The Goldman Sachs Group, Inc.

2014 Mid-Cycle Dodd-Frank Act Stress Test Disclosure

September 2014

2014 Mid-Cycle Dodd-Frank Act Company-Run Stress Test Disclosure for The Goldman Sachs Group, Inc.

Overview and requirements

Section 165(i)(2) of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") and related regulations require large bank holding companies with total consolidated assets of $50 billion or more, including The Goldman Sachs Group, Inc. (referred to herein as "Group", "we", "us", "our" or "the firm"), to conduct two stress tests each year. In the Dodd-Frank Act stress test ("DFAST") conducted annually ("Annual DFAST") and completed in January of each year, we are required to conduct stress tests using a set of macroeconomic scenarios (supervisory baseline, supervisory adverse and supervisory severely adverse) developed by the Board of Governors of the Federal Reserve System ("Federal Reserve Board"). For the mid-cycle DFAST ("Mid-Cycle DFAST") to be completed in July of each year, we are required to conduct stress tests under a set of internally developed macroeconomic scenarios (internal baseline, internal adverse and internal severely adverse). The results of both stress tests are submitted to the Federal Reserve Board.

Stress testing is an integral component of our internal capital adequacy assessment and we incorporate DFAST into our internal processes to assess our capital adequacy and to ensure that the firm holds an appropriate amount of capital relative to the risks of our businesses.

The DFAST rules require us to publish a summary of the Annual DFAST results based on the Federal Reserve Board's supervisory severely adverse scenario in March of each year, and a summary of the Mid-Cycle DFAST results based on our internally developed severely adverse scenario in September of each year.

The 2014 Mid-Cycle DFAST is not conducted under the Federal Reserve Board's Capital Plan Rule and is not part of the annual Comprehensive Capital Analysis and Review ("CCAR") process. Accordingly, the Federal Reserve Board does not provide an objection or non-objection to a firm's Mid-Cycle DFAST results.

The planning horizon for the 2014 Mid-Cycle DFAST is the second quarter of 2014 through and including the second quarter of 2016. Per the Federal Reserve Board's instructions, we are required to calculate our Tier 1 common ratio for each quarter of the planning horizon under risk-based capital regulations of the Federal Reserve Board that were based on the Basel I Capital Accord of the Basel Committee ("Basel Committee"), and incorporated the revised market risk regulatory capital requirements, which became effective on January 1, 2013 ("Basel I-based capital rules").

In addition, we are required to calculate our 2014 Mid-Cycle DFAST results reflecting certain aspects of the Federal Reserve Board's revised risk-based capital and leverage regulations ("Revised Capital Framework"), subject to certain transitional provisions.

Given these requirements, our calculation of capital ratios for the 2014 Mid-Cycle DFAST requires three different methodologies:

Basel I-Based Capital Rules ("Basel I"):

The firm is required to compute the Tier 1 common ratio for each quarter of the planning horizon. The Tier 1 common ratio is calculated based on the Basel I-based capital rules.

Hybrid Capital Rules:

The Hybrid Capital Rules require us to calculate regulatory capital utilizing the Revised Capital Framework subject to transitional provisions, and risk-weighted assets ("RWAs") in accordance with Basel I, adjusted for certain items related to capital deductions under the Basel I-based definition of regulatory capital and for the phase-in of new capital deductions, and are only applicable in 2014. The Tier 1 leverage ratio calculation also uses the Revised Capital Framework definition of Tier 1 capital (subject to transitional provisions) in the numerator, and average adjusted total assets (which includes adjustments for certain capital deductions) in the denominator. The firm is required to compute Common Equity Tier 1 (which is different in certain respects from the Tier 1 common ratio under Basel I), Tier 1 capital, Total capital and Tier 1 leverage ratios for all quarters of 2014 under this methodology.

