STATE STREET CORP
Form 10-K
February 15, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

Form 10-K

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

For the fiscal year ended December 31, 2007
OR

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

For the transition period from to

Commission File No. 001-07511

STATE STREET CORPORATION

(Exact name of registrant as specified in its charter)

Massachusetts	**04-2456637**
(State or other jurisdiction of incorporation)	(I.R.S. Employer Identification No.)
One Lincoln Street **Boston, Massachusetts**	**02111**
(Address of principal executive office)	(Zip Code)

617-786-3000
(Registrant's telephone number, including area code)

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

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

Securities registered pursuant to Section 12(g) of the Act:
None

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

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

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

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes o No ý

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the per share price ($68.40) at which the common equity was last sold as of the last business day of the registrant's most recently completed second fiscal quarter (June 29, 2007) was approximately $23.00 billion.

The number of shares of the registrant's Common Stock outstanding as of January 31, 2008 was 387,445,603.

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

(1) The registrant's definitive Proxy Statement for the 2008 Annual Meeting to be filed pursuant to Regulation 14A on or before April 30, 2008 (Part III).

STATE STREET CORPORATION
Table of Contents

	Description	Page Number
PART I		
Item 1	Business	1
Item 1A	Risk Factors	6
Item 1B	Unresolved Staff Comments	18
Item 2	Properties	18
Item 3	Legal Proceedings	19
Item 4	Submission of Matters to a Vote of Security Holders	19
Item 4A	Executive Officers of the Registrant	20
PART II		
Item 5	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	22
Item 6	Selected Financial Data	24
Item 7	Management's Discussion and Analysis of Financial Condition and Results of Operations	25
Item 7A	Quantitative and Qualitative Disclosures About Market Risk	75
Item 8	Financial Statements and Supplementary Data	76
Item 9	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	132
Item 9A	Controls and Procedures	132
Item 9B	Other Information	135
PART III		
Item 10	Directors, Executive Officers and Corporate Governance	135
Item 11	Executive Compensation	136
Item 12	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	136
Item 13	Certain Relationships and Related Transactions, and Director Independence	137
Item 14	Principal Accounting Fees and Services	137
PART IV		
Item 15	Exhibits and Financial Statement Schedules	138
	Signatures	142
	Exhibit Index	144

PART I

ITEM 1. BUSINESS

State Street Corporation is a financial holding company, organized in 1970 under the laws of the Commonwealth of Massachusetts. Through its subsidiaries, including its principal banking subsidiary, State Street Bank and Trust Company, State Street Corporation provides a full range of products and services for institutional investors worldwide. All references in this Form 10-K to "the parent company" are to State Street Corporation. Unless otherwise indicated or unless the context requires otherwise, all references in this Form 10-K to "State Street," "we," "us," "our" or similar terms mean State Street Corporation and its subsidiaries on a consolidated basis. State Street Bank and Trust Company is referred to as "State Street Bank." The parent company is a legal entity separate and distinct from its subsidiaries, assisting those subsidiaries by providing financial resources and management. At December 31, 2007, we had consolidated total assets of $142.54 billion, consolidated total deposits of $95.79 billion, consolidated total shareholders' equity of $11.30 billion and employed 27,110. Our executive offices are located at One Lincoln Street, Boston, Massachusetts 02111 (telephone (617) 786-3000).

We make available, without charge, on or through our Internet website at *www.statestreet.com* all reports we electronically file with, or furnish to, the Securities and Exchange Commission, including our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, as well as any amendments to those reports, as soon as reasonably practicable after those documents have been filed with, or furnished to, the SEC. These documents are also accessible on the SEC's website at *www.sec.gov*. We have included the website addresses of State Street and the SEC as inactive textual references only. Except as may be specifically incorporated by reference into this Form 10-K, information on those websites is not part of this Form 10-K.

We have adopted Corporate Governance Guidelines, as well as written charters for the Executive Committee, the Examining and Audit Committee, the Executive Compensation Committee, and the Nominating and Corporate Governance Committee of our Board of Directors, and a Code of Ethics for Senior Financial Officers, a Standard of Conduct for Directors, and a Standard of Conduct for our employees. Each of these documents is posted on our website, and each is available in print to any shareholder who requests it by writing to the Office of the Secretary, State Street Corporation, One Lincoln Street, Boston, Massachusetts 02111.

GENERAL

We conduct our business primarily through our principal banking subsidiary, State Street Bank, which traces its beginnings to the founding of the Union Bank in 1792. State Street Bank's current charter was authorized by a special act of the Massachusetts Legislature in 1891, and its present name was adopted in 1960. With $15.30 trillion of assets under custody and $1.98 trillion of assets under management at year-end 2007, we are a leading specialist in meeting the needs of institutional investors worldwide. Our customers include mutual funds and other collective investment funds, corporate and public retirement plans, insurance companies, foundations, endowments and other investment pools, and investment managers. Including the United States, we operate in 26 countries and more than 100 geographic markets worldwide.

For a discussion of our business activities, refer to the "Lines of Business" section that follows. For information about our management of capital, liquidity, market risk, including interest-rate risk, and other risks inherent in our businesses, refer to Management's Discussion and Analysis of Financial Condition and Results of Operations included under Item 7, and Risk Factors, under Item 1A, of this Form 10-K. Financial information with respect to our non-U.S. activities is included in note 23 of the Notes to Consolidated Financial Statements included in this Form 10-K under Item 8.

In July 2007, we completed our acquisition of Investors Financial Services Corp., a bank holding company based in Boston, Massachusetts, with approximately $17 billion in total assets and approximately $1.9 trillion in assets under custody. We acquired Investors Financial in order to enhance our position as a worldwide service provider to institutional investors. Additional information about this acquisition is included in note 2 of the Notes to Consolidated Financial Statements included in this Form 10-K under Item 8.

LINES OF BUSINESS

We report two lines of business: Investment Servicing and Investment Management. These two lines of business provide services to support institutional investors, including custody, recordkeeping, daily pricing and administration, shareholder services, foreign exchange, brokerage and other trading services, securities finance, deposit and short-term investment facilities, loan and lease financing, investment manager and hedge fund manager operations outsourcing, performance, risk and compliance analytics, investment research and investment management, including passive and active U.S. and non-U.S. equity and fixed income strategies. For additional information about our lines of business, see the "Line of Business Information" section of Management's Discussion and Analysis included under Item 7, and note 22 of the Notes to Consolidated Financial Statements included under Item 8, of this Form 10-K.

COMPETITION

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

We believe that there are certain key competitive considerations in these markets. These considerations include, for investment servicing, quality of service, economies of scale, technological expertise, quality and scope of sales and marketing, and price; and for investment management, expertise, experience, the availability of related service offerings, and price.

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

SUPERVISION AND REGULATION

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

Reserve Board before it may acquire substantially all the assets of any bank or ownership or control of more than 5% of the voting shares of any bank.

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

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

Capital Adequacy

Like other bank holding companies, we are subject to Federal Reserve Board minimum risk-based capital and leverage ratio guidelines. As noted above, our status as a financial holding company also requires that we maintain certain capital ratio levels. State Street Bank is subject to similar risk-based capital and leverage ratio guidelines. As of December 31, 2007, our capital levels on a consolidated basis, and the capital levels of State Street Bank, exceeded the applicable minimum capital requirements and the requirements to qualify as a financial holding company. Failure to meet capital requirements could subject us to a variety of enforcement actions, including the termination of deposit insurance of State Street Bank by the Federal Deposit Insurance Corporation, and to certain restrictions on our business that are described further in this "Supervision and Regulation" section.

For additional information about our capital position and capital adequacy, refer to the "Capital" section of Management's Discussion and Analysis included under Item 7, and note 14 of the Notes to Consolidated Financial Statements included under Item 8, of this Form 10-K.

Subsidiaries

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

Our bank subsidiaries are subject to supervision and examination by various regulatory authorities. State Street Bank is a member of the Federal Reserve System and the FDIC and is subject to applicable federal and state banking laws and to supervision and examination by the Federal Reserve Bank of Boston, as well as by the Massachusetts Commissioner of Banks, the FDIC, and the regulatory authorities of those countries in which a branch of State Street Bank is located. Other subsidiary trust companies are subject to supervision and examination by the Office of the Comptroller of the Currency, other offices of the Federal Reserve System or by the appropriate state banking regulatory authorities of the states in which they are located. Our non-U.S. bank subsidiaries are subject to regulation by the regulatory authorities of the countries in which they are located. As of December 31, 2007, the capital of each of these banking subsidiaries was in excess of the minimum legal capital requirements as set by those authorities.

The parent company and its non-bank subsidiaries are affiliates of State Street Bank under federal banking laws, which impose certain restrictions on transfers of funds in the form of loans, extensions of credit, investments or asset purchases from State Street Bank to the parent and its non-bank subsidiaries. Transfers of this kind to affiliates by State Street Bank are limited with respect to each affiliate to 10% of State Street Bank's capital and surplus, as defined, and to 20% in the aggregate for all affiliates, and are subject to certain collateral requirements. As a bank holding company, the parent company and its subsidiaries are prohibited from engaging in certain tie-in arrangements in connection with any extension of credit or lease or sale of property or furnishing of services. Federal law also provides that certain transactions with affiliates must be on terms and under circumstances, including credit standards, that are substantially the same or at least as favorable to the institution as those prevailing at the time for comparable transactions involving other non-affiliated companies or, in the absence of comparable transactions, on terms and under circumstances, including credit standards, that in good faith would be offered to, or would apply to, non-affiliated companies. The Federal Reserve Board has jurisdiction to regulate the terms of certain debt issues of bank holding companies. Federal law provides as well for a depositor preference on amounts realized from the liquidation or other resolution of any depository institution insured by the FDIC.

Our investment management division, State Street Global Advisors, or "SSgA," which acts as an investment advisor to investment companies registered under the Investment Company Act of 1940, is registered as an investment adviser with the SEC. However, a major portion of our investment management activities are conducted by State Street Bank, which is subject to supervision primarily by the Federal Reserve Board and the SEC with respect to these activities. Our U.S. broker/dealer subsidiary is registered as a broker/dealer with the SEC, is subject to regulation by the SEC (including the SEC's net capital rule) and is a member of the Financial Industry Regulatory Authority, a self-regulatory organization. Many aspects of our investment management activities are subject to federal and state laws and regulations primarily intended to benefit the investment holder. These laws and regulations generally grant supervisory agencies and bodies broad administrative powers, including the power to limit or restrict us from carrying on our investment management activities in the event that we fail to comply with such laws and regulations, and examination authority. Our business relating to investment management and trusteeship of collective trust funds and separate accounts offered to employee benefit plans is subject to ERISA and is regulated by the U.S. Department of Labor.

