STATE STREET CORP
Form 424B5
January 13, 2003
Table of Contents

The information contained in this preliminary prospectus supplement is not complete and may be changed. This preliminary prospectus supplement is not an offer to sell nor does it seek an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Filed Pursuant to Rule 424(b)(5)
Registration No. 333-98267

Subject to Completion. Dated January 10, 2003.
Prospectus Supplement to Prospectus dated November 27, 2002.

$275,000,000

STATE STREET CAPITAL TRUST II
Floating Rate Medium Term Capital Securities
(Liquidation Amount $1,000 per Capital Security)
Fully and Unconditionally Guaranteed By
State Street Corporation

A brief description of the capital securities can be found under Prospectus Supplement Summary in this prospectus supplement.

Under separate prospectus supplements, State Street Corporation is concurrently offering 6,220,000 shares of its common stock, plus up to 933,000 additional shares if the underwriters for that offering exercise their option to purchase additional shares, and $275 million aggregate stated amount of SPACES[SM]*, which are equity security units, plus up to $41.25 million additional aggregate stated amount of SPACES if the underwriters for that offering exercise their option to purchase additional SPACES. This offering and the SPACES offering are contingent upon each other as well as upon the common stock offering.

See Risk Factors beginning on page S-15 to read about certain factors you should consider before buying the capital securities.

These securities are not deposits or other obligations of any bank and are not insured by the Federal Deposit Insurance Corporation or any other governmental agency.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.

	Per Capital Security	Total
Initial public offering price (1)	$	$
Underwriting commissions (2)	$	$
Proceeds to State Street Capital Trust II	$	$

(1) Plus accrued distributions, if any, from January , 2003.
(2) Because State Street Capital Trust II will use all of the proceeds from the sale of the capital securities to purchase junior subordinated debentures of State Street Corporation, State Street Corporation will pay all underwriting commissions.

To the extent that the underwriters sell more than $275 million aggregate liquidation amount of capital securities, within 30 days from the date of this prospectus supplement, the underwriters have the option to purchase up to an additional $41.25 million aggregate liquidation amount of capital securities from us at the initial public offering price.

The underwriters expect to deliver the capital securities against payment in New York, New York on January , 2003.

Goldman, Sachs & Co.
Credit Suisse First Boston
Merrill Lynch & Co.
Morgan Stanley
Salomon Smith Barney

Prospectus Supplement dated January , 2003

Table of Contents

ABOUT THIS PROSPECTUS SUPPLEMENT

You should read this prospectus supplement along with the accompanying prospectus carefully before you invest. Both documents contain important information you should consider when making your investment decision. This prospectus supplement contains information about the capital securities and the accompanying prospectus contains information about our securities generally, some of which does not apply to the capital securities. This prospectus supplement may add, update or change information in the accompanying prospectus. To the extent there is a conflict between the information contained in this prospectus supplement, on the one hand, and the information contained in the accompanying prospectus or any document incorporated by reference in the accompanying prospectus, on the other hand, the information contained in this prospectus supplement shall control.

In this prospectus supplement, we, our, ours and us refer to State Street Corporation unless the context otherwise requires.

Table of Contents

PROSPECTUS SUPPLEMENT SUMMARY

This summary highlights information contained elsewhere, or incorporated by reference, in this prospectus supplement and the accompanying prospectus. As a result, it does not contain all of the information that you should consider before investing in the capital securities. You should read the entire prospectus supplement, including the Risk Factors section, the accompanying prospectus and the documents incorporated by reference, which are described under Incorporation of Certain Documents by Reference in the accompanying prospectus.

State Street Corporation

We are a financial holding company organized under the laws of the Commonwealth of Massachusetts. Through our subsidiaries, we provide a full range of products and services for sophisticated global investors.

We were organized in 1970 and conduct our business principally through our subsidiary, State Street Bank and Trust Company (State Street Bank), which traces its beginnings to the founding of the Union Bank in 1792. The charter under which State Street Bank now operates was authorized by a special act of the Massachusetts Legislature in 1891, and its present name was adopted in 1960.

With $6.2 trillion of assets under custody and $763 billion of assets under management at year-end 2002, we are a leading specialist in meeting the needs of sophisticated global investors. Our clients include mutual funds and other collective investment funds, corporate and public pension funds, investment managers and others.

We provide services from 28 offices in the United States, and from offices in Australia, Belgium, Canada, Cayman Islands, Chile, Czech Republic, France, Germany, Ireland, Japan, Luxembourg, Netherlands, Netherlands Antilles, New Zealand, People s Republic of China, Singapore, South Korea, Switzerland, Taiwan, United Arab Emirates and the United Kingdom. Our executive offices are located at 225 Franklin Street, Boston, Massachusetts 02110 (telephone (617) 786-3000).

Our Business

We report two lines of business: investment servicing and investment management.

Investment Servicing

Our investment servicing business includes custody, accounting, daily pricing and administration, master trust and master custody, trustee and recordkeeping, foreign exchange, securities lending, deposit and short-term investment facilities, lease financing, investment manager operations outsourcing and performance, risk and compliance analytics to support institutional investors. We provide shareholder services, which include mutual fund and collective fund shareholder accounting, through 50%-owned affiliates, Boston Financial Data Services, Inc. and the International Financial Data Services group of companies.

We are the largest mutual fund custodian and accounting agent in the United States. We provide custody services for approximately 47% of registered U.S. mutual funds. We believe we are distinct from other mutual fund service providers because clients make extensive use of a number of related services, including accounting, daily pricing and fund administration. We provide mutual fund

Table of Contents

accounting and valuation services for more than four times the assets serviced by the next largest mutual fund accounting service provider. We calculate approximately 30% of the U.S. mutual fund prices that appear daily in *The Wall Street Journal*.

We provide master trust, master custody, securities lending and performance, risk and compliance analytics to corporate and public pension funds, other institutional retirement funds, insurance companies, foundations, endowments and corporate and public treasurers. These clients make extensive use of many other products and services, including securities lending, investment management and foreign exchange and equity trade execution. At 29% market share, we have a leading position in the market for servicing U.S. tax-exempt assets for corporate and public pension funds. Additionally, we provide trust and valuation services for over 3,600 daily-priced, unitized defined contribution accounts, making us a leader in this market.

Investment Management

Our investment management business offers a broad array of services for managing financial assets, including investment management, investment research and trading services for both institutions and individual investors worldwide. We offer these services through State Street Global Advisors® (SSgA®). SSgA is the sixth largest investment manager in the world based on assets under custody and the largest manager of tax-exempt (primarily pension) assets in the United States. SSgA offers a broad array of investment strategies, including passive, enhanced and active management using quantitative and fundamental methods for both U.S. and global equities and fixed income securities.

Recent Developments

2002 Financial Results

We recently announced that, for the full-year 2002, reported earnings per share were $3.10 and net income was $1.0 billion, on revenue of $4.4 billion. Results for the full-year include a net gain on the sale of our Corporate Trust business of $495 million, equal to $296 million after taxes, or $0.90 in diluted earnings per share. Excluding the gain, return on stockholders equity was 17.1% for the year.

For the full-year 2001, reported earnings per share were $1.90 and net income was $628 million, on revenue of $3.8 billion. Results for 2001 included both goodwill amortization expenses of $38 million, equal to $26 million after tax, or $0.08 per diluted share, and the write-off of our total investment in Bridge Information Systems, Inc. of $50 million, equal to $33 million after tax, or $0.10 per diluted share, which was recorded in the first quarter.

