2001	Change
Total Revenue	\$ 4,396	\$ 3,827	15%
Net Income	1,015	628	61
Earnings Per Share:			
Basic	3.14	1.94	62
Diluted	3.10	1.90	63
Cash Dividends Declared Per Share	.48	.405	19
Return on Equity	24.1%	17.3%	

We prepare the Consolidated Statement of Income in accordance with accounting principles generally accepted in the United States (GAAP). That presentation includes significant, non-recurring, non-operating special items and reports goodwill amortization expense in accordance with accounting practice applicable for those periods presented. In order to provide information on a comparable basis from period to period and assist stockholders, analysts, other external parties and management in analyzing the financial results and trends for ongoing businesses and operations, we also present supplemental financial results information on an "operating results" basis. Supplemental operating results are based on GAAP results adjusted for: the results of certain significant transactions not representative of ongoing operations; fully taxable equivalent adjustments that increase net interest revenue to reflect investment yield on tax-free investments on an equivalent basis with taxable investments and the exclusion of goodwill amortization expense from operating expenses in 2001 to be consistent with GAAP accounting required beginning in 2002.

SUPPLEMENTAL FINANCIAL OPERATING RESULTS

(Dollars in millions, except per share data; taxable equivalent)	2002	2001	Change
Total Revenue	\$ 3,962	\$ 3,944	
Net Income	719	687	5%
Diluted Earnings Per Share	2.20	2.08	6
Return on Equity	17.1%	18.9%	



focus

LETTER TO OUR STOCKHOLDERS

The year 2002 was an unusually challenging time for investors – with difficult conditions in nearly every investment category around the world. Global political tensions weakened economies and financial markets, and a regular stream of news about corporate governance scandals seriously undermined investor confidence. Equity values, as measured by the S&P 500, fell to their lowest level in at least five years. Cross-border investing slowed down significantly, despite a brief pick-up in the second quarter. And interest rates were significantly lower than in the previous year.

2002 FINANCIAL RESULTS

Against these strong headwinds, I'm happy to say that State Street was able to achieve positive financial results – exceeding our primary goal of sustainable real growth in earnings per share.

Operating earnings per share, driven by new business from existing and new clients, increased 6% in 2002. And we were successful in managing our operating costs, decreasing expenses by 1%.

We continue to differentiate ourselves by stating a goal for revenue growth. Our goal is to achieve 12.5% real compound annual growth from 2000 through 2010, although we do not expect to achieve that rate every year in the ten-year period.

Our supporting goal for return on stockholders' equity is to achieve 18% annually. In 2002, due to slower revenue growth, we delivered operating ROE of 17.1%.

Cash dividends declared in 2002 increased 19% from 2001.



2002 BUSINESS HIGHLIGHTS

State Street's strong financial results for the year are the outcome of two achievements: we increased our revenue by winning new business – with especially strong growth outside the United States – and we continued to keep tight control of our expenses.

On the expense side, we were aggressive in eliminating spending for things that didn't add enough value to our business proposition. We took a strategic approach to leveraging efficiencies in corporate purchasing and our day-to-day operations. We reduced staff in administrative and professional services areas. Overall, we reduced expenses 1% from 2001, after adjusting for goodwill.

In addition to keeping our focus with regard to profitability – while providing consistently excellent service to our clients – we took a number of steps aimed at positioning State Street for future growth.

The most noteworthy of these steps was our decision to purchase most of Deutsche Bank AG's global securities services business. This business, which will be substantially integrated by 2004, brings enormous benefits to State Street. It cements our standing as the global leader in investment servicing – positioning us at the center of Europe's high-growth investment services market and giving us new clients, employees and offices in the Asia-Pacific region. It brings us expanded Depotbank capabilities in Europe and the WM Company's performance measurement tools. And – not inconsequentially in this environment – it provides us with substantial economies of scale and scope.



Although our agreement with Deutsche Bank was the biggest news event for us in 2002, it was only one of many investments we made in State Street's future. Another important investment was the acquisition of International Fund Services (IFS), a leading global provider of services for alternative investment portfolios such as hedge funds. This acquisition broadened State Street's capabilities in serving the expanding requirements of sophisticated global investors.

We also began to develop services specifically geared to the needs of asset managers who serve private clients and managed accounts. These investment management firms are operating in a highly competitive marketplace – and therefore are looking for ways to differentiate themselves with new products and services. By outsourcing administrative functions to State Street, these asset managers are freed up to focus on their core competencies, confident that the services State Street provides to them will be both innovative and reliable.

Our ongoing process of fine-tuning our focus also involves making selective changes to our business mix. We completed the sale of our corporate trust business in 2002.

OUTLOOK FOR 2003

I think it's safe to predict that 2003 will be another tough year for our clients and for State Street. We are well positioned not only to weather this current storm but also to emerge from it even stronger. That's because we have built our business around the idea of "focus". We focus on serving the needs of a single group of clients: sophisticated global investors. Within this market segment, we focus on ensuring that we're the best provider and that we're flexible enough to take maximum advantage of developments that present our clients – and State Street – with opportunities for growth.

One long-term trend that continues to offer enormous potential for us is a mounting sense of urgency about retirement security, driven by increasing life expectancy in most parts of the world. As governments and employers develop new ways to help workers invest for their retirements, they are creating new, large pools of assets that must be managed and serviced. State Street is a world leader in managing and servicing retirement funds.