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

Most of our non-U.S. operations are conducted pursuant to Federal Reserve Board Regulation K through State Street Bank's Edge Act corporation subsidiary or through international branches of State Street Bank. An Edge Act corporation is a corporation organized under federal law that conducts foreign business activities. In general, banks may not invest more than 20% of their capital and surplus in their Edge Act corporations (and similar state law corporations), and the investment of any amount in excess of 10% of capital and surplus requires the prior approval of the Federal Reserve Board (which approval is generally valid for a 12-month period). State Street Bank periodically applies to the Federal Reserve Board to invest in excess of 10% of its capital and surplus in its Edge Act corporation, and State Street Bank currently has approval to continue investing a dollar amount up to the equivalent of 18% of its capital and surplus.

In addition to non-U.S. operations conducted pursuant to Regulation K, we make new investments abroad directly (through the parent company or through non-bank subsidiaries of the parent company) pursuant to Federal Reserve Board Regulation Y, or through international bank branch expansion, which are not subject to the 20% investment limitation for Edge Act corporation subsidiaries. We cannot predict with certainty what the future impact of the Regulation K investment limitation may be, but in light of available alternatives, we do not believe the limitation will materially limit our ability to expand internationally.

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

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

Support of Subsidiary Banks

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

ECONOMIC CONDITIONS AND GOVERNMENT POLICIES

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

STATISTICAL DISCLOSURE BY BANK HOLDING COMPANIES

The following information, provided under Items 6, 7 and 8 of this Form 10-K, is incorporated by reference herein:

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

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

Note 3, "Investment Securities," of the Notes to Consolidated Financial Statements (Item 8) and "Investment Securities" section included in Management's Discussion and Analysis of Financial Condition and Results of Operations (Item 7) disclose information regarding book values, market values, maturities and weighted average yields of securities (by category).

Note 1, "Summary of Significant Accounting Policies Loans and Lease Financing" of the Notes to Consolidated Financial Statements (Item 8) discloses our policy for placing loans and leases on non-accrual status.

Note 4, "Loans and Lease Financing," of the Notes to Consolidated Financial Statements (Item 8) and "Loans and Lease Financing" section included in Management's Discussion and Analysis of Financial Condition and Results of Operations (Item 7) disclose distribution of loans, loan maturities and sensitivities of loans to changes in interest rates.

"Loans and Lease Financing" and "Cross-Border Outstandings" sections of Management's Discussion and Analysis of Financial Condition and Results of Operations (Item 7) disclose information regarding cross-border outstandings and other loan concentrations of State Street.

"Credit Risk" section of Management's Discussion and Analysis of Financial Condition and Results of Operations (Item 7) and note 4, "Loans and Lease Financing," of the Notes to Consolidated Financial Statements (Item 8) present the allocation of the allowance for loan losses, and a description of factors which influenced management's judgment in determining amounts of additions or reductions to the allowance charged or credited to results of operations.

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

Note 8, "Short-Term Borrowings," of the Notes to Consolidated Financial Statements (Item 8) discloses information regarding short-term borrowings of State Street.

ITEM 1A. RISK FACTORS

This Form 10-K contains statements (including, without limitation, statements in Management's Discussion and Analysis of Financial Condition and Results of Operations, included in this Form 10-K under Item 7) that are considered "forward-looking statements" within the meaning of U.S. federal securities laws. In addition, State Street and its management may make other written or oral communications from time to time that contain forward-looking statements. Forward-looking statements, including statements as to industry trends, management's future expectations and other matters that do not relate strictly to historical facts, are based on assumptions by management, and are often identified by such forward-looking terminology as "expect," "look," "believe," "anticipate," "estimate," "seek," "may," "will," "trend," "target" and "goal," or similar statements or variations of such terms. Forward-looking statements may include, among other things, statements about State Street's confidence in its strategies and its expectations about financial performance, market growth, acquisitions and divestitures, new technologies, services and opportunities, and earnings.

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

- our ability to integrate and convert acquisitions into our business, including the acquisition of Investors Financial Services Corp.;
- the level and volatility of interest rates, particularly in the U.S. and Europe; the performance and volatility of securities, currency and other markets in the U.S. and internationally; and economic conditions and monetary and other governmental actions designed to address those conditions;
- the liquidity of the U.S. and European securities and currency markets, particularly the markets for fixed income securities, including asset-backed commercial paper, and the liquidity requirements of our customers;
- the credit quality and credit agency ratings of the securities in our investment securities portfolio, a deterioration or downgrade of which could lead to other-than-temporary impairment of the respective securities and the recognition of an impairment loss;
- our ability to attract non-interest bearing deposits and other low-cost funds;
- the results of litigation and similar disputes and, in particular, the effect that current or potential litigation may have on the reputation of SSgA and its ability to attract and retain customers;
- the possibility that the ultimate costs of the legal exposure associated with certain of SSgA's actively managed fixed-income strategies may exceed or be below the level of the related reserve, in view of the uncertainties of the timing and outcome of litigation, and the amounts involved; and the possibility of further developments of the nature giving rise to the legal exposure associated with SSgA's actively managed fixed-income and other investment strategies;
- the performance and demand for the products and services we offer;
- the competitive environment in which we operate;
- the enactment of legislation and changes in regulation and enforcement that impact us and our customers, as well as the effects of legal and regulatory proceedings, including litigation;
- our ability to continue to grow revenue, control expenses and attract the capital necessary to achieve our business goals and comply with regulatory requirements;
- our ability to manage systemic risks and control operating risks;
- our ability to obtain quality and timely services from third parties with which we contract;
- trends in the globalization of investment activity and the growth on a worldwide basis in financial assets;
- trends in governmental and corporate pension plans and savings rates;

changes in accounting standards and practices, including changes in the interpretation of existing standards, that impact our consolidated financial statements; and

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

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

Actual outcomes and results may differ materially from what is expressed in our forward-looking statements and from our historical financial results due to the factors discussed in this Risk Factors section and elsewhere in this Form 10-K or disclosed in our other SEC filings, and forward-looking statements should not be relied upon as representing our expectations or beliefs as of any date subsequent to the date this Form 10-K is filed with the SEC. State Street undertakes no obligation to revise the forward-looking statements contained in this Form 10-K to reflect events after the date it is filed with the SEC. The factors discussed above and below are not intended to be a complete summary of all risks and uncertainties that may affect our businesses. Though we strive to monitor and mitigate risk, we cannot anticipate all potential economic, operational and financial developments that may adversely impact our operations and our financial results.

Business Conditions/Economic Risk

Our businesses are affected by global economic conditions, political uncertainties and volatility and other developments in the financial markets. Factors such as interest rates and commodities prices, regional and international rates of economic growth, inflation, political instability, the liquidity and volatility of fixed-income, equity, credit, currency, derivative and other financial markets, and investor confidence can significantly affect the financial markets in which we and our customers are engaged. Such factors have affected, and may further unfavorably affect, both regional and worldwide economic growth, creating adverse effects on many companies, including us, in ways that are not predictable or that we may fail to anticipate.

A significant market downturn may lead to a decline in the value of assets under management and custody, which would reduce our asset-based fee revenue and the value of securities we hold in our investment portfolio, and may adversely impact other transaction-based revenue, such as securities finance revenue, and the volume of transactions that we execute for our customers. The assets held by our asset-backed commercial paper conduits can be similarly affected. In addition, lower market volatility, even in a generally rising market environment, may reduce trading volumes of our customers, and our ability to achieve attractive spreads, which could lead to lower trading revenues. Our revenues, particularly our trading revenues, may increase or decrease depending upon the extent of increases or decreases in cross-border investments made by our customers. The level of cross-border activity can be influenced by a number of factors, including geopolitical instabilities and customer mix. General market downturns would also likely lead to a decline in the volume of transactions we execute on behalf of our customers, decreasing our fee and revenue opportunities and reducing the level of assets under management and custody. Market performance and volatility may also influence the revenue that we receive from off-balance sheet activities. A widening of credit spreads or credit deterioration could cause some or all off-balance sheet assets and liabilities to be consolidated onto our balance sheet.

In addition, revenues during a calendar year, driven by the products and services we provide, can fluctuate commensurate with the normal course of business activity of our customers, typically resulting in stronger revenues in the second and fourth quarters and relatively weaker revenues in the first and third quarters.

In recent years, investment manager and hedge fund manager operations outsourcing and non-U.S. asset servicing have been areas of rapid growth in our business. If the demand for these types of services were to decline, we could see a slowing in the growth rate of our revenue.

Strategic/Competition Risk

We expect the markets in which we operate to remain both highly competitive and global across all facets of our business, resulting in increases in both regional and global competitive risks. We have experienced, and anticipate that we will continue to experience, pricing pressure in many of our core businesses. Many of our businesses compete with other domestic and international banks and financial services companies, such as custody banks, investment advisors, broker/dealers, outsourcing companies and data processing companies. Many of our competitors, including our competitors in core services, have substantially greater capital resources. In some of our businesses, we are service providers to significant competitors. These competitors are in some instances significant customers, and the retention of these customers involves additional risks, such as the avoidance of actual or perceived conflicts of interest and the maintenance of high levels of service quality. The ability of a competitor to offer comparable or improved products or services at a lower price would likely negatively affect our ability to maintain or increase our profitability. Many of our core services are subject to contracts that have relatively short terms or may be terminated by our customer after a short-notice period. In addition, pricing pressures as a result of the activities of competitors, customer pricing reviews, and rebids, as well as the introduction of new products, may result in a reduction in the prices we can charge for our products and services.

Acquisitions of complementary businesses and technologies, development of strategic alliances and divestitures of portions of our business, in addition to fostering organic growth opportunities, are an active part of our overall business strategy to remain competitive. We may not be able to effectively assimilate services, technologies, key personnel or businesses of acquired companies into our business or service offerings, alliances may not be successful, and related revenue growth or cost savings may not be achieved. In addition, we may not be able to successfully manage the divestiture of identified businesses on satisfactory terms, if at all, and this would reduce anticipated benefits to earnings. Ongoing consolidation within the financial services industry could pose challenges in the markets we serve.

Acquisitions present risks that differ from the risks associated with our ongoing operations. Our financial results for 2008 and for the next few years may be significantly impacted by our ability to achieve the cost savings and other benefits that we anticipate as a result of the acquisition of Investors Financial in 2007, as well as our ability to retain its customer base and to successfully cross-sell our products and services to its customers. These cost savings and customer retention goals will be significantly influenced by our ability to convert former Investor Financial customers onto State Street systems in a timely manner and to maintain the level of customer service such customers received from Investors Financial. Future acquisitions may present similar integration, cost savings and customer retention challenges.