We prepare supplemental information adjusting reported results for significant transactions, and define the information as operating results. Operating results provide financial information on a comparable basis from period to period to assist stockholders and others in analyzing our financial results for ongoing businesses and operations. On an operating-results basis, consistent with prior presentations, for the full year, taxable-equivalent revenue was up $19 million, and net income was up 5%, or $32 million, from the prior year.

These operating results for 2002 exclude the net gain on the sale of our Corporate Trust business. Operating results for 2001 exclude both the goodwill amortization expenses and the write-off of our total investment in Bridge Information Systems, Inc. Operating results for both years also include fully-taxable equivalent adjustments.

Table of Contents

Revenue for the full year, on an operating-results basis as defined above, was $4.0 billion, up $19 million from 2001. New business success drove the growth, substantially offset by the impact of lower equity market valuations, low currency volatility and a less-favorable interest-rate environment.

Servicing fees were up 4% for the year, to $1.7 billion. Management fees were up 2%, to $526 million. Strong new business success drove growth in both servicing fees and management fees, offsetting the impact of lower equity market valuations and lower securities lending revenue.

Foreign exchange trading revenue declined $68 million, to $300 million, reflecting low currency volatility. Brokerage fees rose $35 million, to $124 million, from a year ago, driven by significantly higher equity trading volumes. Securities gains of $76 million, up $33 million, reflected opportunities created by the low-interest rate environment.

Reported net interest revenue for 2002 was $979 million. On a taxable-equivalent operating-results basis, net interest revenue was $1.0 billion, a decline of $52 million from 2001. Lower yields on assets offset growth in the balance sheet and lower liability costs.

Operating expenses were $2.8 billion for the year. On a comparable basis, expenses were down $17 million, or 1%. Comparable expenses for 2001 exclude $38 million of goodwill amortization expenses. Lower other expenses, reflecting reduced professional services and advertising expenses, contributed to the decline in total expenses.

For further information about our 2002 financial results, see the earnings release in our Current Report on Form 8-K filed on January 10, 2003, which is incorporated by reference into the accompanying prospectus.

Completion of Sale of Corporate Trust Business

On December 31, 2002, we completed the sale of our Corporate Trust business to U.S. Bank, N.A., the lead bank of U.S. Bancorp. The after-tax gain on the sale, net of exit and other associated costs, totaled $296 million, or $0.90 in diluted earnings per share, and was recorded in the fourth quarter of 2002. The premium received at closing on the sale was $650 million. An additional $75 million was placed in escrow pending the successful transition of the business over the next 18 months. Exit and other associated costs were $155 million. As previously announced, the after-tax proceeds from this transaction will provide partial funding for the planned acquisition of substantial parts of Deutsche Bank s Global Securities Services business. Accordingly, the impact of this transaction on our 2003 earnings is reflected in the estimates of dilution set forth below under Acquisition of Deutsche Bank s Global Securities Services Business Financial Effect.

Acquisition of Deutsche Bank s Global Securities Services Business

Overview

On November 5, 2002, we entered into a definitive agreement to acquire substantial portions of Deutsche Bank AG s Global Securities Services business, which we refer to as the Acquired Business. The Acquired Business includes Deutsche Bank s global custody, fund administration, securities lending, performance measurement and benefits payment businesses, and it operates in 92 markets throughout the world. It also includes U.K.- and U.S.-based domestic custody and securities clearing as well as certain specialized depository and fund administration services in Germany, Austria and Italy known as Depotbank services. The Acquired Business is one of Europe s largest custodians and fund administrators, and one of the leading agency securities lenders in the world. As part of the

Table of Contents

acquisition, we will assume operations of the Acquired Business in several locations, including New York, Nashville, London, Frankfurt, Dublin, Edinburgh and Singapore. With approximately $2.2 trillion of assets under custody and approximately 3,200 employees worldwide as of August 31, 2002, the Acquired Business serves investment managers, private and public pension funds, insurance companies, and other investors throughout the world.

The Acquired Business had revenues of approximately 490 million for the eight-month period ended August 31, 2002. Approximately 25% of the Acquired Business total revenues during such period came from Deutsche Asset Management (DeAM), a division of Deutsche Bank. DeAM is the Acquired Business largest client and one of Europe s largest asset managers. After the acquisition, DeAM will be one of our largest clients. At August 31, 2002, the assets managed by DeAM represented approximately $350 billion of the Acquired Business total assets under custody. At September 30, 2002, DeAM s total assets under management were approximately $742 billion.

Transaction Terms

Under the terms of the definitive agreement, we will pay Deutsche Bank a purchase price premium of up to approximately $1.5 billion, subject to certain adjustments. These adjustments include a holdback from the purchase price of no less than approximately $263 million, reducing the initial payment made to Deutsche Bank at the closing of the acquisition to no more than approximately $1.2 billion. At closing, this holdback amount may be increased, thereby further reducing the initial payment at closing by an additional amount based upon a formula that takes into account estimated changes in annualized revenues of the Acquired Business prior to the closing (i.e., the amount held back will increase if the annualized revenues, determined in accordance with certain procedures described in the definitive agreement, decline below certain thresholds). After the closing of the acquisition, the holdback amount may be further adjusted based upon a similar formula in the event that the actual revenues, determined in accordance with certain procedures described in the definitive agreement, of the Acquired Business during the relevant pre-closing measurement period differ from the estimate of those revenues. The extent to which the adjusted holdback amount is subsequently paid to Deutsche Bank will be reduced based primarily on the extent to which (1) the annualized revenues for the six-month period ended June 30, 2002, generated by third-party clients of the Acquired Business who were clients of the Acquired Business prior to the closing of the transaction exceed (2) the annualized most recent quarterly revenues generated at the one-year anniversary of closing. The holdback is intended to protect us from client attrition and loss of revenue in the Acquired Business in the approximately one-year period following the closing. In addition to the premium, we will pay to Deutsche Bank at closing an amount, which we expect to be less than $25 million, with respect to primarily the fixed assets of the Acquired Business. After the closing, this amount will be adjusted based on the final determination of such assets of the Acquired Business at the closing date.

As part of the agreement, we expect to enter into 10-year contracts to provide global investment services to DeAM entities and their clients, subject to regulatory approval and DeAM s fiduciary requirements. In general, in the event that some or all of the DeAM business is not transferred to us as of the closing, we will be permitted to withhold a portion of the purchase price attributable to that non-transferred business, to be released only after the business is transferred. These withheld amounts, if any, would be in addition to the holdback described above. On the fifth and eighth anniversaries of the various contracts, the fees charged will be adjusted upward or downward to match the then current market level of fees for such services. Individual DeAM entities and clients may terminate their contracts if we do not agree to reduce the fees to the then current market levels.

Under the terms of the agreement, we have the right to pay approximately $500 million of the purchase price of the Acquired Business by issuing our common stock to Deutsche Bank at an agreed-

Table of Contents

upon price per share. We will not exercise this right if this offering is completed, but we intend to preserve our right to issue our common stock to Deutsche Bank until the completion of this offering.

We expect the acquisition to close in the first quarter of 2003, and at the earliest on January 31, 2003. The closing of the acquisition is subject to customary closing conditions, including U.S. and certain European regulatory approvals. If the closing conditions are not met in a timely manner, the closing of the acquisition may not occur in the timeframe that we expect and, while we believe it is highly unlikely, it is possible that the closing may not occur at all.