We are also in an excellent position to benefit from changing patterns in the way people save and invest. In this difficult environment, investors have become more risk averse – a trend that plays to the strengths of our investment management arm, State Street Global Advisors. We offer a broad range of risk-controlled investment management options, including enhanced indexing, which offers higher returns than passive investment schemes with only slightly more risk.



A third trend that benefits State Street is convergence in the financial services industry. The large, global companies that are emerging from mergers and acquisitions are looking for a trusted partner who can offer what they need, in any part of the world. Their needs coincide perfectly with our strengths: our rich experience in developing and implementing comprehensive solutions for our clients across the globe ... and our ability, using technology, to provide services that are truly scalable.

I believe that we will continue to win a disproportionate share of new business in 2003 – primarily because we're very clear about our corporate purpose: to make our clients successful. If our clients succeed, we will succeed too. Nothing is more important to us than continuing to earn the trust of our clients each and every day.

STRATEGIC PRIORITIES

Our attention is firmly fixed on a goal we established a long time ago: sustainable growth. "Sustainability" is a key idea here – and, for a company that is more than 210 years old, it has real meaning. We understand that true success comes not from a single stroke of brilliance but from the accumulated results of many sound, strategic decisions that are executed extremely well by talented professionals. Within this philosophical framework, we have five strategic priorities.

One of these priorities is to continue to provide our clients with the best investment solutions, and the best service, it is possible to give. We're limited in this endeavor only by the current boundaries of technology – and we're extending those limits every day.

A second priority is to continue to grow as a global company. The acquisition of Deutsche Bank's global securities services business dramatically expands our global presence. But this acquisition only accelerates growth that has been under way for more than a decade. Global growth opportunities for us include the development of new products, as well as physical expansion into new countries and markets. In the United Kingdom and Europe, we will focus on continuing to broaden the range of integrated solutions we offer our clients. In Asia, we will continue to specialize in serving the needs of governments and government agencies – something State Street does better than anyone else.

A third priority is to continue to improve our profit margins – an especially important objective in this challenging environment. We're concentrating on both sides of the equation: increasing our revenue and controlling our expenses. Our growing client base gives us advantages in this area, both in terms of opportunities to sell more services and in opportunities to leverage economies of scale.

A fourth priority is to foster continued innovation in serving the emerging needs of global investors by adapting traditional business models to changing conditions. While a great deal of our growth will continue to come from providing technology, transaction and information services for large investors, we see a new source of growth in providing a broader suite of services to the front office. We plan to launch new equity execution capabilities early in 2003. We will also continue to expand our investment management product line to include new strategies in the quantitative active category.

A final priority is to offer our employees ample opportunities for personal and professional growth. As our employees learn new skills, gain new experiences and perspectives and become more satisfied in their work, they'll be motivated to achieve great things for State Street – which, in turn, will create even better opportunities for them. This virtuous cycle has always been part of the State Street culture, and we have proven time and again that it works.

Executing on our strategic priorities will be a complex and challenging task. To maintain and deepen our leadership position, we must be successful in both finding the best opportunities to grow and in continuously shifting our resources to align them with these opportunities. We are more confident than ever that our core strategy – focusing on being the partner sophisticated global investors trust most to help them succeed – is a sound approach to long-term growth.

I want to thank my State Street colleagues around the world for your hard work and outstanding results in 2002. I also want to thank our stockholders for your continued support.

Sincerely,



David A. Spina
Chairman and Chief Executive Officer



from left to right:
Ronald E. Logue
President and Chief Operating Officer
John R. Towers
Vice Chairman
David A. Spina
Chairman and Chief Executive Officer

growth

CONTINUING TO GROW

IN A CHALLENGING MARKET ENVIRONMENT, WHAT IS STATE STREET'S STRATEGY FOR CONTINUED GROWTH?

We have a very clear strategy for achieving long-term growth. It's built around the concept of focus. We're focused exclusively on sophisticated global investors. We believe this client segment offers superior opportunities for growth. It's also one we are uniquely equipped to serve. We're focused on providing everything sophisticated global investors need to invest successfully. Our aim is to offer integrated solutions that cover the entire investment cycle, from research and analytics to multi-asset class trade execution to fund accounting and administration. Our development efforts target products that offer our clients the strongest growth potential in today's market environment. We're also focused on strengthening our presence in high-growth geographic regions, such as Europe.

WHY FOCUS EXCLUSIVELY ON SERVICING SOPHISTICATED GLOBAL INVESTORS?

This client segment is extraordinarily attractive in terms of its size and rapid growth. Sophisticated global investors have a broad array of complex and specialized servicing requirements. Our clients' needs include investment servicing, such as custody, fund accounting, transfer agency services and settlement ... investment management strategies and advisory services, including portfolio construction, research, and analytics ... and a range of trading services, from multi-asset class trade execution to securities lending. A key differentiator for us is our ability to integrate or customize solutions to fit each client's specific requirements.

An important source of growth for State Street is an increasing preference on the part of sophisticated global investors to outsource their servicing requirements to an outside expert, rather than trying to handle it themselves. Global capital markets are becoming more complex with changes in investment regulations, advances in technology, and the development of global standards. This transition is creating a shift away from relatively fragmented local and regional financial markets toward a more consolidated, globally integrated market. The servicing implications of this change are tremendous. Never have sophisticated investors had more of a need for a trusted partner with global capabilities.

FROM STATE STREET'S PERSPECTIVE, HOW IS THE FINANCIAL SERVICES MARKETPLACE CHANGING?