Intellectual property of an acquired business, such as Currenex, Inc. in 2007, may be an important component of the value that we agree to pay for such a business; however, these types of acquisitions entail the risk that the acquired business does not own the intellectual property that we believe we are acquiring, that the intellectual property is dependent upon licenses from third parties, that the acquired business infringes upon the intellectual property rights of others, or that the technology does not have the acceptance in the marketplace that we anticipated. Acquisitions of investment servicing businesses such as Investors Financial normally entail information technology systems conversions, which involve operational risks and may result in customer dissatisfaction and defection. Customers of businesses that we acquire, including, in the case of Investors Financial, its largest customer, are competitors of our non-custody businesses. The loss of some of these customers or a significant reduction in revenues generated from them, for competitive or other reasons, would adversely affect the benefits that we expect to achieve from the acquisition.

Our ability to acquire other entities that provide our core services to achieve greater economies of scale or to expand our product offering is dependent upon our financial resources and ability to access the capital markets. Due to company-specific issues or lack of liquidity in the capital markets, our ability to continue to expand through acquisitions or to dispose of businesses that no longer are strategic to us may be adversely affected.

In connection with most acquisitions, before the acquisition can be completed, we must obtain various regulatory approvals or consents, which approvals may include the Federal Reserve Board, the Massachusetts Commissioner of Banks and other domestic and foreign regulatory authorities. These regulatory authorities may impose conditions on the completion of the acquisition or require changes to its terms. Although we would not enter into a transaction anticipating materially adverse regulatory conditions, such conditions may be imposed, or we may experience regulatory delays, that could limit the benefits of the transaction.

With any acquisition, the integration of the operations and resources of the two businesses could result in the loss of key employees, the disruption of our and the acquired company's ongoing businesses, or inconsistencies in standards, controls, procedures and policies that could adversely affect our ability to maintain relationships with customers, and employees or to achieve the anticipated benefits of the acquisition. Integration efforts may also divert management attention and resources. Where we acquire a business and combine it with our operations, we are also exposed to risks from unknown or contingent liabilities with respect to which we may have no recourse against the seller. While we normally seek to mitigate that risk through pre-acquisition due diligence, increasingly acquisition transactions are competitive auctions in which we have limited time and access to information to evaluate the risks inherent in the business being acquired, and no or limited recourse against the seller if undisclosed liabilities are discovered after we enter into a definitive agreement.

We may not achieve the benefits we sought in an acquisition, or, if achieved, those benefits may come later than we anticipated. Failure to achieve anticipated benefits from an acquisition could result in increased costs and lower revenues than expected of the combined company. In addition, if the financial performance associated with an acquisition falls short of expectations, it may result in impairment charges associated with the intangible assets reported as part of the acquisition.

Our financial performance depends, in part, on our ability to develop and market new and innovative services and to adopt or develop new technologies that differentiate our products or provide cost efficiencies, while avoiding increased related expenses. The risks we face include rapid technological change in the industry, our ability to access technical and other information from our customers, and the significant and ongoing investments required to bring new products and services to market in a timely fashion at competitive prices. Our proactive cross selling of multiple products and services to our customers can exacerbate the negative financial effects associated with the risk of loss of any one customer. Developments in the securities processing industry, including shortened settlement cycles and straight-through processing, have required continued internal procedural enhancements and further technology investment.

Our strategy for growth depends upon both attracting new customers and cross selling additional products and services to our existing customer base. To the extent that we are not able to achieve these goals, we may not be able to attain our financial goals. Substantial risks and uncertainties are associated with the introduction of new products and services, including technical and control requirements that may need to be developed and implemented to offer such products while also managing associated risks. The introduction of new products and services can also entail significant time and resources. Regulatory and internal control requirements, capital requirements, competitive alternatives and shifting market preferences may also determine if such initiatives can be brought to market in a manner that is timely and attractive to our customers. Failure to successfully manage these risks in the development and implementation of new products or services could have a material adverse effect on our business, as well as our results of operations and financial condition.

Liquidity Risk and Management

Liquidity management is critical to the management of our consolidated balance sheet and to our ability to service our customer base. In managing our consolidated balance sheet, our primary source of funding is customer deposits. Our deposits are predominantly short-term, transaction-based deposits by institutional investors. Our ability to continue to attract these deposits, and other funding sources such as certificates of deposit and commercial paper, is subject to variability based upon a number of factors, including volume and volatility in the global securities markets, our credit rating and the relative interest rates that we are prepared to pay for these liabilities.

In managing our consolidated balance sheet, we also depend on access to global capital markets to provide us with sufficient capital resources and liquidity to meet our commitments and business needs, and to accommodate the transaction and cash management needs of our customers. Other sources of funding available to us, and upon which we rely as regular components of our liquidity risk management strategy, include inter-bank borrowings, repurchase agreements and borrowings from the Federal Reserve discount window, or comparable non-U.S. central banking sources. Any occurrence that may limit our access to the capital markets, such as a decline in the confidence of our corporate debt or equity purchasers, or a downgrade of our debt rating, may adversely affect our capital costs and our ability to raise capital and, in turn, our liquidity. Similarly, the failure to maintain an acceptable credit rating on our obligations may preclude us from being competitive in certain products. General market disruptions, natural disasters or operational problems may affect either third parties or us, and can also have an adverse affect on our liquidity.

We generally use our sources of funds to invest in a portfolio of investment securities and to maintain the liquidity necessary to extend credit to our customers. These funds are invested in a variety of assets ranging from short-term interest-bearing deposits with banks to longer-maturity investment securities. While we have historically maintained our investment portfolio at a relatively short duration with respect to interest-rate risk, the average maturity of the investment portfolio is significantly longer than the contractual maturity of our deposit base. In addition, as part of our custody business, we provide overdraft financing to our customers, and liquidity lines to third-party commercial paper conduits and mutual funds, as well as more traditional extensions of credit. The demand for credit is difficult to forecast and control, and may be at its peak at times of dislocation in the securities markets, potentially compounding liquidity issues.

In a period of financial disruption, or if negative developments occurred with respect to State Street, the availability and cost of our funding sources could be adversely affected. In that event, our cost of funds may increase, thereby reducing our net interest revenue, or we may need to dispose of a portion of our investment portfolio, which, depending upon market conditions, could result in our realizing a loss or experiencing other adverse accounting consequences upon those dispositions. Our efforts to monitor and manage liquidity risk may not be successful or sufficient to deal with dramatic or unanticipated changes in the global securities markets or other State Street or market event-driven reductions in liquidity.

In our business activities, we assume liquidity and interest-rate risk in managing longer-term assets or asset pools for third parties that are funded on a short-term basis, or where the customers participating in these products may have a right to the return of cash or assets on limited notice. These business activities include, among others, the unconsolidated asset-backed commercial paper conduits managed by our Structured Products group, securities finance collateral pools and money market and other short-term investment funds. In the commercial paper conduits, for example, pools of medium- and long-term financial instruments, principally mortgage- and other asset-backed securities, are financed through the issuance of short-term commercial paper. The conduits strive to maintain a positive margin between the rate of return on their longer-term assets and the short-term cost of funding. This mismatch in the maturity of the investment pools and funding creates risk if disruptions occur in the liquidity of the short-term debt or asset-backed securities markets, or if the cost of short-term borrowings exceeds the conduits' rate of return on their investment pools or purchased assets.

In connection with the administration of the activities of the commercial paper conduits, we provide contractual back-up liquidity to the conduits if they cannot meet their liquidity needs through the issuance of commercial paper. Other institutions can and do provide liquidity to the conduits. In the event that maturing commercial paper cannot be placed by the conduits, the liquidity providers are required by contract to, among other things, provide liquidity to the conduits by purchasing portfolio assets from them. We may also provide liquidity by purchasing commercial paper or providing other extensions of credit to the conduits.

Beginning in the third quarter of 2007, asset-backed commercial paper conduits, including those sponsored by State Street, experienced significantly less liquidity and higher borrowing costs in the global fixed-income securities markets, and in a few cases, required liquidity support from their sponsoring bank. The fixed-income markets remain significantly disrupted, and the potential for decreased liquidity, increased funding costs and adverse asset valuations remains a material risk. We on occasion have purchased, and during the third and fourth quarters of 2007 did purchase, commercial paper from the conduits, the purchase of which we recorded in our consolidated balance sheet. We may continue to do so in the future. These purchases of commercial paper were funded from our general liquidity, and the liquidity agreements were not drawn.

The conduits are not recorded in our consolidated financial statements. However, if circumstances change we may be required, under existing accounting standards, to consolidate the conduits onto our consolidated balance sheet. For example, if changes in market conditions require us to update the assumptions in our expected loss model, we may be required to increase the amount of first-loss notes in order for the investors in the first-loss notes to continue to be considered the primary beneficiaries of the conduits. In various circumstances, including if the conduits are not able to issue additional first-loss notes or take other actions, we may be determined to be the primary beneficiary of the conduits, and we would be required to consolidate the conduits' assets and liabilities onto our consolidated balance sheet. Existing accounting standards may be changed or interpreted differently in the future in a manner that increases the risk of consolidation of the conduits.

Consolidation, or the purchase of assets of the conduits pursuant to the contractual agreements described above, could affect the size of our consolidated balance sheet and related funding requirements, our financial and regulatory capital ratios and, if the conduit assets include unrealized losses, could require us to recognize those losses. Because of our contractual agreements to purchase assets from the conduits under specified conditions, we are also exposed to the credit risks in the conduits' portfolios.

Other of our business activities that involve managing pools of assets that are funded in the short-term markets and invested in longer-term markets include managing securities finance collateral pools and money market and other short-term investment funds. These businesses involve similar risks inherent in an arbitrage of funding and investment; however, in these businesses, we primarily act as agent and do not have the direct principal risk. For example, if a collateral pool or a money market fund that we manage were to have unexpected liquidity demands from investors in the pool that exceeded available liquidity, the investment pool would be required to sell assets to meet those redemption requirements. During periods of disruption in the credit markets, it may be difficult to sell the assets held by these pools at a reasonable price. In those circumstances, the financial loss accrues to the pools' investors and not to us.

Similarly, credit risks inherent in these portfolios are attributable to the investors in the investment pools and not to State Street. These investment pools may have significant exposure to individual credits. The incurrence of substantive losses in these pools, particularly in money market funds, could result in significant harm to our reputation and significantly and adversely affect the prospects of our associated business units. In some circumstances, we may seek to mitigate that risk by compensating the investment pools for all or a portion of such losses even if not contractually obligated to do so;

however, that would potentially result in the recognition of significant losses or a greater use of capital than we have available. Certain accounts managed by SSgA are managed in accordance with specific investment guidelines and have the benefit of contractual arrangements with third-party financial institutions that allow the accounts to issue and redeem units based upon the book value of such units rather than market value. The third-party financial institutions have an obligation to fund any shortfall after all the units have been redeemed at book value. Several of these accounts were significantly impacted by the volatility in the fixed-income markets in the second half of 2007. The continued willingness of these financial institutions to partner with us in these products may be negatively impacted if the variance between book and market value and other risk metrics fall or remain below the financial institutions' internal risk standards.