Standardized Capital Rules:

We are also required to calculate capital ratios under Standardized Capital Rules. These utilize the Revised Capital Framework definition of capital, and RWAs calculated under the Standardized Capital Rules, which become effective in the first quarter of 2015. Capital and RWAs under the Standardized Capital Rules are both subject to transitional provisions. The Tier 1 leverage ratio calculation also uses the Revised Capital Framework definition of Tier 1 capital (subject to transitional provisions) in the numerator, and average adjusted total assets (which includes adjustments for certain capital deductions) in the denominator. The firm is required to compute Common Equity Tier 1, Tier 1 capital, Total capital and Tier 1 leverage ratios for all quarters of 2015 and the two quarters of 2016 under this methodology.

Minimum Regulatory Ratio Requirements:

The table below presents the current minimum regulatory ratio requirements that apply to the firm over the planning horizon:

	2014	2015	2016
Tier 1 common ratio	5.0%	5.0%	5.0%
Common Equity Tier 1 ratio	4.0%	4.5%	4.5%
Tier 1 capital ratio	5.5%	6.0%	6.0%
Total capital ratio	8.0%	8.0%	8.0%
Tier 1 leverage ratio	4.0%	4.0%	4.0%

Overview and Description of Group's Severely Adverse Scenario

The Federal Reserve Board's DFAST rules define the severely adverse scenario as "a set of conditions that affect the U.S. economy or the financial condition of a covered company and that overall are more severe than those associated with the adverse scenario and may include trading or other additional components." The internally developed severely adverse scenario is expected to capture a company's vulnerabilities and firm-specific risks that would impact its activities and results. Our goal is to hold sufficient capital to ensure we remain adequately capitalized after experiencing a severe stress event. We construct a severely adverse scenario that is tailored to stress our particular risks and vulnerabilities.

The firm's severely adverse scenario is characterized by a stressed global macroeconomic environment, including a severe U.S. recession. The planning horizon includes a decline in gross domestic product ("GDP"), a rising rate of unemployment, a low interest rate environment, declining asset values and widening credit spreads over several quarters, followed by a slow and partial recovery. For example:

GDP and Unemployment

U.S. Real GDP declines 2.7% on an annualized basis over the first five quarters of the planning horizon. From the trough in the second quarter of 2015, U.S. Real GDP experiences annualized growth of 4.4% over the remainder of the planning horizon. The U.S. Unemployment Rate increases from 6.6% in the first quarter of 2014 to 11.0% in the third quarter of 2015. Although trending downwards, the Unemployment Rate remains elevated at 10.1% at the end of the planning horizon.

Equity Markets and Volatility

Equity market indices experience sharp declines over the first four quarters of the planning horizon with the S&P 500 decreasing 34% over the first four quarters, mostly in the second quarter of 2014. Over the same time horizon, the VIX index increases from 14 to a peak of 57. The S&P 500 partially recovers, ending 12% below the first quarter of 2014 starting point. Similarly, the VIX gradually decreases to 33 over the remaining five quarters, but remains elevated above the first quarter of 2014 starting point.

U.S. Interest Rates and Credit Spreads

The 10-year Treasury (UST) yield initially decreases approximately 90 basis points by the end of the first quarter of the planning horizon. Over the remainder of the planning horizon, the 10-year UST gradually increases to end approximately 20 basis points above the first quarter of 2014 starting point. By the first quarter of 2015, investment grade credit spreads widen by approximately 110 basis points and high yield spreads widen by approximately 790 basis points above the first quarter of 2014 starting point. Investment grade and high yield spreads gradually contract over the remainder of the planning horizon, although still remain higher than their first quarter of 2014 starting points.