We see three broad trends that will have a significant effect on our business. The first is a growing sense of urgency about retirement security. Longer life expectancies and the aging of the post-World War II generation will put tremendous pressure on retirement systems worldwide. Many developed nations are considering tax-advantaged ways to strengthen their existing pension systems and encourage retirement savings. These reforms will create growing pools of assets that need to be managed and serviced.

The second trend involves changes in savings and investment preferences. The prolonged decline in equity markets has forced investment managers to look at new ways to increase their revenues while controlling risk. This trend has resulted in many product innovations – including exchange traded funds and wrap accounts – that respond to investors' increased sensitivity to costs. Demand has also increased for risk-controlled strategies, including enhanced indexing, and non-traditional investments such as hedge funds. Our expertise in risk-controlled strategies and servicing for alternative investment products offers us an outstanding opportunity to support our clients as they expand their offerings in these areas.

GENERAL ELECTRIC

In 1988, GE began to manage money for other companies, in addition to managing the assets of its own pension plan. GE wanted assistance with its back-office investment management operations. State Street responded with a technology integration plan and a complete analysis of GE's investment support operation. Today, State Street values over 400 portfolios for GE each day, provides daily performance measurement and analysis, reconciles with more than 20 custodians and provides GE with a single master book of records.

The third trend is convergence in financial services. In recent years, many companies have merged with or acquired other companies whose skills and reach complement their own. These consolidations usually result in investment servicing operations in multiple countries, creating a level of complexity that is very difficult to administer. Many choose to outsource all or part of their servicing to a trusted provider like State Street. Our full range of integrated solutions and our extensive global experience give us an advantage in competing for their business.

WHERE ARE THE BEST OPPORTUNITIES FOR STATE STREET'S FUTURE GROWTH?


We grow our business in two ways: by winning new clients and by selling more services to our existing clients. In 2002, we won a great deal of new business, including relationships with Nuveen Investments, a U.S.-based asset manager, and UNICO Asset Management SA, a Luxembourg-based asset management company. We expect this momentum with regard to new business to continue. However, we believe enriching our relationships with existing clients by expanding the range of products and services we offer them is an even greater opportunity. Even when the market declines, we can grow by constantly innovating – looking for new ways to bring our clients the products and services they need.

Several areas hold particular promise. Trading services, particularly equity execution, offer strong growth potential. State Street's position as the leader in global investor servicing gives us unparalleled scale and volume, as well as rich resources in research and analytics. We deliver a full range of pre-trade services, as well as multi-asset class trade executions and post-trade functions. These services can be integrated for our clients on our state-of-the-art trading platform, Global Link. Our capabilities allow us to assist global asset managers in all phases of the investment decision-making process.

Forming strategic outsourcing partnerships with asset managers is another area that continues to offer opportunities for growth. We have the depth and breadth to provide asset managers with virtually any service they need. And we can customize our offerings to focus on servicing a single area in-depth ... a bundled series of functions ... or the whole gamut of services that are necessary to run the investment operations side of our clients' business. Our wide-reaching experience means we can run operations functions more efficiently and, most often, more cost-effectively than the asset managers could themselves.

In 2002, J. & W. Seligman & Co., a New-York-based investment manager, selected us as their outsourcing operations partner. We had formerly provided Seligman with fund accounting, fund administration, and custody services. Now we also handle trade support and settlement, portfolio record keeping, custodian communications for settlements, and systems network and applications support. Through this type of arrangement, partners like Seligman gain access to State Street's enterprise technologies, fully integrated solutions, and servicing efficiencies. In addition, they benefit from greater cost control and the ability to focus on their core competency of money management.

We are also strategically expanding the scope of our integrated suite of services by focusing on growing markets. In 2002, we expanded our range of services for investment managers who serve the high-net-worth market. This market totals about \$26 billion in assets, with strong growth projected for the coming years. State Street's full range of services, from managed account servicing to account aggregation, allows wealth managers to expand their service offerings to high-net-worth clients, while also freeing them to focus on relationship development and money management. With our recent acquisition of International Fund Services, we also introduced a full line of services for alternative investments such as hedge funds. Hedge funds



currently have about \$600 billion in assets under management with double-digit growth projected for the coming years. In these challenging times, we believe our risk-controlled investment strategies, particularly enhanced indexing, also offer outstanding opportunities for growth.

HOW WILL THE ACQUISITION OF DEUTSCHE BANK'S GLOBAL SECURITIES SERVICES FIT IN WITH STATE STREET'S STRATEGY?

The acquisition of a substantial part of Deutsche Bank's Global Securities Services business supports our strategy to expand State Street's scope and scale as the premier partner serving the needs of sophisticated global investors, particularly in the growing European market. No other company will be able to match the range and quality of services we can offer globally. In Europe, where collective investments and pensions are growing at faster rates than in the United States, State Street is now a big, local player, with more than double the amount of assets we service. We believe the acquisition also offers a unique opportunity to generate long-term value for our clients, stockholders, and employees.

State Street has acquired most of Deutsche Bank's global securities services business, including the bank's global custody, fund administration services, Depotbank services, securities lending, performance measurement and benefit payment businesses worldwide, as well as domestic custody and securities clearing in the United States and the United Kingdom. Our ten-year contract to provide additional services to Deutsche Asset Management, the largest asset manager in continental Europe, also provides a significant revenue stream for State Street. These are all businesses we know well, which gives us confidence that the integration will proceed smoothly, yielding potentially significant benefits in terms of cost savings, economies of scale, expanded product capabilities, and cross selling opportunities.

WHAT DIFFERENTIATES STATE STREET FROM ITS COMPETITORS?