We used a portion of the reserve announced on January 3, 2008 to reduce the differences between the book and market value of these accounts. This cash infusion was intended to reduce the difference between market and book values of these accounts to levels that are within the risk tolerance of such third-party financial institutions. If the third-party financial institutions are or become unwilling to continue to partner with us, our business may be adversely affected. There can be no assurance that these and other costs associated with our legal exposures resulting from SSgA's active fixed income strategies will not exceed the reserve we have established.

Investment, operational and other decisions and actions, often made to achieve scale and other benefits, are implemented over multiple investment pools as applicable, increasing the opportunity for losses, even small losses, to have a significant effect. To mitigate these risks to the investment pools, we seek to prudently manage the duration and credit exposure of the pools, to satisfy large liquidity demands by the in-kind delivery of securities held by the pools and to closely monitor liquidity demand from investors; however, market conditions or increased defaults could result in our inability to effectively manage those risks. To some degree, all of our investment management pools hold potential risks to our reputation and business prospects if the asset pools that we manage have higher than anticipated redemption or other liquidity requirements and the pools incur losses to meet such demands.

Other parts of our business where we primarily act as agent, such as other investment management activities of SSgA and certain of State Street Global Markets' business units, do not currently have significant liquidity requirements; however, as we develop new products in response to customer demand and to remain competitive in a dynamic marketplace, we could take on more principal risk in these businesses. Any increase in the extent to which these or other businesses assume principal positions would increase the risks associated with our liquidity management strategy.

The disruption in the global fixed-income securities markets beginning in the third quarter of 2007 has had a substantially greater impact upon liquidity and valuations in those markets than has historically been experienced. Because demand from investors for fixed-income products has markedly decreased and dealers have been less prepared to take principal exposures, funding sources, such as the commercial paper markets for conduits, have been less reliable and more expensive. At the same time, the ability of the markets to absorb the sale of large portfolios of certain types of securities has been substantially impaired. These conditions have also led to greater difficulty in accurately valuing portfolio positions. These market conditions have made the management of our own and our clients' liquidity significantly more challenging. As discussed above, the risks to State Street inherent in its management of liquidity are significant, and a further deterioration in the credit markets could adversely affect our consolidated financial position, including our regulatory capital ratios, and could adversely affect our results of operations and our business prospects in the future.

Reputational Risk

Our relationship with many of our customers is predicated upon our reputation as a fiduciary and a service provider that adheres to the highest standards of ethics, service quality and regulatory compliance. Adverse publicity, regulatory actions, litigation, operational failures, the failure to meet client expectations and other issues could materially and adversely affect our reputation and our ability to retain and attract customers. Preserving and enhancing our reputation depends not only in maintaining systems and procedures that address known risks and regulatory requirements, but also our ability to identify and mitigate additional risks that arise due to changes in our businesses and the marketplaces in which we operate, the regulatory environment, and customer expectations. If any of these developments, including our recently announced customer concerns related to certain SSgA active fixed income strategies, has a material effect on our reputation, our business will suffer.

Credit Risk

Our focus on large institutional investors and their businesses requires that we assume credit and counterparty risk, both on- and off-balance sheet, in a variety of forms. We may experience significant intra- and inter-day credit exposure through settlement-related extensions of credit. From time to time, we may assume concentrated credit risk at the individual obligor, counterparty, guarantor, industry and/or country level, thereby potentially exposing us to a single market or political event or a correlated set of events. The credit quality of our on- and off-balance sheet exposures may be affected by many factors, such as economic and business conditions or deterioration in the financial condition of an individual counterparty, group of counterparties or asset classes. If a significant economic downturn occurs in either a country or a region, or we experience the failure of a significant individual counterparty, we could incur financial losses that could adversely affect our earnings.

Financial Markets Risk

As asset values in worldwide financial markets increase or decrease, our opportunities to invest in and service financial assets change. Given that a portion of our fees is based on the value of assets under custody and management, fluctuations in the valuation of worldwide securities markets will affect revenue. Many of the costs of providing our services are relatively fixed; therefore, a decline in revenue could have a disproportionate effect on our earnings. In addition, if investment performance in our asset management business fails to meet either benchmarks or the performance of our competitors, we could experience a decline in assets under management and a reduction in the fees that we earn, irrespective of economic or market conditions.

We have increased the portion of our management fee revenue that is generated from enhanced index and actively managed products, with respect to which we generally receive higher fees compared to passive products. We may not be able to continue to increase this segment of our business at the same rate that we have achieved in the past few years. The amount of assets in active fixed-income strategies, for example, has been adversely impacted in 2007. In addition, with respect to certain of our enhanced index and actively managed products, we have entered into performance fee arrangements, where the management fee revenue we earn is based on the performance of managed funds against specified benchmarks. The reliance on performance fees increases the potential volatility of our management fee revenue.

Financial markets trading businesses, as well as our asset and liability management activities, are also subject to market risks. Adverse movements in levels and volatilities of financial markets could cause losses that may affect our consolidated results of operations and financial condition. In addition, changes in investor and rating agency perceptions regarding certain asset classes or structures can also affect volatility, liquidity and market prices, which, in turn, can lead to losses. The degree of volatility in foreign exchange rates can affect our foreign exchange trading revenue. In general, we benefit from currency volatility, although it can increase risk. Foreign exchange revenue, all other things being equal, is likely to decrease during times of decreased currency volatility. In addition, as our business grows globally, our exposure to changes in foreign currency exchange rates could affect our levels of revenue, expense and earnings, as well as the value of our investment in our non-U.S. operations.

Interest Rate Risk

State Street's financial performance could be unfavorably affected by changes in interest rates as they impact our asset and liability management process. The levels of global market interest rates, the shape of these yield curves (changes in the relationship between short- and long-term interest rates), the direction and speed of interest rate changes, and the asset and liability spreads relative to the currency and geographic mix of our interest-earning assets and interest-bearing liabilities, affect our net interest revenue. Our ability to anticipate these changes and/or to hedge the related exposures on and off our balance sheet can significantly influence the success of our asset and liability management process and the resulting level of our net interest revenue. The impact of changes in interest rates will depend on the relative durations of assets and liabilities in accordance with their relevant currencies. In general, sustained lower interest rates, a flat or inverted yield curve and narrow interest-rate spreads have a constraining effect on our net interest revenue.

Operational Risk

Operational risk is inherent in all of State Street's activities. Our customers have a broad array of complex and specialized servicing, confidentiality and fiduciary requirements. We have established policies, procedures and systems designed to comply with these regulatory and operational risk requirements. We also face the potential for loss resulting from inadequate or failed internal processes, employee supervisory or monitoring mechanisms, or other systems or controls, and from external events, which could materially affect our future results of operations. We may also be subject to disruptions from events that are wholly or partially beyond our control, which could cause delays or disruptions to operational functions, including information processing and financial market settlement functions. In addition, our customers, vendors and counterparties could suffer from such events. Should these events affect us, or the customers, vendors or counterparties with which we conduct business, our results of operations could be negatively affected.

Our success depends, in large part, on our ability to attract and retain key people. Competition for the best people in most activities in which we engage can be intense, and we may not be able to hire people or retain them. The unexpected loss of services of one or more of our key personnel could have a material adverse impact on our business because of their skills, their knowledge of our markets, their years of industry experience, and, in some cases, the difficulty of promptly finding qualified replacement personnel. Similarly, the loss of key portfolio management staff, either individually or as a group, can adversely impact customer perception of SSgA's ability to continue to manage certain types of investment management mandates. In some of our businesses, we have experienced significant employee turnover, which increases costs, requires additional training and increases the potential for operational risks.

We enter into long-term fixed-price contracts to provide middle office or investment manager and hedge fund manager operations outsourcing services to customers, services related but not limited to certain trading activities, cash reporting, settlement and reconciliation activities, collateral management and information technology development. These long-term contracts require considerable up-front investment by us, including technology and conversion costs, and carry the risk that pricing for the products and services we provide might not prove adequate to generate expected operating margins over the term of the contracts. Profitability of these contracts is largely a function of our ability to accurately calculate pricing for our services and our ability to control our costs and maintain the relationship with the customer for an adequate period of time to recover our up-front investment.

Performance risk exists in each contract, given our dependence on successful conversion and implementation onto our own operating platforms of the service activities provided. In addition, our failure to meet specified service levels may adversely affect our revenue from such arrangements, or permit early termination of the contracts by the customer.

We actively strive to achieve significant cost savings by shifting certain business processes to lower-cost geographic locations, while continuing to maintain service quality, control and effective management of risks within these business operations. This transition to a true "shared services" operational model focuses on certain core service offerings, including middle- and back-office reconciliations, securities processing and transfer agency activities. We have employed various structural arrangements to achieve these goals, including establishing operations in lower cost areas, such as Eastern Europe, India and China, forming joint ventures in India and China and outsourcing to vendors in various jurisdictions. The increased elements of risk that arise from conducting certain operating processes in some jurisdictions could lead to an increase in reputational risk. During periods of transition, greater operational risk and client concern exists regarding the continuity of a high level of service delivery. The extent and pace at which we are able to move functions to lower-cost locations may also be impacted by regulatory and customer acceptance issues. Such relocation of functions also entails costs, such as technology and real estate expenses, that partially offset the financial benefits of the lower-cost locations.

Our businesses depend on an information technology infrastructure to record and process a large volume of increasingly complex transactions, in many currencies, on a daily basis, across numerous and diverse markets. Any interruptions, delays and/or breakdowns of this infrastructure can result in significant costs. As a result, we continue to invest significantly in this infrastructure. Our businesses and our relationship with customers, are dependent upon our ability to maintain the confidentiality of our and our customers' trade secrets and confidential information (including personal data of their customers). A failure of our security measures in such regard could have a material adverse impact on our competitive position, relationship with customers and reputation. To the extent that we are not able to protect our intellectual property through patents or other means, we are also exposed to the risk that employees with knowledge of such intellectual property may leave and seek to exploit our intellectual property for their own advantage.