The severely adverse scenario also includes a global market shock ("global market shock"), or repricing of our trading and counterparty exposures, in the first quarter of the planning horizon. The global market shock is based on asset value movements observed during the Fall of 2008. Due to our trading and counterparty exposures, and in particular, our fair value investing and lending positions, our global market shock includes large shocks to equity and credit that result in meaningful stress losses during the first quarter of the planning horizon. In addition, we include the impact of an instantaneous counterparty default ("counterparty default scenario") into the global market shock results during the first quarter of the planning horizon. We also incorporate a firm-specific event, which further reduces our franchise revenues for a period of time. In this scenario, we project variables across a range of macroeconomic indicators and asset classes that management determines are necessary to produce revenue, expenses, balance sheet and RWA projections.

Given the fair value nature of our balance sheet, we believe the inclusion of a global market shock is a meaningful way for us to stress our material risks and exposures as significant and rapid changes in asset values are particularly impactful to our capital position. We choose a shock that captures and appropriately stresses our material risk positions. Furthermore, as the scenario includes a severely adverse operating environment, characterized by further market deterioration in global asset values, as well as the firm-specific event, we believe the scenario captures our idiosyncratic risks and significantly stresses our capital position. We believe our severely adverse scenario represents a low probability, but high impact scenario, though does not reflect our forecast of likely macroeconomic conditions over the planning horizon.

Summary of Results

The following table summarizes the results of the firm's calculations under our severely adverse scenario over the planning horizon, including the instantaneous global market shock and counterparty default scenario applied to our trading and counterparty exposures.

These results incorporate the following capital action assumptions as prescribed by the Federal Reserve Board's DFAST rules:

- actual capital actions for the second quarter of 2014;

- for each of the remaining quarters in the planning horizon:
    - common stock dividends equal to the quarterly average dollar amount of common stock dividends that were paid in the third quarter of 2013 through and including the second quarter of 2014; and
    - payments on any other instrument that is eligible for inclusion in the numerator of a regulatory capital ratio equal to the stated dividend, interest, or principal due on such instrument during the quarter.

2014 Mid-Cycle DFAST Results

Projected Capital Ratios, RWAs, Pre-Provision Net Revenues ("PPNR"), Losses, Net Income Before Taxes and Loan Losses

The Goldman Sachs Group, Inc. Projections in Our Severely Adverse Scenario

These results are calculated using capital action assumptions required by the DFAST rules. All projections represent hypothetical estimates that involve an economic outcome that is more adverse than expected. These estimates are not forecasts.

Actual Q1 2014 and Projected Capital Ratios through Q2 2016 under Our Severely Adverse Scenario

	Actual	Stressed Capital Ratios	
	Q1 2014	Ending	Lowest
Tier 1 common ratio (%) [1]	14.6%	12.3%	10.1%
Common Equity Tier 1 ratio (%) [2]	14.6%	8.4%	7.9%
Tier 1 capital ratio (%) [2]	16.3%	9.8%	9.2%
Total capital ratio (%) [2]	19.3%	11.9%	11.5%
Tier 1 leverage ratio (%) [2]	8.2%	6.9%	6.2%

1 Capital ratios presented under Basel I.

2 Common Equity Tier 1, Tier 1 capital, Total capital and Tier 1 leverage ratios are calculated under the Hybrid Capital Rules for Q2 2014 to Q4 2014 and under the Standardized Capital Rules for Q1 2015 to Q2 2016. Lowest calculated ratio under either methodology from Q2 2014 to Q2 2016 is presented in the table.

Actual Q1 2014 and Projected Q2 2016 RWAs under Our Severely Adverse Scenario

	Actual	Projected	
	Q1 2014	Q2 2016	
	Basel I	Basel I	Standardized Capital Rules
RWAs (in billions)	438.5	421.8	601.7

Projected Loan Losses by Type of Loan from Q2 2014 through Q2 2016 under Our Severely Adverse Scenario

	in billions	Portfolio Loss Rates (%) [1]
Loan Losses	1.6	2.9
First Lien Mortgages, Domestic	0.0	1.9
Junior Liens and HELOCs, Domestic	0.0	0.4
Commercial and Industrial	1.1	11.5
Commercial Real Estate, Domestic	0.1	3.0
Credit Cards	-	-
Other Consumer	0.0	0.1
Other Loans	0.4	1.0

1 Loan losses and average loan balances used to calculate portfolio loss rates exclude loans and loan commitments accounted for under the fair value option.