State Street has a competitive advantage in servicing the specialized needs of large, sophisticated global investors. None of our competitors has the ability to integrate products and services the way we do or the experience in doing it globally. No one else can match our scope and scale. Our size and industry commitment mean we can maintain the necessary investment in people, technology, and operations to grow and compete.

Our goal, however, is not to be the biggest financial services provider, but the best. We believe our success depends largely on our deep commitment and long-standing relationships with our clients. Our client focus helps us operate as a trusted partner, seamlessly integrating people and systems while also developing new products and strategies to help our clients build their businesses. Our modular offerings allow us to tailor outsourcing solutions to each client's unique requirements. Our clients tell us that because we focus exclusively on serving their specialized needs we understand their business requirements and challenges better than any of our competitors. We believe State Street is uniquely positioned with the breadth of services, global experience, technology, and vision to help our clients succeed in all market conditions.

AP2 – SWEDEN'S SECOND NATIONAL PENSION FUND

The Second Swedish National Pension Fund (AP2) is one of four buffer funds created as part of the May 2000 reorganization of Sweden's national pension system. Its aim is to ensure that pension assets are invested to generate a maximum long-term return at a minimum risk.

In June of 2002 – building on its existing relationship with State Street Global Advisors – AP2 appointed State Street to provide custody and fund accounting, in addition to investment management services.

State Street was chosen because of our global scale and expertise, and our ability to provide AP2 with a bundled suite of customized investment services. Because State Street is the world's leading provider of fund accounting services, we have the experience and technology to service the sophisticated needs of multi-national pension funds.

FINANCIAL SUMMARY

SELECTED FINANCIAL DATA

(Dollars in millions, except per share data)

	2002	2001	2000	1999	1998
Years ended December 31,					
Fee revenue:					
Servicing fees	\$ 1,716	\$ 1,648	\$ 1,447	\$ 1,189	\$ 1,043
Management fees	526	516	584	600	480
Foreign exchange trading	300	368	387	306	289
Brokerage fees	124	89	95	67	36
Processing fees and other	184	148	177	159	160
Total fee revenue	2,850	2,769	2,690	2,321	2,008
Net interest revenue:					
Interest revenue	1,974	2,855	3,256	2,437	2,237
Interest expense	995	1,830	2,362	1,656	1,492
Net interest revenue	979	1,025	894	781	745
Provision for loan losses	4	10	9	14	17
Net interest revenue after provision for loan losses	975	1,015	885	767	728
Gains (losses) on the sales of available-for-sale investment securities, net	76	43	2	(45)	10
Gain on the sale of corporate trust business, net of exit and other associated costs	495				
Gain on the sale of commercial banking business, net of exit and other associated costs				282	
Total revenue	4,396	3,827	3,577	3,325	2,746
Operating expenses	2,841	2,897	2,671	2,357	2,089
Income before income taxes	1,555	930	906	968	657
Income taxes	540	302	311	349	221
Net income	\$ 1,015	\$ 628	\$ 595	\$ 619	\$ 436
Diluted earnings per share	\$ 3.10	\$ 1.90	\$ 1.81	\$ 1.89	\$ 1.33
Cash dividends declared per share	.480	.405	.345	.300	.260
Return on equity	24.1%	17.3%	20.3%	25.0%	20.2%
As of December 31,					
Total assets	\$ 85,794	\$ 69,850	\$ 69,298	\$ 60,896	\$ 47,082
Long-term debt	1,270	1,217	1,219	921	922
Stockholders' equity	4,787	3,845	3,262	2,652	2,311
Closing price per share of common stock	39.00	52.25	62.11	36.53	35.07
Number of employees	19,501	19,753	17,604	17,213	16,816

State Street prepares its financial information in accordance with accounting principles generally accepted in the United States (GAAP). This financial information includes significant, non-operating items and reports goodwill amortization expense in accordance with the accounting practices applicable for those periods presented.

In order to provide information on a comparable basis from period to period and to assist stockholders, analysts, other external parties and management in analyzing the financial results and trends of ongoing businesses and operations, State Street also presents supplemental financial information on an operating results basis. Such supplemental operating results information is based on GAAP results and adjusted for: the results of certain significant transactions; fully taxable equivalent adjustments that increase net interest revenue to reflect investment yield on tax-free investments on an equivalent basis with taxable investments; and the exclusion of goodwill amortization expense from operating expenses in 2001 and prior years, consistent with GAAP accounting required beginning in 2002. Those adjustments are summarized below. Please refer to our 2002 Financial Review for more financial information.

SUPPLEMENTAL FINANCIAL OPERATING RESULTS

(Dollars in millions)

	2002	2001	2000	1999	1998
Years ended December 31,					
Net Income – GAAP results above	\$ 1,015	\$ 628	\$ 595	\$ 619	\$ 436
After-tax adjustments to arrive at operating results:					
Deduct gain on sale of Commercial Banking business				(164)	
Add loss on portfolio repositioning				34	
Add loss on investment in Bridge Information Systems		33			
Deduct gain on the sale of Corporate Trust business	(296)				
Add goodwill amortization expense		26	11	10	8
Net Income – Operating Results	\$ 719	\$ 687	\$ 606	\$ 499	\$ 444
Diluted earnings per share	\$ 2.20	\$ 2.08	\$ 1.85	\$ 1.52	\$ 1.35

Summary of Operations

Financial Information

State Street prepares its financial information in accordance with accounting principles generally accepted in the United States (GAAP). This financial information includes significant non-operating items and reports goodwill amortization expense in accordance with the accounting practices applicable for those periods presented. These financial results are presented in the Consolidated Statement of Income and summarized on the Selected Financial Data schedule.