Litigation Risks

From time to time, our customers may make claims and take legal action relating to our performance of fiduciary or contractual responsibilities. If such claims and legal actions are not resolved in a manner favorable to us, such claims may result in financial liability to State Street and/or adversely affect the market perception of us and our products and services, and could impact customer demand for our products and services. We record balance sheet reserves for probable loss contingencies, including litigation and operational losses. However, we cannot always accurately estimate our ultimate exposure. As a result, any reserves we establish to cover any settlements, judgments or operational losses may not be sufficient to cover our actual financial exposure. Any underestimation or overestimation could have a material impact on our consolidated financial condition or results of operations.

In connection with certain of SSgA's active fixed-income strategies, we established a reserve to cover legal exposure and related costs in connection with such strategies as of December 31, 2007. Among other things, the portfolio managers for certain actively managed fixed-income strategies materially increased the exposure of these strategies to securities backed by sub-prime mortgages and shifted the weighting of these portfolios to more highly rated sub-prime instruments. During the third quarter of 2007, as the liquidity and valuations of these securities, including the more highly rated instruments, came under increased pressure, the performance of these strategies was adversely affected, in some cases significantly. The underperformance, which was greater than that typically associated with fixed-income funds, also caused a number of our customers to question whether the execution of these strategies was consistent with their investment intent. This has resulted in several civil suits, including putative class action claims. These lawsuits allege, among other things, that we failed to comply with our standard of care in managing these active funds as a fiduciary under ERISA. We have also received inquiries from regulatory authorities regarding SSgA's active fixed-income strategies. Given our desire to fully respond to customer concerns, following the end of the third quarter of 2007, State Street undertook a further review of all the actively managed fixed-income strategies at SSgA that were exposed to sub-prime investments. Based on our review and on-going discussions with customers who were invested in these strategies, we established the reserve to address our estimated legal exposure.

The reserve was established based upon our best judgment as to legal exposures and related costs associated with the active fixed-income investments. As of December 31, 2007, we had entered into settlement agreements with aggregate total payments of $16 million. We believe that our reserve will be adequate to accommodate the potential exposure relating to SSgA's active fixed-income strategies. The amount of the reserve is based on certain assumptions. While we believe the reserve represents a reasonable estimate of our legal exposure and other costs associated with these issues, we do not believe that it is feasible to predict or determine the amount of such exposure with certainty. As such, it is possible that we have overestimated or underestimated our exposure. If the amount of our actual exposure is materially different from our reserve, there would be a material impact on our financial condition and results of operations.

To determine whether the issues that arose within the active fixed-income area are limited to SSgA's active fixed-income strategies, we are conducting, with the assistance of third-party consultants, a systematic review of the operational, risk and compliance infrastructure, procedures and resources across SSgA's entire product line. This review has only recently begun and no conclusions or recommendations have resulted from that review as of the date of this filing. While we do not believe that such review will identify material legal or regulatory exposures, there can be no assurance as to the conclusions of such review.

Regulatory/Legal/Accounting/Tax Risk

Most of our businesses are subject to extensive regulation, and many of the customers to which we provide services are themselves subject to a broad range of regulatory requirements. These regulations may affect the manner and terms of delivery of our services. As a financial institution with substantial international operations, we are subject to extensive regulatory and supervisory oversight, both in the United States and overseas in connection with our global operations. Our businesses are subject to stringent regulation and examination by U.S. federal and state governmental and regulatory agencies, including the Federal Reserve, the SEC and the Massachusetts Commissioner of Banks, and self-regulatory organizations (including securities exchanges), and by non-U.S. governmental and regulatory agencies and self-regulatory organizations. The regulations affect, among other things, the scope of our activities and customer services, our capital structure and our ability to fund the operations of our subsidiaries, our lending practices, our dividend policy and the manner in which we market our services. Evolving regulations, such as the new Basel II capital framework and anti-money laundering regulations, can require significant effort on our part to ensure compliance. New or modified regulations and related regulatory guidance may have unforeseen or unintended adverse effects on the financial services industry.

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

New accounting requirements, or changes in the interpretation of existing accounting requirements, by the Financial Accounting Standards Board or the SEC, can potentially affect our consolidated financial condition and results of operations, as accounting rules in the United States and other jurisdictions consistently evolve to reflect the increasing complexities of business. These changes are very difficult to predict, and can materially impact how we record and report our financial condition and results of operations and other financial information. In some cases, we could be required to apply a new or revised standard retroactively, resulting in the revised treatment of certain transactions or activities, and, in some cases, the restatement of prior period financial statements.

Our businesses can be affected by new tax legislation or the interpretation of existing tax laws worldwide. Changes in tax laws may affect our business directly or indirectly through their impact on the financial markets. In the normal course of business, we are subject to reviews by U.S. and non-U.S. tax authorities. These reviews may result in adjustments to the timing or amount of taxes due and the allocation of taxable income among tax jurisdictions. These adjustments could affect the attainment of our financial goals.

Risk Management

We seek to monitor and manage risk on a corporate basis and within specific business units. The types of risk that we monitor and seek to manage include operational risk, interest rate risk, trading risk, fiduciary risk, legal and compliance risk, liquidity risk and credit risk. We have adopted various policies, procedures and systems to monitor and manage risk. There can be no assurance that those policies, procedures or systems are adequate to identify and mitigate all risks inherent in our various business. In addition, our businesses and the markets in which we operate are continuously evolving. We may fail to fully understand the implications of changes in our business or the financial markets and fail to adequately or timely enhance our risk framework to address those changes. If our risk framework is ineffective, either because it fails to keep pace with changes in the financial markets or our business or for other reasons, we could incur losses.

We also measure our material risks. Our measurement methodologies rely upon many assumptions and historical analyses and correlations. There can be no assurance that those assumptions will be correct or that the historical correlations will continue to be relevant. Consequently the measurements that we make for regulatory and economic capital may not adequately capture or express the true risk profiles of our businesses. Additionally, as businesses and markets evolve, our measurements may not accurately reflect those changes. While our risk measures may indicate sufficient capitalization, we may in fact have inadequate capital to conduct our businesses.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We occupy a total of approximately 6.8 million square feet of office space and related facilities around the world, of which approximately 6.1 million square feet are leased. Of the total leased space, approximately 3.4 million square feet are located in eastern Massachusetts. An additional 1.3 million square feet are located elsewhere throughout the U.S. and in Canada. We occupy approximately 1.0 million square feet in Europe, and approximately 370,000 square feet in the Asia/Pacific region.

Our headquarters is located at State Street Financial Center, One Lincoln Street, Boston, Massachusetts, a 36-story office building. We have leased the entire 1,025,000 square feet of this building, as well as the entire 366,000-square-foot parking garage at One Lincoln Street, under 20-year non-cancelable capital leases. A portion of the lease payments is offset by subleases for 153,000 square feet of the building. We occupy two buildings located in Quincy, Massachusetts, one of which we own and the other we lease. The buildings, containing a total of approximately 821,000 square feet, function as State Street Bank's principal operations facilities.

Additional information about our occupancy costs, including commitments under non-cancelable leases, is in note 18 of the Notes to Consolidated Financial Statements included in this Form 10-K under Item 8.

ITEM 3. LEGAL PROCEEDINGS

We are involved in various industry-related and other regulatory, governmental and law enforcement inquiries and subpoenas, as well as legal proceedings, including recent proceedings related to SSgA's active fixed-income strategies, that arise in the normal course of business. For a discussion of recent proceedings, litigation exposure and related costs and other similar matters associated with SSgA's active fixed-income strategies, including the establishment of a reserve of approximately $625 million, refer to "Risk Factors Litigation Risks" included under Item 1A; the "Summary," "Financial Highlights," "Operating Expenses" and "Line of Business Information" sections of Management's Discussion and Analysis of Financial Condition and Results of Operations included under Item 7; and note 10 of the Notes to Consolidated Financial Statements included under Item 8 of this Form 10-K. In the opinion of management, after discussion with counsel, these regulatory, governmental and law enforcement inquiries and subpoenas and legal proceedings, including the above-mentioned matters associated with SSgA's active fixed-income strategies, can be defended or resolved without a material adverse effect on our consolidated financial position or results of operations in future periods.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITIES HOLDERS

None.

ITEM 4A. EXECUTIVE OFFICERS OF THE REGISTRANT

The following table sets forth certain information with regard to each of our executive officers as of February 15, 2008.

Name	Age	Position
Ronald E. Logue	62	Chairman, President, Chief Executive Officer and Chief Operating Officer
Joseph C. Antonellis	53	Vice Chairman
Joseph L. Hooley	50	Vice Chairman
Jeffrey N. Carp	51	Executive Vice President, Chief Legal Officer and Secretary
Joseph W. Chow	55	Executive Vice President
James J. Malerba	53	Senior Vice President and Corporate Controller
David C. O'Leary	61	Executive Vice President
James S. Phalen	57	Executive Vice President; Interim President and Chief Executive Officer of State Street Global Advisors
David C. Phelan	50	Executive Vice President, General Counsel and Assistant Secretary
Edward J. Resch	55	Executive Vice President and Chief Financial Officer
Stanley W. Shelton	53	Executive Vice President

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

Mr. Logue joined State Street in 1990. He has served as President since 2001 and Chief Operating Officer since 2000. In June 2004, he was appointed Chairman and Chief Executive Officer.

Mr. Antonellis joined State Street in 1991. In 2003, he was named head of Information Technology and Global Securities Services. In 2006, he was appointed Vice Chairman with additional responsibility as head of Investor Services in North America and Global Investment Manager Outsourcing Services.

Mr. Hooley joined State Street in 1986. Since 2002, he has served as Executive Vice President and head of Investor Services. In 2006, he was appointed Vice Chairman and global head of Investment Servicing and Investment Research and Trading.

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

Mr. Chow first joined State Street in 1990, retired in 2003, and rejoined State Street in 2004. When he retired in 2003, he was Executive Vice President and head of Credit and Risk Policy. Since 2004, he has served as Executive Vice President, Risk and Corporate Administration, and is engaged in a variety of strategic and management initiatives across the organization.

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

Mr. O'Leary joined State Street in 2005 as Executive Vice President and head of Global Human Resources. In 2004, he served as a senior advisor to Credit Suisse First Boston Corporation, a global financial services company, after serving as Managing Director from 1990 to 2003 and Global Head of Human Resources from 1988 to 2003.

Mr. James Phalen joined State Street in 1992. As of 2003, he served as Executive Vice President of State Street and Chairman and Chief Executive Officer of CitiStreet, a global benefit provider and retirement plan recordkeeper. In February 2005, he was appointed head of Investor Services in North America. In 2006, he was appointed head of international operations for Investment Servicing and Investment Research and Trading, based in Europe. In January 2008, he was appointed Interim President and Chief Executive Officer of State Street Global Advisors.

