State Street Corporation
2020 Annual Stress Test Disclosure

Dodd-Frank Act Annual Stress Test Results
Supervisory Severely Adverse Scenario

June 29, 2020
Overview of the 2020 Stress Test

State Street Corporation (State Street), like other covered companies governed by the provisions of Section 165 of the Dodd-Frank Act, is required to conduct a company run annual stress test and disclose the results under the Supervisory Severely Adverse scenario. The annual stress test is completed in coordination with the Comprehensive Capital Analysis and Review (CCAR) conducted by the Board of Governors of the Federal Reserve System.

As part of CCAR, the Federal Reserve conducts an annual supervisory stress test on the largest banking organizations (i.e., banking organizations with $100 billion or greater in average total consolidated assets). These forward-looking exercises assess whether such firms have sufficient capital to absorb losses and continue operating during stressful economic and financial conditions over a nine-quarter planning horizon.

The 2020 annual stress test applies to 33 bank holding companies (BHCs) and U.S. intermediate holding companies (IHCs); 13 of which, including State Street, are subject to a Counterparty Default Scenario requirement and therefore must include losses and related effects on capital associated with the default of their largest stressed counterparty, determined by applying the Global Market Shock (GMS) specified by the Federal Reserve.

The Dodd-Frank Act requires the Federal Reserve, as well as BHCs and IHCs participating in CCAR, to publish a summary of stress test results, including a post-stress capital analysis under the supervisory severely adverse scenario. For CCAR 2020, the Federal Reserve has used the capital action assumptions set forth in the Stress Capital Buffer (SCB) rule¹, while State Street used the capital actions prescribed under the Dodd-Frank Act stress testing regulations in effect at the time of submission. Consistent with CCAR 2020 Instructions, the Federal Reserve used the incurred loss approach for measuring provisions for loan loss, while State Street has adopted the current expected credit losses (CECL) accounting standard to estimate losses for CCAR 2020. The results of the company-run and supervisory stress tests are less comparable than in past years as a result of these differences.

¹. 85 Fed. Reg. 15576 (March 18, 2020)
Required Scenarios

As required under the “Supervisory and Company-Run Stress Test Requirements for Covered Companies” Final Rule, and as applied by State Street, a stress test represents a process to assess the potential impact of scenarios (representing hypothetical economic conditions) on State Street’s consolidated financial position and consolidated results of operations and regulatory capital over a defined period (known as a “planning horizon”), taking into account State Street’s current financial condition, risks, exposures, strategies and activities.

For the 2020 annual stress test, State Street executed company-run tests incorporating stress impacts to estimates of its revenues, expenses, losses, and provisions for loan losses, and the resultant changes in regulatory capital and related capital ratios, over the nine-quarter planning horizon starting on January 1, 2020. To execute the stress tests, State Street applied multiple macroeconomic scenarios and parameters, including those prescribed by the Federal Reserve, to its internal stress testing methodologies, models, and tools. Although State Street ran stress tests using multiple scenarios, the sections below describe the methodologies used in the stress test as required under the supervisory severely adverse scenario.

The 2020 supervisory severely adverse scenario, as prescribed by the Federal Reserve, is characterized by a severe global recession that features heightened stress in commercial real estate and corporate debt markets. This year’s supervisory severely adverse scenario includes the following features:

- **US unemployment** reaching 10% from a lower starting value;
- **US GDP** reaching a trough of -8.5% below the starting value;
- **US 10-year Treasury yield** declines from 1.8% in Q4 2019 to 0.7% in Q1 2020;
- An **equity price** decline of 50%;
- From an *international* standpoint, severe *recessionary* episodes in the Eurozone, United Kingdom, and Japan, and a pronounced deceleration in economic activity in Developing Asia; and
- The **Global Market Shock** factors used for the **Counterparty Default** Scenario reflects wide-spread defaults on debt instruments by business borrowers, particularly in highly-leveraged markets, and features US dollar appreciation against major European and developing Asian currencies.