In order to provide information on a comparable basis from period to period and to assist stockholders, analysts, other external parties and management in analyzing the financial results and trends of its ongoing businesses and operations, supplemental financial results on an operating results basis are also presented. State Street believes that such non-GAAP financial information assists investors and others by providing them with financial information in a format that provides comparable financial trends of ongoing business activities. Those financial results are summarized as Supplemental Financial Operating Results.

Comparisons between periods are primarily made based on information in the Consolidated Statement of Income with additional comparisons made using supplemental financial data prepared on an operating basis where it would provide additional information to the reader.

Business Summary

State Street is focused on providing sophisticated investors with a complete, integrated range of products and services anywhere in the world. State Street continually evaluates its business mix, and has sharpened its focus by divesting those businesses considered to be non-strategic and acquiring businesses to support this focus. In the past five years, State Street has divested its commercial banking, its trade banking and its corporate trust businesses, while acquiring several investment management and investment servicing businesses, most recently, International Fund Services, a provider of services for alternative investment portfolios such as hedge funds, in 2002, and a substantial portion of Deutsche Bank's Global Securities Servicing business in 2003. While shaping its future, State Street delivered a twenty-five year record of growth in operating earnings per share.

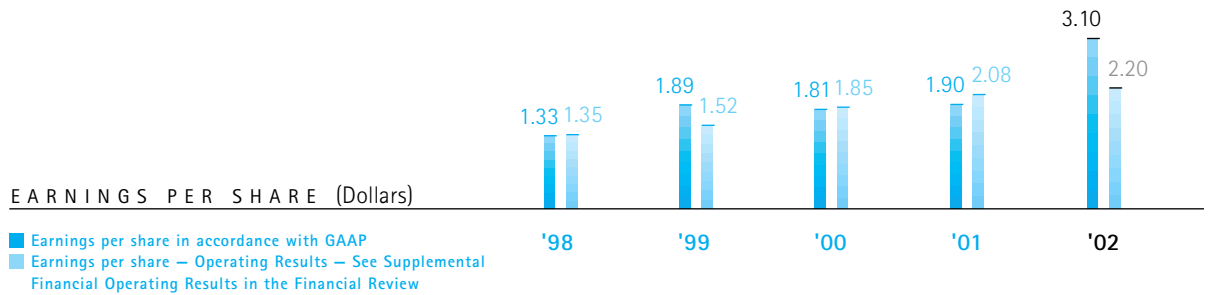
State Street's employees are focused on client service and enhancing the total client relationship with State Street. As a result, State Street has a high rate of recurring and cross-selling revenues. While most of State Street's client services result in management or servicing fees, clients use a variety of other services that are recorded in foreign exchange, processing, or net interest revenue. Management remains focused on increasing total revenue.

While most of State Street's revenue derives from its substantial market share in U.S. pension plans and mutual fund servicing, it continues to invest in developing businesses. These include servicing collective funds in the United Kingdom and continental Europe, offering outsourcing of middle- and back-office services and wealth management services, developing services for alternative investments, providing analysis and data analytics to enhance foreign exchange and equity execution, and offering enhanced-index investment management strategies.

State Street's solid performance in 2002, despite a third consecutive year of declining values in equity markets worldwide and a somewhat flat interest rate environment, was due to winning business from new and existing clients, expanding its product offering, and closely managing its expenses.

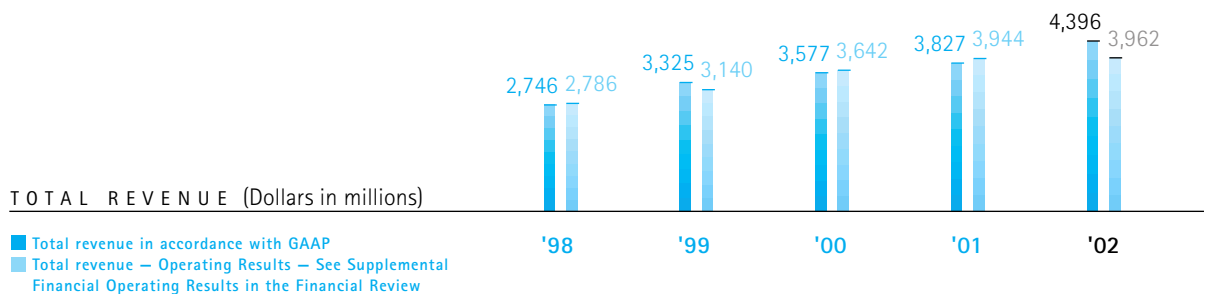
Financial Summary

State Street's earnings per share were \$3.10 in 2002, up \$1.20 from \$1.90 in 2001. The results for 2002 include a gain on the sale of State Street's corporate trust business of \$495 million, equal to \$296 million after tax, or \$.90 of diluted earnings per share. The results for 2001 included the write-off of State Street's total investment in Bridge Information Systems, Inc. (Bridge) of \$50 million, equal to \$33 million after tax, or \$.10 of diluted earnings per share, and by the effect of goodwill amortization expense of \$38 million, equal to \$26 million after tax, or \$.08 of diluted earnings per share. Adjusting 2002 results to exclude the gain on the sale of the corporate trust business, resulting earnings per share would be \$2.20. Adjusting 2001 results to exclude the write-off of Bridge and goodwill amortization expense, resulting earnings per share would be \$2.08 for 2001.