Mr. David Phelan joined State Street in 2006 as Executive Vice President, General Counsel and Assistant Secretary. From 1995 until 2006, he was a senior partner at the law firm of Hale and Dorr LLP (and, following a merger, of Wilmer Cutler Pickering Hale and Dorr LLP), where he was an attorney since 1993.

Mr. Resch joined State Street in 2002 as Executive Vice President and Chief Financial Officer. He also served as Treasurer from 2006 until January 2008.

Mr. Shelton joined State Street in 1984. Since prior to 2003, he has served as Executive Vice President and head of State Street Global Markets.

PART II

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

MARKET FOR REGISTRANT'S COMMON EQUITY

Our common stock is listed on the New York Stock Exchange under the ticker symbol STT. There were 4,432 shareholders of record at December 31, 2007. Information concerning the market prices of, and dividends on, our common stock during the past two years is included in this Form 10-K under Item 8, under the caption "Quarterly Summarized Financial Information."

In March 2007, our Board of Directors authorized the purchase of up to 15 million shares of common stock for general corporate purposes, including mitigating the dilutive impact of shares issued under employee benefit plans, in addition to its previous authorization in 2006 of up to 15 million shares, of which 12.2 million shares remained available for purchase at December 31, 2006. We generally employ third-party broker/dealers to acquire shares on the open market in connection with our common stock purchase program.

Under the above-described authorization, during 2007 we repurchased 13.4 million shares of our common stock, and an additional .6 million shares in January 2008, in connection with a $1 billion accelerated share repurchase program that concluded on January 18, 2008. As of that date, approximately 13.2 million shares remained available for future purchase under the combined authorization described above.

RELATED STOCKHOLDER MATTERS

As a bank holding company, the parent company is a legal entity separate and distinct from its principal banking subsidiary, State Street Bank, and its non-bank subsidiaries. The right of the parent company to participate as a shareholder in any distribution of assets of State Street Bank upon its liquidation, reorganization or otherwise is subject to the prior claims by creditors of State Street Bank, including obligations for federal funds purchased and securities sold under repurchase agreements and deposit liabilities. Payment of dividends by State Street Bank is subject to the provisions of Massachusetts banking law, which provide that dividends may be paid out of net profits provided (i) capital stock and surplus remain unimpaired, (ii) dividend and retirement fund requirements of any preferred stock have been met, (iii) surplus equals or exceeds capital stock, and (iv) losses and bad debts, as defined, in excess of reserves specifically established for such losses and bad debts, have been deducted from net profits.

Under the Federal Reserve Act, the approval of the Federal Reserve Board would be required if dividends declared by State Street Bank in any year exceeded the total of its net profits for that year combined with retained net profits for the preceding two years, less any required transfers to surplus. Information about dividends from our subsidiary banks is in note 14 of the Notes to Consolidated Financial Statements included in this Form 10-K under Item 8. Future dividend payments of State Street Bank and other non-bank subsidiaries cannot be determined at this time.

SHAREHOLDER RETURN PERFORMANCE PRESENTATION

The graph presented below compares the cumulative total shareholder return on State Street's common stock to the cumulative total return of the S&P 500 Index and the S&P Financial Index for the five fiscal years which commenced January 1, 2003 and ended December 31, 2007. The cumulative total shareholder return assumes the investment of $100 in State Street common stock and in each index on December 31, 2002, and also assumes reinvestment of dividends. The S&P Financial Index is a publicly available measure of 92 of the Standard & Poor's 500 companies, representing 30 diversified financial services companies, 24 banking companies, 24 insurance companies, and 14 real estate companies.

Comparison of Five-Year Cumulative Total Shareholder Return

	2002	2003	2004	2005	2006	2007
State Street Corporation	$ 100	$ 135	$ 129	$ 148	$ 183	$ 223
S&P 500 Index	100	129	143	150	173	183
S&P Financial Index	100	131	145	155	184	150

ITEM 6. SELECTED FINANCIAL DATA

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

FOR THE YEAR ENDED DECEMBER 31:	2007	2006	2005	2004	2003
Total fee revenue	**$ 6,599**	$ 5,186	$ 4,551	$ 4,048	$ 3,556
Net interest revenue	**1,730**	1,110	907	859	810
Provision for loan losses				(18)	
Gains (Losses) on sales of available-for-sale investment securities, net	**7**	15	(1)	26	23
Gain on sale of Private Asset Management business, net of exit and other associated costs			16		285
Gain on sale of Corporate Trust business, net of exit and other associated costs					60
Total revenue	**8,336**	6,311	5,473	4,951	4,734
Total operating expenses	**6,433**	4,540	4,041	3,759	3,622
Income from continuing operations before income tax expense	**1,903**	1,771	1,432	1,192	1,112
Income tax expense from continuing operations	**642**	675	487	394	390
Income from continuing operations	**1,261**	1,096	945	798	722
Income (Loss) from discontinued operations		10	(107)		
Net income	**$ 1,261**	$ 1,106	$ 838	$ 798	$ 722
PER COMMON SHARE:					
Basic earnings:					
Continuing operations	**$ 3.50**	$ 3.31	$ 2.86	$ 2.38	$ 2.18
Net income	**3.50**	3.34	2.53	2.38	2.18
Diluted earnings:					
Continuing operations	**3.45**	3.26	2.82	2.35	2.15
Net income	**3.45**	3.29	2.50	2.35	2.15
Cash dividends declared	**.88**	.80	.72	.64	.56
Closing price of common stock (at year end)	**81.20**	67.44	55.44	49.12	52.08
AT YEAR END:					
Investment securities	**$ 74,559**	$ 64,992	$ 59,870	$ 37,571	$ 38,215
Total assets	**142,543**	107,353	97,968	94,040	87,534
Deposits	**95,789**	65,646	59,646	55,129	47,516
Long-term debt	**3,636**	2,616	2,659	2,458	2,222
Shareholders' equity	**11,299**	7,252	6,367	6,159	5,747
Assets under custody (in billions)	**$ 15,299**	$ 11,854	$ 10,121	$ 9,497	$ 9,370
Assets under management (in billions)	**1,979**	1,749	1,441	1,354	1,106
Number of employees	**27,110**	21,700	20,965	19,668	19,850
RATIOS:					
Continuing operations:					
Return on shareholders' equity	**13.4%**	16.2%	15.3%	13.3%	13.9%
Return on average assets	**1.02**	1.03	.95	.84	.87
Dividend payout	**25.2**	24.2	25.3	26.9	25.9
Net income:					
Return on shareholders' equity	**13.4**	16.4	13.6	13.3	13.9
Return on average assets	**1.02**	1.04	.84	.84	.87
Dividend payout	**25.2**	24.0	28.5	26.9	25.9
Average shareholders' equity to average total assets	**7.6**	6.3	6.2	6.3	6.3
Tier 1 risk-based capital	**11.2**	13.7	11.7	13.3	14.0
Total risk-based capital	**12.7**	15.9	14.0	14.7	15.8
Tier 1 leverage ratio	**5.3**	5.8	5.6	5.5	5.6
Tangible common equity to adjusted total assets	**3.5**	5.1	4.8	4.5	4.5

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

GENERAL

State Street Corporation is a financial holding company organized under the laws of the Commonwealth of Massachusetts. All references in this Management's Discussion and Analysis to "the parent company" are to State Street Corporation. Unless otherwise indicated or unless the context requires otherwise, all references in this Management's Discussion to "State Street," "we," "us," "our" or similar terms mean State Street Corporation and its subsidiaries on a consolidated basis. State Street Bank and Trust Company is referred to as "State Street Bank." At December 31, 2007, we had total assets of $142.54 billion, total deposits of $95.79 billion, total shareholders' equity of $11.30 billion and employed 27,110. With $15.30 trillion of assets under custody and $1.98 trillion of assets under management at year-end 2007, we are a leading specialist in meeting the needs of institutional investors worldwide.

We report two lines of business: Investment Servicing and Investment Management. These lines of business provide a full range of products and services for our customers, which include mutual funds and other collective investment funds, corporate and public retirement plans, insurance companies, foundations, endowments and other investment pools, and investment managers. Investment Servicing provides services to support institutional investors, such as custody, product- and participant-level accounting, daily pricing and administration; master trust and master custody; recordkeeping; shareholder services, including mutual fund and collective investment fund shareholder accounting; foreign exchange, brokerage and other trading services; securities finance; deposit and short-term investment facilities; loans and lease financing; investment manager and hedge fund manager operations outsourcing; and performance, risk and compliance analytics. Investment Management provides a broad array of services for managing financial assets, such as investment research services and investment management, including passive and active U.S. and non-U.S. equity and fixed-income strategies. For additional information about our lines of business, see the "Line of Business Information" section of this Management's Discussion and Analysis and note 22 of the Notes to Consolidated Financial Statements included in this Form 10-K under Item 8.

This Management's Discussion and Analysis should be read in conjunction with the Consolidated Financial Statements and accompanying Notes to Consolidated Financial Statements included in this Form 10-K under Item 8. Certain previously reported amounts presented have been reclassified to conform to current period classifications. We prepare our consolidated financial statements in accordance with accounting principles generally accepted in the U.S., referred to as "GAAP". The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions in the application of certain accounting policies that materially affect the reported amounts of assets, liabilities, revenue, and expenses. Accounting policies that require management to make assumptions that are difficult, subjective, or complex about matters that are uncertain and may change in subsequent periods are discussed in more depth in the "Significant Accounting Estimates" section of this Management's Discussion and Analysis.

This Management's Discussion and Analysis contains statements that are considered "forward-looking statements" within the meaning of U.S. federal securities laws. Forward-looking statements are based on our current expectations about revenue and market growth, acquisitions and divestitures, new technologies, services and opportunities, earnings and other factors. These forward-looking statements involve certain risks and uncertainties which could cause actual results to differ materially. We undertake no obligation to revise the forward-looking statements contained in this Management's Discussion and Analysis to reflect events after the date we file this Form 10-K with the SEC. Additional information about forward-looking statements and related risks and uncertainties is included in the Risk Factors section of this Form 10-K under Item 1A.