Strategic Rationale

The acquisition of the Acquired Business strengthens our position as a leader in Europe s investment servicing market and significantly expands the size of our cross-border assets under custody. We believe that the acquisition provides us with significant opportunities to grow our global investment servicing business, particularly in Europe. In addition, we expect the acquisition to give us the opportunity to take advantage of considerable economies of scale. The sum of our assets under custody at September 30, 2002 and the assets under custody of the Acquired Business at August 31, 2002 is approximately $7.9 trillion. Although we do not expect to retain all of the custodial assets of the Acquired Business following the acquisition primarily as a result of client attrition, we nevertheless believe that following the closing we will have more assets under custody than any other custodian in the world.

Financial Effect

We expect the acquisition to be dilutive to our earnings per share by approximately $0.17 to $0.22 in 2003 (consisting of dilution of approximately $0.16 to $0.19 per share from restructuring costs associated with the acquisition and dilution of approximately $0.01 to $0.03 per share from operations and financing costs), and accretive by approximately $0.01 to $0.03 in 2004. We expect to record $90 to $110 million of pretax restructuring costs associated with the acquisition in 2003. Based on the annualized costs of the Acquired Business for the eight-month period ended August 31, 2002, we expect to achieve cumulative cost reductions in the Acquired Business of approximately $125 to $150 million in 2003, $175 to $225 million in 2004 and $225 to $300 million in 2005. We expect these cost reductions to be derived primarily from the migration of the Acquired Business operations and technology platforms to ours and from headcount reductions. To achieve the expected financial results of the acquisition, among other things we must achieve significant cost reductions and greater economies of scale by successfully integrating the Acquired Business into our operations and we must retain a substantial portion of the clients of the Acquired Business.

The Acquired Business includes a significant amount of client deposits. The average balance of these deposits, other than Depotbank deposits, for the six-month period ended June 30, 2002 was approximately $7 billion. Client deposits may fluctuate by substantial amounts in the normal course of business. During the transition period following the closing, we expect a substantial amount of these deposits to be transferred to our balance sheet in connection with the conversion of client accounts to our systems. The conversion process will take many months. Pending the transfer to our system of the related client accounts, we and Deutsche Bank have agreed that, starting at the closing of the acquisition, we will receive, through a revenue sharing agreement, a portion of the economic benefits associated with the related client deposits for so long as such deposits remain on Deutsche Bank s balance sheet. Upon transfer to us, the client deposits are expected to replace other funding sources on our balance sheet.

Table of Contents

In addition, Depotbank deposits, the average balance of which was approximately $7 billion for the six-month period ended June 30, 2002, will initially remain on Deutsche Bank s balance sheet. The Depotbank deposits will also be subject to a revenue sharing agreement between Deutsche Bank and us while they remain on Deutsche Bank s balance sheet, which will, in general, provide for some of the economic benefits of holding the deposits to be paid to us. We have agreed with Deutsche Bank that we will take the Depotbank deposits onto our balance sheet over time to the extent that either we receive client consents to the transfer under the underlying client contracts or the client accounts have been converted to our systems, in each case subject to compliance with local regulations, including deposit insurance requirements.

Integration and Client Retention

Integration of the Acquired Business into our existing operations and retention of a substantial portion of the Acquired Business current client base will be important to achieving the expected financial results of the acquisition. The conversion of client accounts to our systems will require, in most cases, client consents. We expect to obtain consents through contract renewal, replacement, or assignment, although we do expect some client attrition in the normal course of business. We expect to complete the integration of substantially all of the Acquired Business, other than the Depotbank business, within 24 months of closing. We expect to complete the integration of the Depotbank business within 36 months of closing. We have experience with complex business integrations and the challenge of retaining newly-acquired client relationships. Our recent experience with business integrations and client retention initiatives include those associated with our acquisition of Wachovia s institutional trust and custody business, our appointment to provide Liberty Financial fund accounting, daily pricing and financial reporting for all of its fund management companies and our selection by Lloyds/Scottish Widows to provide custody, accounting, trustee and investment administration services for its entire range of life, pension and investment products. We have been successful in the past in retaining clients after completing acquisitions. Nevertheless, the scale, scope and nature of the integration and client retention efforts required as a result of the acquisition of the Acquired Business present a greater challenge than that presented by our previous efforts. We cannot assure you that the integration will take place on the expected schedule, that it will provide the cost savings and economies of scale we are currently expecting to achieve or that we will be able to retain a significant number of clients of the Acquired Business, any of which could adversely impact our expected financial results.

Table of Contents

Summary Consolidated Financial Information

The table below presents summary consolidated financial information of State Street Corporation and its subsidiaries. The statement of income data for the years ended December 31, 1999, 2000 and 2001 and the balance sheet data as of December 31, 2000 and 2001 is derived from our audited consolidated financial statements incorporated by reference into the accompanying prospectus. The statement of income data for the years ended December 1997 and 1998 and the balance sheet data as of December 31, 1997, 1998 and 1999 is derived from our audited consolidated financial statements not incorporated by reference into the accompanying prospectus. We are also providing unaudited statement of income data and balance sheet data for the year ended and as of December 31, 2002.

The following consolidated financial information is only a summary. You should read it in conjunction with our consolidated financial statements and related notes and the Management s Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2001, along with the earnings release in our Current Report on Form 8-K filed on January 10, 2003, which are incorporated by reference into the accompanying prospectus. See Where You Can Find More Information in the accompanying prospectus.

	Years Ended December 31,					
Statement of Income Data:(1)(3)	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**
(Dollars in millions, except per share data)						**(unaudited)**
Fee revenue:(2)						
Servicing fees	$ 861	$ 1,043	$ 1,189	$ 1,447	$ 1,648	$ 1,716
Management fees	391	480	600	584	516	526
Foreign exchange trading	245	289	306	387	368	300
Brokerage fees	25	36	67	95	89	124
Processing fees and other	149	160	159	177	148	184
Total fee revenue	1,671	2,008	2,321	2,690	2,769	2,850
Net interest revenue:						
Interest revenue	1,755	2,237	2,437	3,256	2,855	1,974
Interest expense	1,114	1,492	1,656	2,362	1,830	995
Net interest revenue	641	745	781	894	1,025	979
Provision for loan losses	16	17	14	9	10	4
Net interest revenue after provision for loan losses	625	728	767	885	1,015	975
Gains (losses) on the sales of available-for-sale investment securities, net	2	10	(45)	2	43	76
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	2,298	2,746	3,325	3,577	3,827	4,396
Operating expenses:(2)						
Salaries and employee benefits	$ 973	$ 1,175	$ 1,313	$ 1,524	$ 1,663	$ 1,670
Information systems and communications	185	241	287	305	365	373
Transaction processing services	184	196	237	268	247	246
Occupancy	132	164	188	201	229	246
Other	260	313	332	373	393	306
Total operating expenses	1,734	2,089	2,357	2,671	2,897	2,841
Income before income taxes	564	657	968	906	930	1,555
Income taxes	184	221	349	311	302	540
Net Income	$ 380	$ 436	$ 619	$ 595	$ 628	$ 1,015

S-9

Table of Contents

Statement of Income Data, continued(1)(3)	Years Ended December 31,					
	1997	1998	1999	2000	2001	2002
Earnings Per Share						(unaudited)
Basic	$ 1.18	$ 1.35	$ 1.93	$ 1.85	$ 1.94	$ 3.14
Diluted	1.16	1.33	1.89	1.81	1.90	3.10
Average Shares Outstanding (in thousands)						
Basic	321,323	321,873	321,320	321,678	325,030	323,520
Diluted	327,577	327,854	327,503	328,088	330,492	327,477
Cash dividends declared per share	$ 0.22	$ 0.26	$ 0.30	$ 0.345	$ 0.405	$ 0.48