Net income was \$1.0 billion, up \$387 million from net income of \$628 million in 2001. Of this increase, \$355 million is attributable to non-operating items, including the net after-tax gain on the sale of State Street's corporate trust business in 2002, and the after-tax write-off of Bridge and after-tax goodwill amortization expense in 2001. Adjusting these results to reflect ongoing operations without such items, current year net income was up \$32 million over 2001.

The Corporation's total revenue was \$4.4 billion, an increase of \$569 million from total revenue of \$3.8 billion in 2001. Of this increase, \$545 million is attributable to non-operating items, including the gain on the sale of the corporate trust business in 2002, and the write-off of Bridge in 2001. Adjusting these results to reflect ongoing operations without such items, 2002 total revenue increased \$24 million from 2001.



The increase in total revenue of \$24 million from ongoing operations was driven by growth in servicing and management fees, brokerage fees and gains on the sales of available-for-sale securities, largely offset by declines in foreign exchange trading fee revenue and net interest revenue.

Servicing fees for 2002 of \$1.7 billion were up \$68 million from 2001. New business from existing and new clients, including business gained through an acquisition in July 2002, drove growth in servicing fees, more than offsetting constraints imposed by the decline in comparable average equity market valuations and lower securities lending revenue. Assets under custody were \$6.2 trillion, down \$32 billion from a year ago, reflecting declines in equity market valuations, largely offset by the installation of new business.

Management fees of \$526 million in 2002 were up \$10 million from the prior year, reflecting continued sales success over the last twelve months, significantly offset by lower equity market valuations. Assets under management were \$763 billion, down from \$775 billion a year ago.

Foreign exchange trading revenue was \$300 million, compared to \$368 million a year ago, with the decrease reflecting a lower number of customer trades and lower currency volatility in the currencies in which State Street trades. Net interest revenue was \$979 million, a decline of \$46 million from 2001. Lower yields on assets, reflecting the continuing decline in interest rates, offset growth in the balance sheet and lower liability costs.

Brokerage fee revenue was \$124 million in 2002, compared to \$89 million a year ago, driven primarily by significantly higher equity trading volumes. Securities gains were \$76 million, compared to \$43 million a year ago reflecting opportunities created by continued declines in market yields on fixed-income securities.

State Street's earnings performance in 2002 was partly the result of success in reducing expenses. Operating expenses were \$2.8 billion in 2002, down \$56 million from 2001. Of this decrease, \$38 million is attributable to goodwill amortization expense recorded in 2001, but no longer expensed in 2002 in accordance with generally accepted accounting principles. Adjusting for this accounting change, 2002 total expenses decreased \$18 million. The decrease is primarily attributable to efforts by State Street to closely manage expenses, partially offset by the impact of acquisitions.

State Street's primary financial goal is to achieve sustainable, real growth in earnings per share. State Street measures this goal on an operating basis that excludes significant, non-operating items. On an operating basis, over the last five years, diluted operating earnings per share increased at a 14% nominal compound annual growth rate.

State Street has two supporting financial goals, one for total revenue on an operating basis and one for return on stockholders' equity on an operating basis. State Street's total revenue goal is 12.5% real compound annual growth from 2000 through 2010. State Street expects to meet its goal over the stated period. Operating return on stockholders' equity for 2002 was 17.1%. State Street's goal is 18% per year.

Report of Independent Auditors

The Stockholders and Board of Directors

State Street Corporation

We have audited, in accordance with auditing standards generally accepted in the United States, the consolidated statement of condition of State Street Corporation at December 31, 2002 and 2001 and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2002 (not presented separately herein) and in our report dated January 10, 2003, except for Note 25, as to which the date is January 31, 2003, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated financial statements is fairly stated in all material respects in relation to the consolidated financial statements from which it has been derived.

The logo for Ernst & Young LLP is written in a blue, cursive script font.

Boston, Massachusetts

January 10, 2003,

except for Note 25, as to which the date is

January 31, 2003

Condensed Consolidated Financial Statements

CONSOLIDATED STATEMENT OF INCOME

(Dollars in millions, except per share data) Years ended December 31,

	2002	2001	2000
Fee Revenue			
Servicing fees	\$ 1,716	\$ 1,648	\$ 1,447
Management fees	526	516	584
Foreign exchange trading	300	368	387
Brokerage fees	124	89	95
Processing fees and other	184	148	177
Total Fee Revenue	2,850	2,769	2,690
Net Interest Revenue			
Interest revenue	1,974	2,855	3,256
Interest expense	995	1,830	2,362
Net interest revenue	979	1,025	894
Provision for loan losses	4	10	9
Net interest revenue after provision for loan losses	975	1,015	885
Gains on sales of available-for-sale investment securities	76	43	2
Gain on sale of corporate trust business, net of exit and other associated costs	495		
Total Revenue	4,396	3,827	3,577
Operating Expenses			
Salaries and employee benefits	1,670	1,663	1,524
Information systems and communications	373	365	305
Transaction processing services	246	247	268
Occupancy	246	229	201
Other	306	393	373
Total operating expenses	2,841	2,897	2,671
Income before income taxes	1,555	930	906
Income taxes	540	302	311
Net Income	\$ 1,015	\$ 628	\$ 595
Earnings Per Share			
Basic	\$ 3.14	\$ 1.94	\$ 1.85
Diluted	3.10	1.90	1.81
Average Shares Outstanding (in thousands)			
Basic	323,520	325,030	321,678
Diluted	327,477	330,492	328,088

Refer to State Street Corporation's 2002 Financial Review for a complete set of consolidated financial statements.