This scenario, along with the supervisory baseline scenario, is set forth and described in the document titled "2020 Supervisory Scenarios for Annual Stress Tests Required under the Dodd-Frank Act Stress Testing Rules and the Capital Plan Rule" published on the Federal Reserve’s website on February 6, 2020, at:

COVID-Related Sensitivity Analyses

In addition to the aforementioned required scenarios, State Street also evaluated potential impacts related to the COVID-19 pandemic through sensitivity analyses on both its baseline and stress results. In light of economic conditions at the time of submission, State Street evaluated the impacts to its baseline earnings and capital position under several equity market and interest rate scenarios.

Furthermore, subsequent to submission of its Capital Plan to the Federal Reserve on April 6, 2020, State Street has continued to evaluate the impacts to its capital position of various sensitivity scenarios differing in the depth and length of ongoing economic weakness. Assuming GDP and unemployment at levels more severe than in the Federal Reserve’s severely adverse scenario, State Street continues to assess the broader impact of equity market weakness, interest rates, and credit conditions on its financial performance and capital position. This work is ongoing and is intended to inform management and our Board in the evaluation of near-term and longer-term capital planning decisions.
Assumptions Regarding Dodd-Frank Act Prescribed Capital Actions

All assumptions and results presented in this disclosure document reflect the capital actions prescribed by Section 165 of the Dodd-Frank Act (Dodd-Frank Act prescribed capital actions), including:

• For the first quarter of 2020, actual capital actions (e.g., stock dividends, stock repurchases and preferred equity redemptions) taken during the quarter, and;

• For each of the second through ninth quarters of the planning horizon:
  • common stock dividends equal to the quarterly average dollar amount of common stock dividends paid in the previous year (including the first quarter in the planning horizon);
  • common stock dividends that are attributable to issuances related to expensed employee compensation, or in connection with a planned merger or acquisition to the extent that the merger or acquisition is reflected in the pro forma balance sheet estimates;
  • scheduled payments on any other instrument that is eligible for inclusion in the numerator of a regulatory capital ratio;
  • no common stock repurchases and redemptions of any capital instrument; and
  • no issuances of common stock or preferred stock, except for issuances related to expensed employee compensation or in connection with a planned merger or acquisition to the extent that the merger or acquisition is reflected in the pro forma balance sheet estimates.
Pro Forma Projections

The tables below summarize pro forma estimated results under the supervisory severely adverse scenario with Dodd-Frank Act prescribed capital actions. All risk-weighted assets (RWA)-based calculations use the Basel III standardized capital risk-based approach.

### Actual Q4 2019 and projected stressed capital ratios (Q1 2020 – Q1 2022)

<table>
<thead>
<tr>
<th>Regulatory Minimums¹</th>
<th>Actual</th>
<th>Stressed Capital Ratios</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Q4 2019</td>
<td>Ending</td>
</tr>
<tr>
<td>Common Equity Tier 1 (CET 1) Capital Ratio</td>
<td>4.5%</td>
<td>11.7%</td>
</tr>
<tr>
<td>Tier 1 Capital Ratio</td>
<td>6.0%</td>
<td>14.6%</td>
</tr>
<tr>
<td>Total Capital Ratio</td>
<td>8.0%</td>
<td>15.7%</td>
</tr>
<tr>
<td>Tier 1 Leverage Ratio</td>
<td>4.0%</td>
<td>6.9%</td>
</tr>
<tr>
<td>Supplementary Leverage Ratio</td>
<td>3.0%</td>
<td>6.1%</td>
</tr>
</tbody>
</table>

¹ Regulatory minimum ratio requirements as prescribed by the Federal Reserve
² Represents the projected minimum quarter-end ratio at any point during the nine-quarter planning horizon of the supervisory severely adverse scenario