Balance Sheet Data: (Dollars in millions)	As of December 31,					
	1997	1998	1999	2000	2001	2002
Assets:						(unaudited)
Cash and investment securities	$ 22,866	$ 23,187	$ 34,535	$ 36,653	$ 42,749	$ 57,575
Securities purchased under resale agreements	5,544	13,979	17,518	21,134	16,680	17,215
Loans (less allowance)	5,479	6,225	4,245	5,216	5,283	4,113
Intangibles, including goodwill	224	216	233	284	612	589
Total Assets	37,975	47,082	60,896	69,298	69,850	85,794
Liabilities and Stockholders Equity:						
Total deposits	$ 24,878	$ 27,539	$ 34,145	$ 37,937	$ 38,559	$ 45,468
Securities sold under repurchase agreements	7,409	12,563	18,399	21,351	19,006	21,963
Long-term debt	774	922	921	1,219	1,217	1,270
Total liabilities	35,980	44,771	58,244	66,036	66,005	81,007
Total stockholders equity	1,995	2,311	2,652	3,262	3,845	4,787
Total Liabilities and Stockholders Equity	37,975	47,082	60,896	69,298	69,850	85,794

(1) Share data restated for 2-for-1 stock split in 2001.

(2) In November 2001, the Financial Accounting Standards Board, or FASB, issued Emerging Issues Task Force (EITF) No. 01-14, Income Statement Characterization of Reimbursements Received for Out-Of-Pocket Expenses Incurred. This guidance, effective January 1, 2002, requires companies to recognize the reimbursement of client out-of-pocket expenses on a gross basis as revenue and operating expense. Prior to 2002, we netted these client reimbursements against the corresponding operating expenses. Client reimbursements for out-of-pocket expenses are reflected in fee revenue in the information set forth for the year ended December 31, 2002. The years ended December 31, 1998 through December 31, 2001 have been reclassified to reflect this presentation, which resulted in increases in fee revenue and operating expenses for such years ended. The reclassification had no impact on net income.

(footnotes continued on following page)

Table of Contents

(3) Statement of Income data as presented above is prepared in accordance with accounting principles generally accepted in the United States (GAAP) and includes significant non-operating special 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 assist stockholders, analysts, other external parties and management in analyzing the financial results and trends of our ongoing businesses and operations, we also present our financial results on an Operating Results basis. Operating Results are based on our GAAP results adjusted for the following three types of financial activity:

(1) Operating Results exclude the results of certain significant transactions not representative of ongoing operations.

(2) Operating Results include fully taxable equivalent adjustments that increase net interest revenue to reflect investment yield on tax-free investments on an equivalent basis with taxable investments.

(3) Operating Results exclude goodwill amortization expense from operating expenses in 2001 and prior years, to be consistent with GAAP accounting required beginning in 2002.

The following table reconciles our Net Income as determined in accordance with GAAP to Net Income Operating Results:

	Years Ended December 31,					
	1997	1998	1999	2000	2001	2002
Net Income (as determined in accordance with GAAP)(a)	$ 380	$ 436	$ 619	$ 595	$ 628	$ 1,015
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, Inc.					33	
Deduct gain on the sale of Corporate Trust business						(296)
Add goodwill amortization expense	6	8	10	11	26	
Net Income Operating Results	$ 386	$ 444	$ 499	$ 606	$ 687	$ 719

(a) Net income for the years ended December 31, 1997 through December 31, 2001 are reflected as audited. Net income for the year ended December 31, 2002 is unaudited.

For a more detailed description of our Operating Results for the years ended December 31, 1997 through December 31, 2002, see Supplemental Consolidated Statement of Income Data.

S-11

Table of Contents

The Offering

What are the capital securities?

Each Floating Rate Medium Term Capital Security, or capital security, represents an undivided beneficial interest in the assets of State Street Capital Trust II. Each capital security will entitle the holder to receive quarterly cash distributions as described in this prospectus supplement. The trust is offering 275,000 capital securities, or 316,250 capital securities if the underwriters exercise in full their option to purchase additional capital securities, at a price of $ for each capital security.

What is the trust?

The trust is a Delaware statutory trust. Its principal place of business is c/o State Street Bank and Trust Company, N.A., 61 Broadway, 15th Floor, New York, New York 10006 and its telephone number is (212) 612-3000.

The trust will sell capital securities to the public and common securities to us. The trust will use the proceeds from these sales to buy a series of junior subordinated debentures with substantially the same financial terms as the capital securities from us. We will guarantee payments to be made on the capital securities as described below.

Bank One Trust Company, N.A. will act as property trustee of the trust. Bank One Delaware, Inc. will be the Delaware trustee.

When will quarterly distributions be paid to you?

If you purchase the capital securities, you are entitled to receive cumulative cash distributions at a variable annual rate equal to 3-Month LIBOR (as defined herein) plus % in respect of the liquidation amount of $1,000 per capital security. Distributions will accumulate from the date the trust issues the capital securities and will be paid quarterly in arrears on February 15, May 15, August 15 and November 15 of each year, beginning May 15, 2003.

When can payment of distributions to you be deferred?

We can, on one or more occasions, defer interest payments on the junior subordinated debentures held by the trust for up to 20 consecutive quarterly periods. We cannot defer interest payments beyond the maturity date of the junior subordinated debentures, which is February 15, 2008.

If we defer interest payments on the junior subordinated debentures held by the trust, then the trust will defer distributions on the capital securities. During this deferral period, distributions will continue to accrue on the capital securities at a variable annual rate equal to 3-Month LIBOR plus % in respect of the liquidation amount of $1,000 per capital security. Also, to the extent permitted by law, the deferred distributions will themselves accrue interest, compounded quarterly, at a variable annual rate equal to 3-Month LIBOR plus %. Once we make all interest payments on the junior subordinated debentures, with accrued interest, we can again defer interest payments on the junior subordinated debentures if no event of default under the junior subordinated debentures has occurred and is continuing.

During any period in which we defer interest payments on the junior subordinated debentures, we will not be permitted to (with limited exceptions):

- pay a dividend or make any distributions on our capital stock or redeem, purchase, acquire or make a liquidation payment on any of our capital stock; or

- make an interest, principal or premium payment on, or repurchase or redeem, any of our debt securities that rank equal to or junior to the junior subordinated debentures.

When can the trust redeem the capital securities?

The trust must redeem all of the outstanding capital securities when we repay the junior subordinated debentures held by the trust at maturity on February 15, 2008 or on a prior redemption of the junior subordinated debentures.

On December 15, 2005, we will be required to redeem the junior subordinated debentures, in whole, but not in part, at a redemption price equal to 100% of the principal amount of the junior subordinated debentures so redeemed plus accrued and unpaid interest thereon to the redemption date, provided that:

- we are well-capitalized for purposes of Regulation Y and we otherwise comply with the then applicable provisions of the capital adequacy guidelines of the Board of Governors of the Federal Reserve System; and
- the Federal Reserve Board consents to the redemption.

We will base the foregoing capital adequacy determinations on our unaudited consolidated financial statements as of September 30, 2005. If we meet these capital adequacy conditions, we will seek consent from the Federal Reserve Board to redeem the junior subordinated debentures and such redemption will be subject to the consent of the Federal Reserve Board.

We may also redeem the junior subordinated debentures, in whole but not in part, at any time if certain changes in tax, investment company or capital treatment law occur and other specified conditions are satisfied, as more fully described under Description of Capital Securities Redemption. In any event, we will pay accrued interest to the date of redemption.

What is State Street s guarantee of the capital securities?