OVERVIEW OF FINANCIAL RESULTS

Years ended December 31, (Dollars in millions, except per share amounts)	2007(1)	2006	2005
Total fee revenue	**$ 6,599**	$ 5,186	$ 4,551
Net interest revenue	**1,730**	1,110	907
Provision for loan losses			
Gains (Losses) on sales of available-for-sale investment securities, net	**7**	15	(1)
Gain on sale of divested business			16
Total revenue	**8,336**	6,311	5,473
Total operating expenses(2)	**6,433**	4,540	4,041
Income from continuing operations before income tax expense	**1,903**	1,771	1,432
Income tax expense from continuing operations	**642**	675	487
Income from continuing operations	**1,261**	1,096	945
Income (Loss) from discontinued operations		10	(107)
Net income	**$ 1,261**	$ 1,106	$ 838
Earnings per share from continuing operations:			
Basic	**$ 3.50**	$ 3.31	$ 2.86
Diluted	**3.45**	3.26	2.82
Earnings per share:			
Basic	**$ 3.50**	$ 3.34	$ 2.53
Diluted	**3.45**	3.29	2.50
Average shares outstanding (in thousands):			
Basic	**360,675**	331,350	330,361
Diluted	**365,488**	335,732	334,636
Return on shareholders' equity from continuing operations	**13.4%**	16.2%	15.3%
Return on shareholders' equity	**13.4**	16.4	13.6

(1) Financial results for the year ended December 31, 2007 include results of the acquired Investors Financial business for the third and fourth quarters of 2007.

(2) Operating expenses for the year ended December 31, 2007 include merger and integration costs of $198 million associated with the acquisition of Investors Financial and a net charge of $467 million related to certain active fixed-income strategies at State Street Global Advisors.

Summary

Our financial results for 2007 reflect our overall objectives of consistent revenue growth, managing growth in operating expenses and balancing growth in operating expenses with growth in revenue.

All categories of fee revenue, as reported in our consolidated statement of income, increased compared to 2006, with the exception of processing fees and other revenue, which declined 13%.

Net interest revenue increased 56% compared to 2006.

We achieved positive operating leverage for 2007 compared to 2006, as defined by management.

Our Investment Management business, State Street Global Advisors, which we refer to in this Management's Discussion and Analysis as "SSgA," contributed approximately 18% of our consolidated total revenue for 2007, compared to 19% for 2006, and generated net new business of $116 billion during 2007, compared to $86 billion for 2006.

We ended 2007 with levels of assets under custody and assets under management that increased 29% and 13%, respectively, from year-end 2006.

We completed our acquisition of Currenex in March 2007. For the period March to December 2007, the acquired Currenex business contributed approximately $65 million of revenue, primarily other trading services revenue.

We completed our acquisition of Investors Financial in July 2007, and issued approximately 60.8 million shares in the transaction. For the second half of the year, the acquired Investors Financial business contributed $456 million in revenue, including $395 million in fee revenue, and $340 million in operating expenses. In connection with the acquisition, during the second half of the year we recorded $198 million, or $129 million after-tax, of merger and integration costs.

During the second half of 2007, we purchased 13.4 million shares of our common stock, as well as an additional .6 million shares in January 2008, under a $1 billion accelerated share repurchase program, which program concluded on January 18, 2008.

During the fourth quarter of 2007, we recorded a net pre-tax charge of $467 million, or $279 million after-tax, to establish a reserve associated with certain active fixed-income strategies managed by SSgA.

Certain financial information is presented and discussed in the following sections on both a GAAP basis and on an "operating" basis. Management measures certain financial information on an operating basis to provide for meaningful comparisons from period to period, and to present comparable financial trends with respect to our normal ongoing business operations. Management believes that operating-basis financial information, which includes the impact of revenue from non-taxable sources and excludes the impact of non-recurring expenses, facilitates an investor's understanding and analysis of State Street's underlying performance and trends in addition to financial information prepared in accordance with GAAP.

Financial Highlights

For 2007, we recorded income from continuing operations of $1.3 billion, or $3.45 per diluted share, compared to $1.1 billion, or $3.26 per diluted share, for 2006. Total revenue increased 32% from 2006, and return on equity from continuing operations was 13.4% compared to 16.2% for 2006. Results for 2007 included two significant expenses. First, we recorded aggregate merger and integration costs of $198 million, or $129 million after-tax, in connection with our acquisition of Investors Financial. Second, we recorded a net pre-tax charge of $467 million, or $279 million after-tax, in connection with the establishment of a reserve to address legal exposure and other costs associated with the underperformance of certain active fixed-income strategies managed by SSgA, and customer concerns as to whether the execution of these strategies was consistent with the customers' investment intent. These costs are more fully discussed in the "Consolidated Results of Operations Operating Expenses" section of this Management's Discussion and Analysis.

Our results for 2006 included income from discontinued operations of $10 million (pre-tax income of $16 million reduced by related income tax expense of $6 million), or $.03 per diluted share, the result of the finalization of certain legal, selling and other costs recorded in connection with our divestiture of Bel Air Investment Advisors LLC.

Total revenue for 2007 grew 32% from 2006. Total fee revenue for 2007, which grew 27%, reflected consistent growth throughout the year in servicing fees and management fees, up 24% and 21%, respectively, compared to 2006, and trading services and securities finance revenue, up 34% and 76%, respectively. Generally, servicing fees benefited from the inclusion of the acquired Investors Financial business, net new business and favorable equity markets, and management fees benefited primarily from net new business and favorable equity markets. Trading services revenue grew primarily as a result of increases in customer volumes and the inclusion of the acquired Investors Financial business, with respect to foreign exchange revenue, and as a result of the inclusion of revenue from the acquired Currenex business, with respect to other trading services revenue. Securities finance revenue benefited from increases in volumes of securities loaned, both from new customers and from growth in volume from existing customers, and increases in spreads.

Net interest revenue increased 56% compared to 2006, and net interest margin increased to 1.71% from 1.25%. This growth was the result of several favorable trends (1) favorable rates and volumes on non-U.S. deposits; (2) the addition of interest-earning assets from Investors Financial's balance sheet; and (3) the favorable impact of fixed-rate investments.

Total operating expenses increased 42% from 2006, partly reflective of the $665 million aggregate impact of merger and integration costs associated with Investors Financial and a net pre-tax charge associated with certain SSgA active fixed-income strategies. If these aggregate costs are excluded, total operating expenses for 2007 totaled $5.768 billion ($6.433 billion less $665 million), an increase of 27% from $4.54 billion for 2006, as we continued to carefully manage operating expenses and balance growth in operating expenses with growth in revenue. Most of the increase resulted from the inclusion of the operating expenses of the acquired Investors Financial business for the second half of 2007, as well as increased incentive compensation due to improved performance and increased staffing levels to support new business, particularly internationally. Excluding the aggregate $665 million of merger and integration costs and the net pre-tax charge, as a result of year-over-year growth in revenue of 32% and year-over-year growth in total operating expenses of 27% as described above, we generated positive operating leverage of approximately 500 basis points. We define positive operating leverage as a rate of total revenue growth that exceeds the rate of growth of total operating expenses, determined on an operating basis.

SSgA was a significant contributor to our overall results for 2007. Its total revenue increased 25% for 2007 over 2006, and comprised about 18% of our total consolidated revenue for 2007, compared to 19% for 2006. In addition, SSgA generated net new business in assets under management, which we expect will generate management fee revenue in future years, of approximately $116 billion for 2007, compared to $86 billion for 2006. The decline in SSgA's relative contribution to our consolidated total revenue was the result of the impact of the acquired Investors Financial business's revenue on total revenue of our Investment Servicing line of business, which increased 34% for 2007 over 2006.

We continue to expand our business outside of the U.S., particularly in Europe and the Asia/Pacific region. For 2007, approximately $3.42 billion, or 41% of our consolidated total revenue of $8.336 billion, was generated from non-U.S. activities, compared to 43% for 2006. The 2007 percentage reflects revenue from the acquired Investors Financial business, which was predominantly generated in the U.S. For illustrative purposes, if we exclude total revenue from the acquired Investors Financial business for 2007 of $456 million, non-U.S. revenue of $3.42 billion for 2007 comprised approximately 43% of consolidated total revenue for 2007 of $7.88 billion ($8.336 billion less $456 million). At year-end 2007, we employed 9,500 outside the U.S., compared to 8,630 at year-end 2006. Our goal is to eventually generate 50% of our consolidated total revenue from outside the United States.

Assets under custody and assets under management both increased from year-end 2006, with assets under custody at $15.30 trillion, up 29% from $11.85 trillion a year ago, and assets under management at $1.98 trillion, up 13% from $1.75 trillion a year ago. The acquired Investors Financial business contributed $1.9 trillion of assets under custody. Assets under custody have grown at a compound annual rate of 13% since year-end 2003, with U.S. assets growing by 12% and non-U.S. assets growing by 16%, while assets under management have grown at a compound annual rate of 16% over the same period.

CONSOLIDATED RESULTS OF OPERATIONS

This section discusses our consolidated results of operations for 2007 compared to 2006, and should be read in conjunction with the consolidated financial statements and accompanying notes included in this Form 10-K under Item 8. A comparison of consolidated results of operations for 2006 with those for 2005 is provided in the "Comparison of 2006 and 2005 Overview of Consolidated Results of Operations" section of this Management's Discussion and Analysis.

TOTAL REVENUE

Years ended December 31, (Dollars in millions)	2007	2006	2005	Change 2006-2007
Fee revenue:				
Servicing fees	**$ 3,388**	$ 2,723	$ 2,474	24%
Management fees	**1,141**	943	751	21
Trading services	**1,152**	862	694	34
Securities finance	**681**	386	330	76
Processing fees and other	**237**	272	302	(13)
Total fee revenue	**6,599**	5,186	4,551	27
Net interest revenue:				
Interest revenue	**5,212**	4,324	2,930	21
Interest expense	**3,482**	3,214	2,023	8
Net interest revenue	**1,730**	1,110	907	56
Provision for loan losses				
Net interest revenue after provision for loan losses	**1,730**	1,110	907	56
Gains (Losses) on sales of available-for-sale investment securities, net	**7**	15	(1)	
Gain on sale of Private Asset Management business			16	
Total revenue	**$ 8,336**	$ 6,311	$ 5,473	32

We are one of the world's leading specialists in servicing mutual funds, other collective investment funds and pension plans. We are consistently gaining business globally, and for 2007, our non-U.S. revenue was approximately 41% of our total revenue, compared to 43% for 2006 and 24% for 2002. We provide a broad range of reliable, easy-to-integrate investment services that are global and enable our customers to develop and launch competitive new investment products. We also provide active management products, including enhanced indexing, hedge fund strategies and quantitative management, and passive investment management products and strategies.

We provide fund accounting, custody, investment management, securities finance, transfer agency services, and operations outsourcing for investment managers and hedge fund managers. These services support the complex financial strategies and transactions of our customers worldwide, in any time zone across multiple currencies. Our focus on the total needs of the customer allows us to develop active, long-term relationships that result in high customer retention, cross-selling opportunities, and recurring revenue. The servicing markets in which we compete are very price-competitive, and we consistently focus on winning and retaining customer business. This focus requires a strong commitment to customers while constantly working toward providing services at lower costs.