### Risk-Weighted Assets (billions of dollars)

<table>
<thead>
<tr>
<th></th>
<th>Actual Q4 2019</th>
<th>Projected Q1 2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk-Weighted Assets</td>
<td>104.0</td>
<td>100.4</td>
</tr>
</tbody>
</table>

### Projected 9-quarter cumulative losses, revenue, and net income before taxes (Q1 2020 – Q1 2022)

<table>
<thead>
<tr>
<th></th>
<th>Billions of dollars¹</th>
<th>Percent of avg. assets²</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-provision Net Revenue</td>
<td>5.1</td>
<td>2.2%</td>
</tr>
<tr>
<td>Other Revenue</td>
<td>0.0</td>
<td></td>
</tr>
<tr>
<td>Less</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provisions</td>
<td>0.4</td>
<td></td>
</tr>
<tr>
<td>Realized Gains/Losses on Securities</td>
<td>0.0</td>
<td></td>
</tr>
<tr>
<td>Trading and Counterparty Losses³</td>
<td>0.6</td>
<td></td>
</tr>
<tr>
<td>Other Losses/Gains</td>
<td>0.3</td>
<td></td>
</tr>
<tr>
<td>Equals</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Income Before Taxes</td>
<td>3.7</td>
<td>1.6%</td>
</tr>
</tbody>
</table>

¹ Due to rounding, the calculation for the net income before taxes utilizing the results above may not equal the total presented
² Assets are averaged over the nine quarter planning horizon
³ A 10% recovery rate was applied, consistent with the Federal Reserve’s disclosed methodology
The table below summarizes pro forma estimated results under the supervisory severely adverse scenario.

<table>
<thead>
<tr>
<th>Projected 9-quarter cumulative loan losses, by loan type (Q1 2020 – Q1 2022)</th>
<th>Billions of dollars(^1)</th>
<th>Percent of avg. assets(^2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan losses</td>
<td>0.3</td>
<td>1.0%</td>
</tr>
<tr>
<td>First Lien Mortgages, Domestic</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Junior Liens and HELOCs, Domestic</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Commercial and Industrial</td>
<td>0.2</td>
<td>4.5%</td>
</tr>
<tr>
<td>Commercial Real Estate</td>
<td>0.0</td>
<td>0.4%</td>
</tr>
<tr>
<td>Credit Cards</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other Consumer</td>
<td>0.0</td>
<td>4.6%</td>
</tr>
<tr>
<td>Other Loans</td>
<td>0.1</td>
<td>0.4%</td>
</tr>
</tbody>
</table>

\(^1\) Due to rounding, the sum of the projected loan losses by asset type may not equal the total presented.

\(^2\) Percentage of average balance of the identified type of loans represented by projected aggregate loan losses. Loan balances are averaged over the nine-quarter planning horizon.

Under the supervisory severely adverse scenario, the stress projections resulted in a decline in most regulatory capital ratios, which utilized Basel III standardized RWA or Leverage Assets; however, State Street exceeded all Basel III minimum regulatory capital ratio requirements throughout the nine-quarter horizon. Changes in regulatory capital were primarily driven by the stressed declines in revenue relative to baseline expectations, counterparty losses, and legal and operational losses.
Key Drivers of State Street’s Common Equity Tier 1 and Tier 1 Leverage Capital Ratios

Supervisory Severely Adverse Scenario with Dodd-Frank Capital Actions (4Q19-1Q22)

Common Equity Tier 1 (CET1) Ratio

- 2020 CCAR Regulatory Minimum (4.5%)
- 2020 DFAST (Q4 2019)
- PPNR (inc Operational Losses) 1
- Trading and Counterparty Losses 1
- AFS MTM1
- Other Capital 2
- RWA Capital Actions 3
- 2020 DFAST (Q1 2022)

Tier 1 Leverage Ratio

- 2020 CCAR Regulatory Minimum (4.0%)
- 2020 DFAST (Q4 2019)
- PPNR (inc Operational Losses) 1
- Trading and Counterparty Losses 1
- AFS MTM1
- Other Capital 2
- Leverage Exposure
- Capital Actions 3
- 2020 DFAST (Q1 2022)