Projected PPNR, Losses and Net (Loss)/Income Before Taxes from Q2 2014 through Q2 2016 under Our Severely Adverse Scenario

	in billions	Percentage of Average Assets
PPNR [1]	10.7	1.2
Other Revenue	-	
Less:		
Provision for Loan Losses	1.6	
Realized Losses/(Gains) on Securities	-	
Trading and Counterparty Losses [2]	18.8	
Other Losses/(Gains) [3]	3.6	
Equals		
Net (Loss)/Income Before Taxes	(13.3)	(1.5)

1 PPNR includes net revenues ("revenues") and operating expenses (including operational risk events, mortgage put-back expenses and other real estate owned costs).

2 Trading and counterparty losses includes mark-to-market losses, losses arising from the counterparty default scenario and changes in credit valuation adjustments ("CVA") associated with the global market shock. Includes incremental default losses over the planning horizon.

3 Other losses/(gains) primarily includes projected changes in the fair value of loans held for sale and loans held for investment measured under the fair value option.

Based on the firm's severely adverse scenario, the most significant drivers of the changes in the firm's regulatory capital ratios over the planning horizon, when compared with actual regulatory capital ratios as of the first quarter of 2014 and the Tier 1 common ratio under the 2014 Mid-Cycle DFAST are:

- increased RWAs resulting from the requirement to project RWAs based on the Standardized Capital Rules;
- trading and counterparty losses and other losses, which include both the global market shock and the counterparty default scenario, are included in our net (loss)/income projections; the impacts of the global market shock are also reflected in our balance sheet and RWA projections; and
- lower Pre-Provision Net Revenues ("PPNR") over the planning horizon primarily due to decreased net revenues ("revenues") and increased operational risk losses as a result of our severely adverse macroeconomic scenario, as well as the negative impact of an assumed firm-specific event that results in a reduction to our franchise revenues.

These 2014 Mid-Cycle DFAST results are prepared based on our internal stress testing methodology and our internally developed severely adverse scenario and therefore may not be directly comparable to the 2014 Annual DFAST results for the firm's calculations based on the Federal Reserve Board's supervisory severely adverse scenario and required instructions.

Material Risks Captured in the Stress Test

Market Risk:

Market risk is the risk of loss in the value of our inventory, as well as certain other financial assets and financial liabilities, due to changes in market conditions. We hold inventory primarily for market making for our clients and for our investing and lending activities. Our inventory therefore changes based on client demands and our investment opportunities. Our inventory is accounted for at fair value and therefore fluctuates on a daily basis. Categories of market risk include the following:

- interest rate risk: results from exposures to changes in the level, slope and curvature of yield curves, the volatilities of interest rates, mortgage prepayment speeds and credit spreads;
- equity price risk: results from exposures to changes in prices and volatilities of individual equities, baskets of equities and equity indices;
- currency rate risk: results from exposures to changes in spot prices, forward prices and volatilities of currency rates; and
- commodity price risk: results from exposures to changes in spot prices, forward prices and volatilities of commodities, such as crude oil, petroleum products, natural gas, electricity, and precious and base metals.

Market risk is incorporated into our 2014 Mid-Cycle DFAST results via the global market shock and the severely adverse macroeconomic scenario. The global market shock is applied to our fair value trading and certain banking book positions with changes in the fair value being reflected in our revenue projections.

We further stress our positions based on the changes in macroeconomic variables and asset values over the planning horizon of our internally developed severely adverse scenario. As applicable, we recover some of these losses in this scenario as a result of improving macroeconomic variables and asset values during the latter part of the planning horizon.