We will guarantee the payments to the holders of the capital securities, based on:

- our obligations to make payments on the junior subordinated debentures;
- our obligations under the guarantee agreement;
- the provisions of the trust agreement; and
- the provisions of the indenture for the junior subordinated debentures.

Our obligations under the junior subordinated debentures and the guarantee are subordinate and rank junior in right of payment to all of our senior debt. As of December 31, 2002, our senior debt totaled approximately $6.8 billion and included $5.3 billion of securities sold under agreements to repurchase and $1.0 billion of commercial paper.

When could the junior subordinated debentures be distributed to you?

We have the right at any time to dissolve the trust and, after satisfaction of liabilities to creditors of the trust, cause the junior subordinated debentures to be distributed directly to you.

Will holders of the capital securities have any voting rights?

Except as described in Description of the Capital Securities Voting Rights; Amendment of Each Trust Agreement in the accompanying prospectus, as provided under the Delaware Statutory Trust Act and the Trust Indenture Act of 1939, as amended, and as otherwise required by law and the trust agreement, the holders of capital securities will have no voting rights.

Table of Contents

In what form will the capital securities be issued?

The capital securities will be represented by one or more global securities that will be deposited with and registered in the name of The Depository Trust Company, or DTC, or its nominee. This means that you will not receive a certificate for your capital securities and that your broker will maintain your position in the capital securities. We expect that the capital securities will be ready for delivery through DTC on January , 2003.

What are the expected uses of proceeds from this offering and the concurrent offerings?

The trust will use all of the proceeds received from the sale of the capital securities to purchase junior subordinated debentures from us. We estimate that we will receive net proceeds (after payment of underwriting commissions and expenses and our purchase of common securities of the trust) of $ million, or $ million if the underwriters option to purchase additional capital securities is exercised in full, from the sale of the junior subordinated debentures to the trust. We intend to use these net proceeds to fund a portion of the initial purchase price for the Acquired Business. We expect to fund the remainder of the initial purchase price for the Acquired Business with (1) the net proceeds from our concurrent offering of common stock (estimated to be approximately $236.1 million, or $271.8 million if the underwriters over-allotment option in that offering is exercised in full), (2) the proceeds related to the sale of our Corporate Trust business to U.S. Bank, N.A., which closed on December 31, 2002, and (3) other available funding. Pending such use, we may invest the proceeds temporarily in short-term securities.

Concurrent Offerings

In addition to the capital securities offered by this prospectus supplement, State Street Corporation is concurrently offering, by means of a separate prospectus supplement, 6,220,000 shares of its common stock, plus up to 933,000 additional shares if the underwriters for that offering exercise their option to purchase additional shares, and $275.0 million aggregate stated amount of SPACES, plus up to $41.25 million additional aggregate stated amount of SPACES if the underwriters for that offering exercise their option to purchase additional SPACES. Each SPACES has a stated amount of $200 and initially will consist of (a) a PACES and (b) a variable-share repurchase contract pursuant to which the holder agrees to deliver to us between zero and shares of our common stock on February 15, 2006. Each PACES will have a stated amount of $200 and will consist of (1) a fixed-share purchase contract pursuant to which the holder agrees to purchase from us, for $200, shares of our common stock on November 15, 2005, (2) an ownership interest in a zero-coupon U.S. treasury strip that will mature on November 15, 2005 with a principal amount of $1,000 and (3) an ownership interest in a portfolio of zero-coupon U.S. treasury strips that will mature on a quarterly basis through November 15, 2005. The PACES and the variable-share repurchase contracts may also be sold separately from each other and not as part of SPACES. This offering and the SPACES offering are contingent upon each other as well as upon the common stock offering.

Table of Contents

RISK FACTORS

In considering whether to purchase the capital securities, you should carefully consider all the information we have included or incorporated by reference in this prospectus supplement and the accompanying prospectus. In particular, you should carefully consider the following risk factors, as well as the factors listed in Forward-Looking Statements. In addition, because you may receive junior subordinated debentures upon dissolution of the trust, you are also making an investment decision with regard to the junior subordinated debentures. You should carefully review all the information in this prospectus supplement and the accompanying prospectus about both the capital securities and the junior subordinated debentures.

Risks Relating to the Capital Securities

The trust will pay scheduled distributions on the capital securities only if the trust receives cash payments from us.

The ability of the trust to pay scheduled distributions on the capital securities, the redemption price of the capital securities and the liquidation amount of each capital security depends upon us making the related payments to the trust on the junior subordinated debentures when due. If the trust does not have sufficient funds, it will be unable to pay distributions, the redemption price or the liquidation amount of the capital securities held by you.

Our obligations under the junior subordinated debentures and the guarantee are subordinated to our senior debt.

Our obligations under the junior subordinated debentures and the guarantee are unsecured and subordinate and junior in right of payment to all of our present and future senior debt. We cannot make any direct or indirect payment of principal of, premium, if any, or interest on the junior subordinated debentures, or in respect of any redemption, repayment, retirement, purchase or other acquisition of any of the junior subordinated debentures, at any time when there is a default in the payment of the senior debt, whether at stated maturity or otherwise. As of December 31, 2002, our senior debt totaled approximately $6.8 billion and included $5.3 billion of securities sold under agreements to repurchase and $1.0 billion of commercial paper.

None of the capital securities, the junior subordinated debentures or the guarantee limit our ability or the ability of our subsidiaries to incur additional debt, including indebtedness that ranks senior to the junior subordinated debentures and the guarantee.

The junior subordinated debentures are effectively subordinated to all existing and future indebtedness of our subsidiaries.

Because we are a holding company, our right to participate in any distribution of assets of any subsidiary upon such subsidiary s liquidation or reorganization or otherwise (and thus your ability to benefit indirectly from such distribution) is subject to the prior claims of creditors of that subsidiary except to the extent that we may be recognized as a creditor of that subsidiary. There are various legal limitations on the extent to which our subsidiaries may extend credit, pay dividends or otherwise supply funds to us or certain of our other subsidiaries. Our subsidiaries are separate and distinct legal entities and have no obligation, contingent or otherwise, to pay amounts due under the junior subordinated debentures or the guarantee or otherwise to make any funds available to us. Accordingly, the junior subordinated debentures and guarantee effectively will be subordinated to all existing and future liabilities of our subsidiaries, including deposits, and holders of junior subordinated debentures and the guarantee should look only to our assets for payments on the junior subordinated debentures and the guarantee.

We may defer interest payments on the junior subordinated debentures, which would have tax consequences for you and may affect the trading price of the capital securities.

So long as no event of default has occurred and is continuing under the junior subordinated debentures, we have the right to defer payments of interest on the junior subordinated debentures by extending the interest payment period at any time, and from time to time, for a period not exceeding 20 consecutive quarterly periods. No extension period may extend beyond the stated maturity of the junior subordinated debentures. As a result of any extension period, quarterly distributions on the capital securities will also be deferred by the trust and the amount of distributions to which you are entitled will accumulate additional distributions at a variable annual rate equal to 3-Month LIBOR plus %, compounded quarterly, to the extent permitted by applicable law, from the relevant payment date for such distributions during any extension period. Prior to the termination of any extension period, we may further extend the payment of interest so long as such extension period does not exceed 20 consecutive quarters or extend beyond the stated maturity of the junior subordinated debentures.

Upon the termination of any extension period and the payment of all interest accrued and unpaid, together with interest thereon at a variable annual rate equal to 3-Month LIBOR plus %, compounded quarterly, to the extent permitted by applicable law, from the interest payment date for such interest, we may commence a new extension period. There is no limitation on the number of times that we may elect to begin an extension period. We have no current intention of exercising our right to defer payments of interest by extending the interest payment period of the junior subordinated debentures.