Note: Numbers may not sum due to rounding

(1) Items presented above reflected net of tax, as applicable
(2) Other capital includes other losses in P&L, FX translation in AOCI, Disallowed DTA, and Goodwill & Intangibles deductions
(3) For net capital distribution assumptions, please refer to assumptions regarding Dodd-Frank Act prescribed capital actions section on page 4 for details
Stress Testing Framework – Risks and Methodologies

• State Street has a robust company-wide stress testing program that executes an annual stress test, with the program overseen by management and its Board of Directors.

• The stress testing program is structured around what State Street deems to be its key risks. These risks serve as an organizing principle for much of State Street’s risk management and reporting framework.

• In connection with the focus on these key risks, State Street’s internally-developed stress tests incorporate idiosyncratic loss events tailored to its unique risk profile. Due to the nature of State Street’s business model and consolidated statement of condition, these key risks may differ from those of a traditional commercial bank.

• In the normal course of its global business activities, State Street is exposed to a variety of risks, some intrinsic to the financial services industry, and others which are more specific to its business activities.

• State Street’s risk management framework focuses on material risks, which include the following:
  – Credit and Counterparty Risk;
  – Liquidity Risk, Funding, and Management;
  – Operational Risk;
  – Information Technology Risk;
  – Market Risk associated with Trading Activities;
  – Market Risk associated with non-Trading Activities (which State Street refers to as asset and liability management and which consists primarily of interest rate risk);
  – Strategic Risk;
  – Model Risk; and
  – Reputational, Fiduciary, and Business Conduct Risk.

• Many of these risks, as well as some of the factors underlying each of these risks that could affect our businesses and our consolidated financial statements, are discussed in detail under Item 1A, “Risk Factors” and under “Risk Management” under Item 7, “Management Discussion and Analysis of Financial Condition and Results of Operations,” included in our Annual Report on Form 10-K for the year ended December 31, 2019 on file with the SEC (2019 Form 10-K), as those disclosures may from time-to-time be updated in subsequent filings with the SEC.
Stress Testing Framework – General Description of Methodologies

The table below and on the subsequent pages provides a general description of the methodologies used in the supervisory severely adverse scenario, including those employed to estimate losses, revenues, provision for loan and lease losses, and other components of our capital projections.

<table>
<thead>
<tr>
<th>Capital component</th>
<th>General Description of Methodologies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-Provision Net Revenue</td>
<td>PPNR is calculated as net interest income (NII) plus non-interest revenue minus non-interest expense. The following is a description of the methodologies used to calculate the components of PPNR under the supervisory severely adverse scenario.</td>
</tr>
<tr>
<td></td>
<td>• State Street’s NII is sensitive to changes in the balance sheet due to economic conditions or business actions, movements in interest rates and foreign exchange rates, and changes in spreads earned on interest earning assets or paid on interest bearing liabilities, among other factors. Under the supervisory severely adverse scenario in the 2020 annual stress test, the interest rate paths across the nine-quarter planning horizon were the primary macroeconomic drivers of lower stress NII compared to the baseline. In addition, State Street used projections of short-term interest rates and market volatility to forecast deposit volumes across the planning horizon. Scenario-specific decisions on investment portfolio reinvestment and loan growth assumptions were also applied to the stressed scenarios.</td>
</tr>
<tr>
<td></td>
<td>• State Street also stressed non-interest revenue, which includes servicing fees, management fees, securities finance, trading services, and processing fees and other revenue. In most cases, macroeconomic factors (e.g., equities, fixed income, GDP, currencies, volatility) identified in the scenario were linked to asset and activity levels through regression-based analysis. In cases where fee revenue lacked sensitivity to the macroeconomic factors, State Street used empirical analysis in conjunction with qualitative assessments to determine the impact of stress. Non-Interest revenue also reflected reduced revenue due to client attrition associated with operational and other idiosyncratic events.</td>
</tr>
<tr>
<td></td>
<td>• State Street’s PPNR projections of non-interest expense incorporated a reduction to compensation and employee benefits, transaction processing, and professional services expense due to the impacts of lower activity levels and/or lower performance. Offsetting these reductions, State Street projected incremental costs related to severance and operational risk events such as increased litigation expenses.</td>
</tr>
</tbody>
</table>
### Trading and Counterparty Losses