Credit Risk:

Credit risk represents the potential for loss due to the default or deterioration in credit quality of a counterparty (e.g., an over-the-counter ("OTC") derivatives counterparty or a borrower) or an issuer of securities or other instruments we hold. Our exposure to credit risk comes mostly from client transactions in OTC derivatives and loans and lending commitments. Credit risk also comes from cash placed with banks, securities financing transactions (i.e., resale and repurchase agreements and securities borrowing and lending activities) and receivables from brokers, dealers, clearing organizations, customers and counterparties.

Credit risk is incorporated into our 2014 Mid-Cycle DFAST results via the global market shock, the counterparty default scenario and the severely adverse macroeconomic scenario. The global market shock includes counterparty credit losses (i.e., credit valuation adjustments ("CVA"), and incremental default risk ("IDR") losses in addition to those losses included as a result of the counterparty default scenario). Projections for CVA and IDR over the planning horizon are also included in our revenue projections under this scenario.

Credit risk is also incorporated into our projections for changes in provisions and loan losses in our accrual loan portfolio.

Operational Risk:

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Our exposure to operational risk arises from routine processing errors as well as extraordinary incidents, such as major systems failures. Potential types of loss events related to internal and external operational risk include:

- clients, products and business practices;
- execution, delivery and process management;
- business disruption and system failures;
- employment practices and workplace safety;
- damage to physical assets;
- internal fraud; and
- external fraud.

Operational risk losses are estimated based on the firm's historical operational risk experience, relevant internal factors, recent industry matters and the assumed conditions of the firm's severely adverse scenario. Operational risk losses are included within non-compensation expense projections over the planning horizon as further described below.

Liquidity Risk:

Liquidity is of critical importance to financial institutions. The firm has in place a comprehensive and conservative set of liquidity and funding policies to address both firm-specific and broader industry or market liquidity events. Our principal objective is to be able to fund the firm and to enable our core businesses to continue to serve clients and generate revenues, even under adverse circumstances.

For purposes of the Mid-Cycle DFAST, we analyze how we would manage our balance sheet through the duration of a severe crisis and we include assumptions regarding our ability to access the secured and unsecured funding markets to generate incremental liquidity. Our 2014 Mid-Cycle DFAST results take liquidity risk into account by projecting potential liquidity outflows due to our severely adverse scenario environment (e.g., draws on unfunded commitments and secured and unsecured funding roll-offs without replacement) and the impact of these outflows on our liquidity position and balance sheet.

Description of Our Projection Methodologies

PPNR:

PPNR includes revenues and operating expenses.

Revenues:

We project revenues for each of our business segments, including Investment Banking, Institutional Client Services, Investing & Lending and Investment Management. The projected revenues under our severely adverse scenario are an aggregation of projected revenues for each of these business segments.

Investment Banking

The firm provides a broad range of investment banking services to a diverse group of corporations, financial institutions, investment funds and governments. Services include strategic advisory assignments with respect to mergers and acquisitions, divestitures, corporate defense activities, risk management, restructurings and spin-offs, and debt and equity underwriting of public offerings and private placements, including domestic and cross-border transactions, as well as derivative transactions directly related to these activities.

Institutional Client Services

The firm facilitates client transactions and makes markets in fixed income, equity, currency and commodity products, primarily with institutional clients such as corporations, financial institutions, investment funds and governments. The firm also makes markets in and clears client transactions on major stock, options and futures exchanges worldwide and provides financing, securities lending and other prime brokerage services to institutional clients.

Investing & Lending

The firm invests in and originates loans to provide financing to clients. These investments and loans are typically longer-term in nature. The firm makes investments, some of which are consolidated, directly and indirectly through funds that the firm manages, in debt securities and loans, public and private equity securities, and real estate entities.

Investment Management

The firm provides investment management services and offers investment products (primarily through separately managed accounts and commingled vehicles, such as mutual funds and private investment funds) across all major asset classes to a diverse set of institutional and individual clients. The firm also offers wealth advisory services, including portfolio management and financial counseling, and brokerage and other transaction services to high-net-worth individuals and families.