CONSOLIDATED STATEMENT OF CONDITION

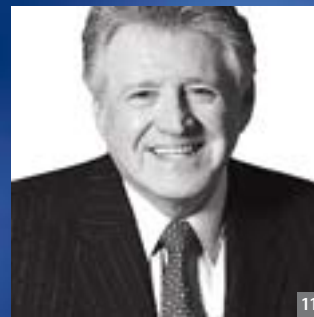
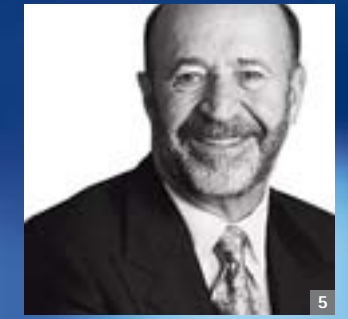
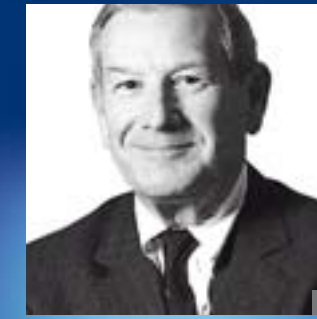
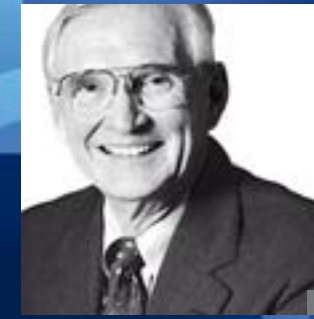
(Dollars in millions) As of December 31,

	2002	2001
Assets		
Cash and due from banks	\$ 1,361	\$ 1,651
Interest-bearing deposits with banks	28,143	20,317
Securities purchased under resale agreements and securities borrowed	17,215	16,680
Trading account assets	984	994
Investment securities (including securities pledged of \$10,335 and \$9,006)	28,071	20,781
Loans (less allowance of \$61 and \$58)	4,113	5,283
Premises and equipment	887	829
Accrued income receivable	823	880
Goodwill	462	470
Other intangible assets	127	142
Other assets	3,608	1,823
Total Assets	<u>\$ 85,794</u>	<u>\$ 69,850</u>
Liabilities		
Deposits:		
Noninterest-bearing	\$ 7,279	\$ 9,390
Interest-bearing – U.S.	9,005	2,753
Interest-bearing – Non-U.S.	29,184	26,416
Total deposits	45,468	38,559
Securities sold under repurchase agreements	21,963	19,006
Federal funds purchased	3,895	3,315
Other short-term borrowings	3,440	1,012
Accrued taxes and other expenses	1,967	1,582
Other liabilities	3,004	1,314
Long-term debt	1,270	1,217
Total Liabilities	<u>\$ 81,007</u>	<u>\$ 66,005</u>
Stockholders' Equity		
Preferred stock, no par: authorized 3,500,000; issued none		
Common stock, \$1 par: authorized 500,000,000; issued 329,992,000 and 329,999,000	330	330
Surplus	104	110
Retained earnings	4,472	3,612
Accumulated other comprehensive income	106	70
Treasury stock, at cost (5,065,000 and 6,329,000 shares)	(225)	(277)
Total Stockholders' Equity	<u>4,787</u>	<u>3,845</u>
Total Liabilities and Stockholders' Equity	<u>\$ 85,794</u>	<u>\$ 69,850</u>

Refer to State Street Corporation's 2002 Financial Review for a complete set of consolidated financial statements.

board of

DIRECTORS



1. DAVID A. SPINA
Chairman and Chief Executive Officer

2. TENLEY E. ALBRIGHT, M.D.⁽¹⁾
Chairman, Western Resources, Inc.,
real estate assets holding company

3. I. MACALLISTER BOOTH^{(1) (2)}
Retired Chairman, President and Chief
Executive Officer, Polaroid Corporation

4. TRUMAN S. CASNER
Of Counsel, Ropes & Gray, attorneys

5. NADER F. DAREHSHORI⁽²⁾
Retired Chairman, President and
Chief Executive Officer, Houghton
Mifflin Company, publisher

6. ARTHUR L. GOLDSTEIN⁽³⁾
Chairman and Chief Executive Officer,
Ionics, Incorporated, water treatment

7. DAVID P. GRUBER⁽¹⁾
Retired Chairman and Chief Executive
Officer, Wyman-Gordon Company

8. LINDA A. HILL⁽²⁾
Wallace Brett Donham Professor
of Business Administration,
Harvard Business School

9. CHARLES R. LAMANTIA⁽¹⁾
Retired Chairman and Chief Executive
Officer, Arthur D. Little, Inc.

10. RONALD E. LOGUE
President and Chief Operating Officer

11. DENNIS J. PICARD⁽³⁾
Chairman Emeritus, Raytheon Company

12. ALFRED POE⁽³⁾
Private Investor

13. RICHARD P. SERGEL⁽²⁾
President and Chief Executive
Officer, National Grid USA, electric
and gas utility

14. RONALD L. SKATES
Private Investor

15. GREGORY L. SUMME⁽²⁾
Chairman, President, and Chief
Executive Officer, PerkinElmer, Inc.,
technology products and systems