For the annual stress test, the Federal Reserve required 13 firms, including State Street, to incorporate a counterparty default scenario component into their prescribed supervisory scenarios.

- In connection with the counterparty default scenario component, State Street estimated and reported the potential losses and related effects on capital associated with the instantaneous and unexpected default of the counterparty that would generate the largest direct and indirect credit losses across all of State Street’s core credit-related activities with the given counterparty, including derivatives and securities financing.
- As required, the largest counterparty was determined by net stressed losses, estimated by revaluing exposures and collateral using the Global Market Shock provided by the Federal Reserve.
- Additionally, as in prior years, the potential for increased defaults, or the probability of default, under the prescribed scenarios was assessed for all counterparties and across a spectrum of types of risks, yielding additional losses and related effects on capital.

### Loan Loss Provisions

Loan loss provisions represent the sum of the CECL provisions associated with State Street’s financial assets held at amortized cost under each scenario, including corporate and insurance lending, leveraged loans, and other asset types.

- State Street stressed its loan losses using an expected loss (EL) framework. EL can be expressed as the product of portfolio probability of default (PD), loss given default (LGD), and exposure at default (EAD).
- The component PD, LGD, and EAD inputs were stressed through each component’s specific sensitivity to the scenario macroeconomic factors. Component model sensitivities were defined using business analysis, historical performance, and statistical tools, such as regression analysis.
- State Street applied a credit review and an overlay to modeled results to account for identified material limitations in the model or process. There were two loan loss overlays in 2020 CCAR: Sovereign PD and Municipal PD.
- For the purpose of determining the evolution of the allowance for credit losses (ACL), defaulted loan losses experienced during the forecast horizon are charged off from the balance sheet in the quarter in which they occur, reflected by a reduction to the ACL.
Pursuant to GAAP, impairment projections under CECL (effective as of 1/1/2020) incorporate projected ECL in credit expectations.

- For the supervisory severely adverse scenario, expected credit losses (ECL) was projected for structured securities using forecasts largely from internal econometric models. These models utilized relevant stressed macroeconomic factors (e.g., GDP growth, unemployment, housing price index) together with loan- and pool-level collateral characteristics to generate prepayment rates, recovery rates, and default rates, which were used as inputs in generating bond-specific cash flows.
- For non-structured securities, State Street utilized loss rates that were derived from the stressed expected credit loss approach described in the “Loan Loss Provisions” section.

Available-for-Sale Mark-to-Market (AFS MTM) is the unrealized gain or loss composed of the difference between the fair value and amortized cost of AFS securities.

- Under Basel III, the AFS MTM, which is a component of accumulated other comprehensive income/loss (AOCI) within shareholders’ equity, is reflected in regulatory capital
- For the annual stress test, State Street derived the stressed AOCI using forecasts from externally sourced econometric models consistent with those utilized in the other than temporary impairment (OTTI) projections.
- The models were linked to the same set of macroeconomic factors, including GDP growth, housing price index, and unemployment, in addition to other financial indicators, like interest rates and credit spreads. The most impactful macro factors were the long-term interest rate and credit spread.
Stress Testing Framework – General Description of Methodologies (cont.)