We utilize multiple approaches when projecting segment revenues, including models based on regression analyses, management judgment and projecting the impact of re-pricing inventory due to the projected changes in asset values under our severely adverse scenario. We also incorporate the impact of broader industry performance during historical stressed periods to help guide management judgment regarding our future performance in the assumed stressed operating environment.

Additionally, we incorporate an impact to our franchise revenues resulting from the assumed firm-specific event as discussed above. The inclusion of a firm-specific event in our severely adverse scenario projections inherently incorporates some level of management judgment, specifically regarding the ways in which the event impacts our projected results. When assessing the impact of the firm-specific event on our results, we leverage multiple approaches including assumed reductions in trading revenues, investment banking market share and assets under supervision.

We also use our judgment to reassess revenue projections to ensure reasonableness given assumed compensation levels and the associated impact on voluntary staff attrition over the planning horizon.

Expenses:

Operating expense projections over the planning horizon are primarily influenced by compensation and benefits, headcount and levels of business activity.

Compensation and benefits includes salaries, discretionary compensation, amortization of equity awards and other items such as benefits. Discretionary compensation is significantly impacted by, among other factors, the level of revenues, overall financial performance, the structure of our share-based compensation programs and the external environment.

Non-compensation expenses include certain expenses that vary with levels of business activity, such as brokerage, clearing, exchange and distribution fees and market development costs. Non-compensation expenses also include expenses that relate to our global footprint and overall headcount levels. Such expenses include depreciation and amortization, occupancy and communication and technology costs.

In addition, non-compensation expenses incorporate operational risk losses, including litigation reserves (and corresponding legal fees), business disruption costs, mortgage repurchase estimates, external / internal fraud costs, execution / processing errors, damage to physical assets, as well as any projected impairments.

Provisions and Loan Losses:

Provisions and loan losses are projected over the planning horizon using a comprehensive, model-based approach. The model estimates losses based on projections of exposure at default, loss given default, probability of default and ratings migration for loans in the accrual portfolio.

Trading and Counterparty Losses:

Trading and counterparty losses include mark-to-market losses, trading IDR losses on positions held at fair value and changes in CVA and credit IDR as a result of the global market shock, in addition to the impact of our counterparty default scenario. We use the firm’s existing stress testing and risk management infrastructure to calculate the impact of the global market shock and to quantify the impact of the counterparty default scenario.

Other Losses:

Other losses primarily reflects the impact of the global market shock on certain loans and loan commitments accounted for under the fair value option, as well as the projected change in the fair value of these loans and loan commitments based on our severely adverse scenario.

Balance Sheet:

Balance sheet projections are based on the global market shock and the macroeconomic environment and incorporate input from businesses on growth assumptions and planned activity, changes to carrying values as a result of mark-to-market, as well as management judgment as to how the firm would manage its balance sheet, funding and liquidity over the planning horizon.

We include the impact of the global market shock into the firm's balance sheet projections under our severely adverse scenario.

Capital and RWAs:

Capital projections incorporate projected net earnings, other changes in equity and capital deductions over the planning horizon, as well as the impact of the second quarter of 2014 actual capital actions and assumed capital actions required by the DFAST rules for the third quarter of 2014 through and including the second quarter of 2016. Projected RWAs reflect the impact of the macroeconomic environment; for example, changes in volatility and credit spreads are incorporated into our calculation of projected RWAs. Additionally, projected RWAs and capital deductions are also impacted by the projected size and composition of our balance sheet over the planning horizon.

As noted above, we have calculated capital ratios under Basel I, the Hybrid Capital Rules in 2014 and the Standardized Capital Rules in 2015 and 2016, including transitional provisions where appropriate.

More information on the DFAST stress tests is available on the Federal Reserve Board's website at http://www.federalreserve.gov.