16. DIANA CHAPMAN WALSH⁽³⁾
President, Wellesley College

17. ROBERT E. WEISSMAN⁽²⁾
Chairman, Shelburne Investments

(1) Member of the Examining and Audit Committee
(2) Member of the Executive Compensation Committee
(3) Member of the Nominating Committee

CORPORATE LEADERSHIP

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Chairman and Chief Executive Officer

RONALD E. LOGUE*

President and Chief Operating Officer

JOHN R. TOWERS*

Vice Chairman

JOSEPH C. ANTONELLIS

Executive Vice President and Chief Information Officer

MAUREEN S. BATEMAN*

Executive Vice President and General Counsel

NICHOLAS J. BONN

Executive Vice President

DREW J. BREAKSPEAR

Executive Vice President and General Auditor

ALAN J. BROWN

Executive Vice President, Vice Chairman, State Street Global Advisors

THOMAS F. CATALDO

Executive Vice President

TIMOTHY J. CAVERLY

Executive Vice President

JOSEPH W. CHOW

Executive Vice President

KATHLEEN C. CUOCOLO

Executive Vice President

LUIS J. DE OCEJO

Executive Vice President

GARY E. ENOS

Executive Vice President

MARY M. FENOGLIO

Executive Vice President

STEFAN M. GAVELL*

Executive Vice President and Treasurer

ALAN D. GREENE

Executive Vice President

TIMOTHY B. HARBERT*

Executive Vice President, Chairman and Chief Executive Officer, State Street Global Advisors

DARLA M. HASTINGS

Executive Vice President

JOSEPH L. HOOLEY

Executive Vice President

WILLIAM W. HUNT

Executive Vice President

THOMAS J. McCROSSAN

Executive Vice President

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Executive Vice President

JAMES S. PHALEN

Executive Vice President

EDWARD J. RESCH*

Executive Vice President and Chief Financial Officer

GEORGE A. RUSSELL, JR.

Executive Vice President

JOHN R. SERHANT

Executive Vice President, Vice Chairman, State Street Global Advisors

STANLEY W. SHELTON

Executive Vice President

JOHN R. SNOW

Executive Vice President, Vice Chairman, State Street Global Advisors

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Executive Vice President

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ROBERT R. TARTER

Executive Vice President

K.K. TSE

Executive Vice President

RALPH F. VITALE

Executive Vice President

MICHAEL L. WILLIAMS

Executive Vice President

ROBERT R. WILLIAMS

Executive Vice President

* Designated as executive officers for SEC and IRS purposes

corporate

INFORMATION

CORPORATE HEADQUARTERS

State Street Corporation
225 Franklin Street
Boston, Massachusetts 02110-2804

Website: www.statestreet.com

General inquiries: +1 617 786 3000

ANNUAL MEETING

Wednesday, April 16, 2003, 10:00 a.m. at
Corporate Headquarters

TRANSFER AGENT

Registered stockholders wishing to change name or address information on their shares, transfer ownership of stock, deposit certificates, report lost certificates, consolidate accounts, authorize direct deposit of dividends, or receive information on State Street's dividend reinvestment plan should contact:

EquiServe Trust Company, N.A.
P.O. Box 43011
Providence, Rhode Island 02940-3011
800 426 5523
Website: www.equiserve.com

COMMON STOCK LISTING

State Street's common stock is listed on the New York Stock Exchange, ticker symbol: STT, and on the Boston and Pacific Stock Exchanges.

STOCKHOLDER INFORMATION

For timely information about corporate financial results and other matters of interest to stockholders, and to request copies of our news releases and financial reports by fax or mail, please visit our website at:

www.statestreet.com/stockholder

or call 877 639 7788 toll-free in the United States and Canada, or +1 202 266 3340 from other countries. These services are available 24 hours a day, seven days a week.

For copies of State Street's Form 10-K, Form 10-Q, quarterly financial releases, or additional copies of this annual report, please visit State Street's website, call State Street's stockholder services telephone line described above, or write to Investor Relations at Corporate Headquarters.

Investors and analysts interested in additional financial information may contact State Street's Investor Relations department at Corporate Headquarters, telephone +1 617 664 3477.

worldwide

LOCATIONS

State Street's clients are among the most sophisticated investors in the world — and their growth strategies are among the most complex. Through our offices in over 20 countries and a global network covering over 100 mature and emerging geographic markets, we can help them capitalize on investment opportunities wherever they arise.

AUSTRALIA

Sydney

BELGIUM

Brussels

CANADA

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CAYMAN ISLANDS

George Town

CHILE

Santiago

FRANCE

Paris

GERMANY

Frankfurt, Munich

IRELAND

Dublin

JAPAN

Tokyo

LUXEMBOURG

Luxembourg

NETHERLANDS

Amsterdam

NETHERLANDS ANTILLES

Willemstad—Curaçao

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Seoul

SWITZERLAND

Zurich

TAIWAN

Taipei

UNITED ARAB EMIRATES

Dubai

UNITED KINGDOM

Basingstoke, Edinburgh, Guernsey, Jersey, London, Windsor

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Alameda, Los Angeles, Newport Beach, Sacramento, San Diego, San Francisco

Connecticut

Hartford

Georgia

Atlanta

Illinois

Chicago

Indiana

Indianapolis

Iowa

Des Moines

Massachusetts

Boston, Milton, Norwood, Osterville, Quincy, Westborough, Westwood

Minnesota

Minneapolis

Missouri

Kansas City

New Hampshire

Manchester, North Hampton

New Jersey

Princeton

New York

New York, White Plains

North Carolina

Winston-Salem

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www.statestreet.com

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