<table>
<thead>
<tr>
<th>Capital component</th>
<th>General Description of Methodologies</th>
</tr>
</thead>
</table>
| Risk-Weighted Assets | For the annual stress test, BHCs were required to calculate RWA under the Basel III standardized approach throughout the entire nine-quarter planning horizon.  
- Under this approach, stressed RWA were primarily impacted by RWA from investment portfolio securities and on- and off-balance sheet growth relative to baseline expectations for other exposures such as loans, securities finance, and derivatives exposures.  
- Investment portfolio securities are made up of securitizations, which use the Simplified Supervisory Formula Approach (SSFA), and non-structured securities. In applying the SSFA, State Street utilized the macroeconomic factors and largely internally sourced econometric models consistent with those used in the approaches for ECL and AOCI.  
- The impacts to State Street’s RWA associated with other items such as loans, securities finance and derivatives were applied consistent with changes in PPNR and balance sheet positions underlying the various exposures.  
- State Street also estimated the stress impact on market risk RWA in accordance with the market risk capital rule issued by the Federal Reserve in 2012, which requires banking organizations with significant trading activities, including State Street, to explicitly incorporate the market risks of those activities into the determination of its capital requirements. This approach incorporated market risk factors, including interest rates, foreign exchange (FX) rates, and the Chicago Board Options Exchange Volatility Index (VIX). |
Important Disclosure Information

The results of a stress test represent estimates of potential outcomes based on hypothetical economic and business conditions. State Street’s stress testing efforts seek to incorporate loss events tailored to its unique risk profile, which differs from that of a traditional commercial bank due to the nature of its business model and consolidated statement of condition. The hypothetical economic conditions applied during any stress test do not represent State Street’s projections of expected economic conditions, and the estimates representing the results of the stress test are not forecasts of expected revenues, expenses, losses or other results, or of State Street’s financial condition or regulatory capital ratios or levels for any future period. Furthermore, because the methodologies, models and tools used by State Street to project estimates of revenues, expenses, losses, regulatory capital ratios and other results under stress tests are proprietary to State Street, the results of company-run stress tests may differ in material respects from the results of stress tests performed on State Street by other parties, including the Federal Reserve in its annual supervisory stress test conducted in coordination with CCAR.

Additional financial and other information about State Street and its principal business activities can be found in its 2019 Form 10-K and subsequent Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and other filings (collectively, SEC filings) with the Securities and Exchange Commission (SEC), which are made available on the Investor Relations section of State Street’s corporate website at http://investors.statestreet.com/. All stakeholders are encouraged to review these SEC filings. The information presented above may differ, in presentation, form, content or otherwise, from similar information, or disclosures on similar topics, presented in SEC filings. Differences could occur, for example, because SEC filings are based on applicable SEC rules and U.S. generally accepted accounting principles (GAAP), which may differ from the regulatory standards or requirements for company-run stress tests under Section 165 of the Dodd-Frank Act. In addition, the information presented in this disclosure may also differ, and would not be comparable to, similar disclosures made by other companies.
## Glossary

### Key Terms, Abbreviations, and Acronyms

- **AFS**: available-for-sale securities
- **AOCI**: accumulated other comprehensive income
- **BHC**: bank holding company
- **CCAR**: Comprehensive Capital Analysis and Review
- **CECL**: current expected credit losses
- **DFAST**: Dodd-Frank Act stress test
- **Dodd-Frank Act**: Dodd-Frank Wall Street Reform and Consumer Protection Act
- **DTA**: deferred tax assets
- **Federal Reserve**: Board of Governors of the Federal Reserve System
- **FX**: foreign exchange
- **GMS**: global market shock, as prescribed by Supervisory requirements for covered companies
- **IHC**: intermediate holding company, the U.S. subsidiary of a foreign domiciled bank holding company
- **MTM**: mark-to-market
- **NII**: net interest income
- **OTTI**: other than temporary impairment
- **PPNR**: pre-provision net revenue
- **P&L**: profit-and-loss
- **RWA**: risk-weighted assets
- **SCB**: Stress Capital Buffer
- **SSFA**: simplified supervisory formula approach
- **State Street**: State Street Corporation