If we defer the payment of interest, you will be required to accrue income as original issue discount in respect of the deferred stated interest allocable to your capital securities for United States federal income tax purposes, even though no cash is distributed. As a result, you will include such income in your gross income for United States federal income tax purposes in advance of the receipt of cash attributable to such income and you will not receive the cash related to such income from the trust if you dispose of your capital securities prior to the record date for the payment of distributions. We do not currently intend to exercise our right to defer payments of interest by commencing an extension period with respect to the junior subordinated debentures. However, should we elect to exercise our extension right in the future, the market price of the capital securities is likely to be affected. If you dispose of your capital securities during an extension period, you might not receive the same return on your investment as a holder that continues to hold its capital securities. In addition, as a result of the existence of our right to defer interest payments on the junior subordinated debentures, the market price of the capital securities, which represent beneficial ownership interests in the junior subordinated debentures, may be more volatile than the price of other securities that are not subject to such deferrals.

We have the right to redeem the junior subordinated debentures at any time if specified changes in tax, investment company or capital treatment law occur.

Upon the occurrence and continuation of a tax event, investment company event or capital treatment event as described in this prospectus supplement, we have the right, if some other conditions are met, to redeem the junior subordinated debentures, in whole but not in part, within 90 days following the occurrence of such tax event, investment company event or capital treatment event. Any redemption of the junior subordinated debentures will cause a mandatory redemption of the capital securities by the trust. We must receive the prior approval of the Federal Reserve Board, if then required under applicable capital guidelines or policies, prior to exercising our redemption rights.

Table of Contents

We will be required to redeem the junior subordinated debentures on December 15, 2005 if we are in compliance with certain regulatory requirements and the Federal Reserve Board consents to such redemption.

On December 15, 2005, we will be required, except as set forth below, to redeem the junior subordinated debentures, in whole, but not in part, at a redemption price equal to 100% of the principal amount of the junior subordinated debentures so redeemed plus accrued and unpaid interest thereon to the redemption date, provided that we are well-capitalized for purposes of Regulation Y and otherwise comply with the Capital Guidelines. We will base the foregoing determination on our unaudited consolidated financial statements as of September 30, 2005. If we meet these conditions, we will seek consent from the Federal Reserve Board to redeem the junior subordinated debentures and such redemption will be subject to the consent of the Federal Reserve Board. A redemption of the junior subordinated debentures will cause a mandatory redemption of the capital securities by the trust.

Although we currently satisfy each of the standards described above, there can be no assurance that we will satisfy the standards as of September 30, 2005, that the standards will remain the same or that the Federal Reserve Board will consent to the redemption.

We have the right to dissolve the trust and cause the junior subordinated debentures to be distributed to you.

We will have the right at any time to dissolve the trust and, after satisfaction of liabilities to creditors of the trust as required by law, cause the junior subordinated debentures to be distributed to you upon liquidation of the trust. Under current United States federal income tax law and interpretations and assuming, as expected, that the trust is not classified as a corporation for such purposes, a distribution of junior subordinated debentures upon a dissolution of the trust should not be a taxable event to you. Upon the occurrence of a tax event, an investment company event or a capital treatment event, however, a dissolution of the trust in which you receive cash could be a taxable event to the trust and you.

We cannot assure you of the market prices for the capital securities or the junior subordinated debentures that may be distributed in exchange for capital securities upon a dissolution of the trust. Accordingly, the capital securities that you may purchase or the junior subordinated debentures that you may receive upon a dissolution of the trust, may trade at a discount to the price that you paid to purchase the capital securities. Because you may receive junior subordinated debentures, you are also making an investment decision with regard to the junior subordinated debentures and should carefully review all the information regarding the junior subordinated debentures contained in this prospectus supplement and in the accompanying prospectus. See Description of Junior Subordinated Debentures.

The market price of the capital securities or the junior subordinated debentures may be lower than the price that you paid and may be volatile.

As described above, we have the right to extend an interest payment period on the junior subordinated debentures from time to time for a period not exceeding 20 consecutive quarterly periods. If we elect to begin an extension period, or if we thereafter extend an extension period or prepay interest accrued during an extension period as described above, the market price of the capital securities is likely to be affected. In addition, as a result of our right to defer interest on the junior subordinated debentures, the market price of the capital securities, which represent beneficial ownership interests in the junior subordinated debentures, may be more volatile than other securities that are not subject to optional deferrals. If you dispose of your capital securities during an extension period, you may not receive the same return on your investment as a holder that continues to hold its capital securities.

The indenture does not contain provisions that protect holders of the junior subordinated debentures in the event of a highly leveraged transaction.

The indenture for the junior subordinated debentures does not contain provisions that afford holders of the junior subordinated debentures protection in the event of a highly leveraged transaction, including a change of control, or other similar transaction involving us that may adversely affect such holders.

As a holder of capital securities you will have limited voting rights.

Holders of capital securities will have limited voting rights and will not be entitled to vote to appoint, remove or replace, or to increase or decrease the number of trustees (as described in this prospectus supplement). Such voting rights are vested exclusively in the holder of the common securities. We will hold 100% of the common securities of the trust. The property trustee, the administrative trustees (each as described in this prospectus supplement) and we may amend the trust agreement without your consent to ensure that the trust will not be taxable as a corporation or classified as other than a grantor trust for United States federal income tax purposes unless such action materially and adversely affects your interests.

Prior to this offering, there has been no public market for the capital securities.

Prior to this offering, there has been no public market for the capital securities. We do not intend to list the capital securities or the junior subordinated debentures on any stock exchange. We cannot assure you that an active trading market will develop for the capital securities or that, if such market develops, the market price will equal or exceed the public offering price set forth on the cover page of this prospectus supplement. The public offering price for the capital securities has been determined through negotiations between State Street and the underwriters. Prices for the capital securities will be determined in the marketplace and may be influenced by many factors, including the liquidity of the market for the capital securities, investor perceptions of State Street and general industry and economic conditions.

Risks Related to our Business

We may be unable to achieve the cost reductions and economies of scale that we expect from integrating the Acquired Business into our existing operations, we may be unable to retain the clients of the Acquired Business and the success of the acquisition will depend in part on our relationship with Deutsche Asset Management.

We intend to use the net proceeds of our concurrent offering of common stock and State Street Capital Trust II s concurrent offering of capital securities to fund a portion of the purchase price for our acquisition of Deutsche Bank AG s Global Securities Services business, which we refer to as the Acquired Business. The closing of the acquisition is subject to various regulatory approvals which we expect to obtain, but it is possible that they will be delayed or will not be obtained. Accordingly, the closing of the acquisition may not occur in the timeframe that we expect, and it is possible that the closing may not occur at all.

Following the closing of the acquisition, our ability to achieve significant cost reductions and greater economies of scale from the integration of the Acquired Business into our existing operations and our ability to retain key employees of the Acquired Business will be important to achieving the expected financial results of the acquisition. The scale, scope and nature of the integration effort required as a result of the acquisition present a greater challenge than that presented by our previous integration efforts. We cannot assure you that the integration will take place on the expected schedule or that it will provide the cost savings and economies of scale we are currently expecting to achieve. Furthermore, the integration of the Acquired Business will require a significant commitment of time and resources by our management and other personnel. This may adversely affect our ability to service and retain our existing clients.