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

Fee Revenue

Servicing and management fees are the largest components of fee revenue, and collectively comprised approximately 69% of total fee revenue for 2007 and 71% for 2006. These fees are a function of several factors, including the mix and volume of assets under custody and assets under management, securities positions held and the volume of portfolio transactions, and the types of products and services used by customers, and are affected by changes in worldwide equity and fixed-income valuations.

Generally, servicing fees are impacted, in part, by changes in daily average valuations of assets under custody, while management fees are impacted by changes in month-end valuations of assets under management. Additional factors, such as the level of transaction volumes, changes in service level, balance credits, customer minimum balances, pricing concessions and other factors may have a significant impact on servicing fee revenue. Generally, management fee revenue is more sensitive to market valuations than servicing fee revenue. Management fees also include performance fees, which amounted to approximately 6% of management fees for 2007 compared to 9% for 2006. Performance fees are generated when the performance of managed funds exceeds benchmarks specified in the management agreements, and we experience more volatility with performance fees than with more traditional management fees.

In light of the above, we estimate, assuming all other factors remain constant, that a 10% increase or decrease in worldwide equity values would result in a corresponding change in our total revenue of approximately 2%. If fixed-income security values were to increase or decrease by 10%, we would anticipate a corresponding change of approximately 1% in our total revenue.

The following table presents selected equity market indices. Daily averages and the averages of month-end indices demonstrate worldwide equity market valuation changes that impact servicing and management fee revenue, respectively. Year-end indices impact the value of assets under custody and management at those dates. The index names listed in the table and elsewhere in this Management's Discussion and Analysis are service marks of their respective owners.

INDEX

	Daily Averages of Indices			Average of Month-End Indices			Year-End Indices		
	2007	**2006**	**Change**	**2007**	**2006**	**Change**	**2007**	**2006**	**Change**
S&P 500®	**1,477**	1,310	13%	**1,478**	1,318	12%	**1,468**	1,418	4%
NASDAQ®	**2,578**	2,263	14	**2,588**	2,279	14	**2,652**	2,415	10
MSCI EAFE®	**2,212**	1,858	19	**2,230**	1,883	18	**2,253**	2,074	9

FEE REVENUE

Years ended December 31, (Dollars in millions)	2007	2006	2005	Change 2006-2007
Servicing fees	**$ 3,388**	$ 2,723	$ 2,474	24%
Management fees(1)	**1,141**	943	751	21
Trading services	**1,152**	862	694	34
Securities finance	**681**	386	330	76
Processing fees and other	**237**	272	302	(13)
Total fee revenue	**$ 6,599**	$ 5,186	$ 4,551	27

(1) Includes performance fees of $72 million, $84 million and $41 million for 2007, 2006 and 2005, respectively.

Approximately 61% of the $1.4 billion increase in total fee revenue over 2006 was generated from servicing and management fees.

Servicing Fees

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

The increase in servicing fees of $665 million from 2006 primarily resulted from the inclusion of $304 million of servicing fee revenue from the acquired Investors Financial business, net new business from existing and new customers, higher average equity market valuations and higher customer transaction volumes. Net new business is defined as new business net of lost business. For 2007, servicing fees generated from customers outside the U.S. were approximately 41% of total servicing fees, down from 44% in 2006. The decrease in the non-U.S. proportion reflected the contribution of servicing fees from the acquired Investors Financial business, which are generated predominantly in the U.S.

We are the largest provider of mutual fund custody and accounting services in the United States. We distinguish ourselves from other mutual fund service providers by offering customers a broad array of integrated products and services, including accounting, daily pricing and fund administration. We calculate more than 34% of the U.S. mutual fund prices provided to NASDAQ that appear daily in *The Wall Street Journal* and other publications with an accuracy rate of 99.9%.

We have a leading position for servicing U.S. tax-exempt assets for corporate and public pension funds. We provide trust and valuation services for more than 4,000 daily-priced portfolios, making us a leader for both monthly and daily valuation services.

We are a leading service provider outside of the U.S. as well. In Germany, we provide Depotbank services for approximately 16% of retail and institutional fund assets. In the United Kingdom, we provide custody services for 18% of pension fund assets and provide administration services to more than 24% of mutual fund assets. We service approximately 23% of the hedge fund market and more than $650 billion of offshore assets, primarily domiciled in Ireland and Luxembourg. We have more than $1 trillion in assets under administration in the Asia/Pacific region, and are the largest non-domestic trust bank in Japan.

At year-end 2007, our total assets under custody were $15.30 trillion, compared to $11.85 trillion a year earlier. The value of assets under custody is a broad measure of the relative size of various markets served. Changes in the value of assets under custody do not necessarily result in proportional changes in revenue. Assets under custody consisted of the following at December 31:

ASSETS UNDER CUSTODY

As of December 31, (Dollars in billions)	**2007**	**2006**	**2005**	**2004**	**2003**	**2006-2007 AGR**	**2003-2007 CAGR**
Mutual funds	**$ 4,803**	$ 3,738	$ 3,442	$ 3,088	$ 3,094	28%	12%
Collective funds	**3,199**	1,665	1,001	911	1,153	92	29
Pension products	**3,960**	3,713	3,358	3,254	3,026	7	7
Insurance and other products	**3,337**	2,738	2,320	2,244	2,097	22	12
Total	**$ 15,299**	$ 11,854	$ 10,121	$ 9,497	$ 9,370	29	13

FINANCIAL INSTRUMENT MIX OF ASSETS UNDER CUSTODY

As of December 31, (In billions)	2007	2006	2005
Equities	**$ 8,653**	$ 5,821	$ 4,814
Fixed-income	**4,087**	4,035	3,797
Short-term and other investments	**2,559**	1,998	1,510
Total	**$ 15,299**	$ 11,854	$ 10,121

GEOGRAPHIC MIX OF ASSETS UNDER CUSTODY(1)

As of December 31, (In billions)	2007	2006	2005
United States	**$ 11,792**	$ 8,962	$ 7,773
Other Americas	**698**	607	508
Europe/Middle East/Africa	**2,163**	1,815	1,454
Asia/Pacific	**646**	470	386
Total	**$ 15,299**	$ 11,854	$ 10,121

(1) Geographic mix is based on the location where the assets are serviced.

Management Fees

We provide a broad range of investment management strategies, specialized investment management advisory services and other financial services for corporations, public funds, and other sophisticated investors. These services are offered through SSgA. Based upon assets under management, SSgA is the largest manager of institutional assets worldwide, the largest manager of assets for tax-exempt organizations (primarily pension plans) in the United States, and the third largest investment manager overall in the world. SSgA offers a broad array of investment management strategies, including passive and active, such as enhanced indexing and hedge fund strategies, using quantitative and fundamental methods for both U.S. and global equities and fixed income securities. SSgA also offers exchange traded funds, or "ETFs," such as the SPDR® Dividend ETFs.

The $198 million increase in management fees from 2006 primarily resulted from net new business and higher equity market valuations. Performance fees decreased from $84 million in 2006 to $72 million in 2007. Management fees generated from customers outside the United States were approximately 41% of total management fees, up from 32% for 2006.

At year-end 2007, assets under management were $1.98 trillion, compared to $1.75 trillion at year-end 2006. While certain management fees are directly determined by the value of assets under management and the investment strategy employed, management fees reflect other factors as well, including our relationship pricing for customers who use multiple services, and the benchmarks specified in the respective management agreements related to performance fees. Accordingly, no direct correlation necessarily exists between the value of assets under management, market indices and management fee revenue. Assets under management consisted of the following at December 31:

ASSETS UNDER MANAGEMENT

As of December 31, (Dollars in billions)	2007	2006	2005	2004	2003	2006-2007 AGR	2003-2007 CAGR
Equities:							
Passive	**$ 803**	$ 691	$ 625	$ 600	$ 519	16%	12%
Active and other	**206**	181	147	122	81	14	26
Company stock/ESOP	**79**	85	76	77	76	(7)	1
Total equities	**1,088**	957	848	799	676	14	13
Fixed-income:							
Passive	**216**	180	128	106	81	20	28
Active	**43**	34	28	35	10	26	44
Cash and money market	**632**	578	437	414	339	9	17
Total fixed-income and cash	**891**	792	593	555	430	13	20
Total	**$ 1,979**	$ 1,749	$ 1,441	$ 1,354	$ 1,106	13	16

GEOGRAPHIC MIX OF ASSETS UNDER MANAGEMENT(1)

As of December 31, (In billions)	2007	2006	2005
United States	**$ 1,353**	$ 1,202	$ 1,023
Other Americas	**36**	30	24
Europe/Middle East/Africa	**427**	384	275
Asia/Pacific	**163**	133	119
Total	**$ 1,979**	$ 1,749	$ 1,441

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

The following table presents a roll-forward of assets under management for the three years ended December 31, 2007:

ASSETS UNDER MANAGEMENT

Years Ended December 31, (In billions)	2007	2006	2005
Balance at beginning of year	**$ 1,749**	$ 1,441	$ 1,354
Net new business	**116**	86	36
Market appreciation	**114**	222	51
Balance at end of year	**$ 1,979**	$ 1,749	$ 1,441

Trading Services

Trading services revenue includes revenue from foreign exchange trading and brokerage and other trading services. We offer a complete range of foreign exchange services under an account model that focuses on the global requirements of our customers to execute trades and receive market insights in any time zone. In March 2007, we acquired Currenex's electronic foreign exchange trading platform. The Currenex business serves hedge funds, banks and other commercial enterprises in the active-trading segment of the foreign exchange market. We have exclusive ownership of FX Connect®, the world's first foreign exchange trading platform, and we provide quantitatively-based research into investor behavior, as well as consultative services that use quantitative tools designed to optimize our customers' returns. Foreign exchange trading revenue is influenced by three principal factors: the volume and type of customer foreign exchange transactions; currency volatility; and the management of currency market risks.

For 2007, foreign exchange trading revenue increased 31%, to $802 million from $611 million in 2006, and benefited from the disruption in the global securities markets that occurred in the second half of the year. The increase was mainly driven by a 39% increase in customer volumes, but also was the result of the inclusion of $43 million of foreign exchange revenue from the acquired Investors Financial business. These increases were partly offset by an unfavorable transaction mix influenced by lower margin transactions and a 5% decline in currency volatility.

We also offer a range of brokerage and other trading products tailored specifically to meet the needs of the global pension community, including transition management, commission recapture and self-directed brokerage. These products are differentiated by our position as an agent of the institutional investor. Brokerage and other trading fees were $350 million in 2007, up 39% compared to 2006. The increase was attributable to the contribution of revenue from the acquired Currenex business and an increase in revenue from transition management.

Securities Finance