In addition, we may be unable to retain a sufficient number of clients of the Acquired Business after the acquisition in order to meet our expected financial results. Although we are actively engaging in efforts to retain, and market our investment services to, the clients of the Acquired Business, we expect that some clients will elect other service providers as a result of the acquisition. We also expect that our competitors will actively solicit the clients of the Acquired Business during the transition of these clients into our operations. The holdback amount that we are withholding from the purchase price payable at the closing of the acquisition will not protect us from client attrition and revenue loss in the Acquired Business after the approximately one-year period after the acquisition or from client attrition and revenue loss in an amount greater than the holdback amount.

Further, in connection with the acquisition, we expect to enter into 10-year contracts to provide global investment services to Deutsche Asset Management (DeAM) entities and their clients. The early termination of these contracts would adversely affect our ability to achieve the expected financial results of the acquisition. DeAM is the Acquired Business largest client, representing approximately 25% of the Acquired Business total revenues during the eight-month period ended August 31, 2002. After the acquisition, DeAM will be one of our largest clients. On the fifth and eighth anniversaries of the contracts, the fees charged will be adjusted upward or downward to match the then current market level of fees for such services. Individual DeAM entities or their clients may terminate their contracts with us if we do not agree to reduce the fees to the then current market levels.

Our failure to properly perform our fiduciary, custodial and other obligations could adversely affect our business, financial position or results of operations.

We provide custody, accounting, daily pricing and administration, master trust and master custody, investment management, trustee and recordkeeping, foreign exchange, securities lending, cash management, trading, and information services to clients worldwide. Assets under custody and assets under management are held by us in a fiduciary or custodial capacity and are not included as assets of ours. If we fail to perform these services in a manner consistent with our fiduciary, custodial and other obligations, clients may lose confidence in our ability to properly perform these services and our business may be adversely affected. In addition, any such failure may result in contingent liabilities that could have an adverse effect on our financial position or losses that could have an adverse effect on our results of operations.

Decreases in cross-border investing because of economic and political uncertainties may lower our revenue.

Increased cross-border investing by our clients worldwide generally increases our revenue. Our future revenue may increase or decrease depending upon the extent of increases or decreases in cross-border investments made by our clients. Economic and political uncertainties resulting from terrorist attacks, subsequent military actions or other events could result in decreased cross-border investment activities.

Changes in the savings rate or investment preferences of individuals may lower our revenue.

Our business generally benefits when individuals invest their savings in mutual funds and other collective funds or in defined contribution plans. If there is a decline in the savings rates of individuals, or if there is a change in investment preferences that leads to less investment in mutual funds, other collective funds and defined contribution plans, our revenues may be adversely affected.

Declines in the value of worldwide financial markets may reduce the amount of our fee revenue.

As worldwide financial markets increase or decrease in value, our opportunities to invest and service financial assets may change. Since a portion of our fees are based on the value of assets under custody and management, fluctuations in the valuation of worldwide securities markets will affect our revenue. We estimate, based on a study conducted in 2000, that a 10% increase or decrease in worldwide equity values would cause a corresponding change in our total revenue of approximately 2%. If bond values worldwide were to increase or decrease by 10%, we would anticipate a corresponding change of approximately 1% in our total revenue.

Changes in the markets we serve and applicable laws and regulations may adversely affect our growth and business.

Changes in the markets we serve, including the growth rate of collective funds worldwide, outsourcing decisions, mergers, acquisitions and consolidations among clients and competitors and the pace of debt issuance, can affect our revenue. In general, we benefit from increases in the volume of financial market transactions that we are able to service.

We provide services worldwide. Global and regional economic factors and changes or potential changes in laws and regulations affecting our business, including volatile currencies, pace of inflation, changes in monetary policy, changes in domestic and international banking supervisory regulations, including capital requirements, and social and political instability, could adversely affect our results of operations. For example, the significant slowing of economic growth globally is affecting worldwide equity values and business growth. The terrorist attacks that took place in the United States on September 11, 2001, and subsequent military and terrorist activities, have caused economic and political uncertainties. These activities, the national and global efforts to combat terrorism and other potential military activities and outbreaks of hostilities have affected and may further adversely affect economic growth, and may have other adverse effects on us in ways that are not predictable. In a similar manner, financial reporting irregularities involving large and well-known companies may have other adverse effects on us in ways that are not predictable. Also, we cannot predict the final form of, or the effects of, the regulatory accord on international banking institutions to be reached by the Basel Committee on Banking Supervision.

Legislation may cause changes in the competitive environment in which we operate, which could include, among other things, broadening the scope of activities of significant competitors, facilitating consolidation of competitors into stronger entities or attracting large and well-capitalized new competitors into our traditional businesses. Such factors and changes and our ability to address and adapt to regulatory and competitive challenges may adversely affect our future results of operations.

Changes in interest rates may adversely affect our net interest revenue and securities lending revenue.

The levels of market interest rates, the shape of the yield curve and the direction of interest rate changes affect our net interest revenue and securities lending revenue, which is recorded in both our servicing and management fees. In the short term, our net interest revenue and securities lending revenue generally increase during periods of falling interest rates and generally decrease during periods of rising rates because interest-bearing liabilities reprice sooner than interest-earning assets. Sustained lower interest rates and a flat yield curve may have a constraining effect on our net interest revenue and securities lending revenue growth.

Table of Contents

Events or circumstances that limit our access to the funds markets may adversely affect our liquidity.

Any occurrence that limits our access to the funds markets, such as a decline in the confidence of debt purchasers, depositors or counterparties participating in the funds markets in general, or with us in particular, or a downgrade of any of our debt ratings, may adversely affect our ability to raise capital and, in turn, our liquidity.

If we fail to maintain adequate capital for regulatory purposes, our business may be adversely affected.

Under regulatory capital adequacy guidelines, we and State Street Bank must meet guidelines that involve quantitative measures of assets, liabilities and certain off-balance sheet items, subject to qualitative judgments by regulators about components, risk weightings and other factors. Failure to meet minimum capital requirements could have a direct material effect on our financial condition. In particular, failure to maintain the status of well capitalized under our regulatory framework could affect our status as a financial holding company and eligibility for a streamlined review process for acquisition proposals. In addition, our failure to maintain the status of well capitalized could affect the confidence of our clients in us and could adversely affect our business.

A decrease in the volatility of foreign exchange rates could reduce our foreign exchange trading revenue.

The degree of volatility in foreign exchange rates can affect the amount of our foreign exchange trading revenue. In general, we benefit from currency volatility. Accordingly, our foreign exchange revenue is likely to decrease during times of decreased currency volatility.

Delays in pension reform may adversely affect our revenue growth.

We expect that our business will benefit from worldwide pension reform that creates additional pools of assets that use custody and related services, and investment management services. If the pace of pension reform and resulting programs, including public and private pension schemes, slows down or if pension reform does not occur, then our revenue growth may be adversely affected.

Changes in our ability to sell additional services to our clients and the mix of our business may adversely affect our revenues.

A decline in the pace at which we attract new clients and the pace at which existing and new clients use additional services and assign additional assets to us for management or custody will adversely affect our future results of operations. A decline in the rate at which our clients outsource functions, such as their internal accounting activities, would also adversely affect our results of operations. In addition, changes in our mix of business and the sources of our revenue, including the mix of our U.S. and non-U.S. business, may adversely affect our future results of operations. We generally earn higher margins on our non-U.S. business.

Events that damage our physical facilities or disrupt our operational functions or similarly affect those with whom we do business could adversely affect our results of operations.

Events, including terrorist or military actions and resulting political and social turmoil, could arise that would cause unforeseen damage to our physical facilities or could cause delays or disruptions to operational functions, including information processing and financial market settlement functions. Additionally, our clients, vendors and counterparties could suffer from such events. Should these events affect us, or the clients, vendors or counterparties with whom we conduct business, our results of operations could be adversely affected.

Table of Contents

Rapid technological changes in the market for our products and services may cause us to incur increased expenses or hurt us competitively.

Technological change often creates opportunities for product differentiation and reduced costs, as well as the possibility of increased expenses. Developments in the securities processing industry, including shortened settlement cycles and straight-through-processing, will result in changes to existing procedures. Alternative delivery systems have emerged, including the widespread use of the Internet. Our financial performance depends in part on our ability to develop and market new and innovative services, and to adopt or develop new technologies that differentiate our products or provide cost efficiencies.

Rapid technological change in our industry, changes in our ability to access technical and other information from clients, and the significant and ongoing investments required to bring new services to market in a timely fashion at competitive prices could adversely affect our business. The introduction by our competitors of services that could replace or provide lower-cost alternatives to our services would also adversely affect our business.

We may engage in unsuccessful acquisitions and divestitures.

Acquisitions of complementary businesses and technologies, development of strategic alliances and divestitures of portions of our business are an active part of our overall business strategy. Services, technologies, key personnel or businesses of acquired companies may not be effectively assimilated into our business or service offerings and our alliances may not be successful. We may not be able to successfully complete any divestitures on satisfactory terms, if at all. Divestitures may result in a reduction in our total revenues and net income.

If a third party misappropriates our technology or asserts that we have infringed its proprietary rights, we may suffer a competitive disadvantage or be required to spend significant resources.

We use trademark, trade secret, copyright and other proprietary rights procedures to protect our technology, and we have applied for a limited number of patents in connection with certain software programs. Despite these efforts, we cannot be certain that the steps we take to prevent unauthorized use of our proprietary rights are sufficient to prevent misappropriation of our technology, particularly in foreign countries where laws or law enforcement practices may not protect our proprietary rights as fully as in the United States. In addition, we cannot assure you that the courts will adequately enforce contractual arrangements which we have entered into to protect our proprietary technologies. If any of our proprietary information were misappropriated by or otherwise disclosed to our competitors, our competitive position could be adversely affected.

In the event that a third party asserts a claim of infringement of its proprietary rights, obtained through patents or otherwise, against us, we may be required to spend significant resources to defend against such claims, develop a non-infringing program or process, or obtain a license to the infringed process.

Table of Contents

FORWARD-LOOKING STATEMENTS

This prospectus supplement, including documents incorporated by reference in the accompanying prospectus, contains forward-looking statements with respect to our financial condition, results of operations, plans, objectives, future performance and business, including, without limitation, statements preceded by, followed by or that include the words believes, expects, anticipates, estimates or similar expressions.

These forward-looking statements involve risks and uncertainties. Actual results may differ materially from those contemplated by the forward-looking statements due to many factors, including:

- the failure to achieve the cost reductions and economies of scale that we expect to achieve in the integration of the Acquired Business and the loss of clients of the Acquired Business, including DeAM, may affect our ability to achieve the expected financial results from the acquisition of the Acquired Business;
- the extent of increases or decreases in cross-border investments made by clients or future clients may affect our revenues;
- changes in the savings rate of individuals that are invested in mutual funds and other collective funds or in defined contribution plans may affect our revenues;
- fluctuations in worldwide securities market valuations may affect our revenues;
- changes in markets served, including the growth rate of collective funds worldwide, the pace of debt issuance, outsourcing decisions, and mergers, acquisitions and consolidations among clients and competitors may affect our revenues;
- global and regional economic factors and changes or potential changes in laws and regulations affecting our business, including volatile currencies, pace of inflation and changes in monetary policy, and social and political instability, could affect our results of operations;
- legislation may cause changes in the competitive environment in which we operate, which could include, among other things, broadening the scope of activities engaged in by significant competitors, facilitating consolidation of competitors into stronger entities or attracting large and well-capitalized new competitors into our traditional businesses, which may affect our future results;
- changes in accounting principles generally accepted in the United States and applicable to us, while not having an economic impact on our business, could have a material impact on our reported results of operations and the attainment of the current measures of our financial goals;
- any occurrence which may limit our access to the funds markets, such as a decline in the confidence of debt purchasers, depositors or counterparties in the funds markets in general or with us in particular, or a downgrade of our debt rating, may affect our future results;
- failure to meet minimum capital requirements and the status of well capitalized under the regulatory framework applicable to us could adversely affect our business;
- market interest rate levels, the shape of the yield curve and the direction of interest rate changes affect our net interest revenue and securities lending revenue;
- the degree of volatility in foreign exchange rates can affect the amount of our foreign exchange trading revenue;
- the pace of pension reform and resulting programs, including public and private pension schemes, may affect the pace of our revenue growth;

Table of Contents

future prices that we are able to obtain for our products may increase or decrease from current levels depending upon demand for our products, our competitors activities and the introduction of new products into the marketplace;

the pace at which we attract new clients and at which existing and new clients use additional services and assign additional assets to us for management or custody will affect our future results;

changes in business mix, including the mix of U.S. and non-U.S. business, may affect our future results;

unforeseen events, including terrorist or military actions and resulting political and social turmoil, could cause damage to our physical facilities or cause delays or disruptions to our operational functions, including information processing and financial market settlement functions;

technological change and our ability to develop and market new and innovative services may be more difficult or expensive than anticipated;

our ability to effectively assimilate services, technologies, key personnel or businesses of acquired companies may affect our future results; and

changes may occur in securities markets which may affect our revenues.

Table of Contents

USE OF PROCEEDS

The trust will use all of the proceeds received from the sale of the capital securities to purchase junior subordinated debentures from us. We estimate that we will receive net proceeds (after payment of underwriting commissions and expenses and the purchase price for common securities of the trust) of approximately $ million, or $ million if the underwriters option to purchase additional capital securities is exercised in full, from the sale of the junior subordinated debentures to the trust. We intend to use these net proceeds to fund the payment of a portion of the initial purchase price for the Acquired Business. We expect to fund the remainder of the initial purchase price for the Acquired Business with (1) the net proceeds from our concurrent offering of common stock (estimated to be approximately $236.1 million, or $271.8 million if the underwriters over-allotment option in that offering is exercised in full), (2) the proceeds related to the sale of our Corporate Trust business to U.S. Bancorp, which closed on December 31, 2002, and (3) other available funding. Pending such use, we may invest the proceeds temporarily in short-term securities.

We are required by the Federal Reserve Board to maintain certain levels of capital for bank regulatory purposes. Based upon a letter from the staff of the Board of Governors of the Federal Reserve System, we believe that the terms of the capital securities, together with the terms of the SPACES that we are concurrently offering under a separate prospectus supplement will enable us to treat the net proceeds from this offering as Tier 1 capital.

ACCOUNTING TREATMENT

For financial reporting purposes, the trust will be treated as our subsidiary and, accordingly, the accounts of the trust will be included in our consolidated balance sheets. The capital securities will be treated as long-term debt in our consolidated balance sheets and appropriate disclosures about the capital securities, the guarantee and the junior subordinated debentures will be included in the notes to our consolidated financial statements. For financial reporting purposes, we will record distributions payable on the capital securities as an expense in our consolidated statements of income.

CONSOLIDATED RATIOS OF EARNINGS TO FIXED CHARGES

Our consolidated ratios of earnings to fixed charges were as follows for the six most recent fiscal years:

	Years Ended December 31,					
	1997	1998	1999	2000	2001	2002