



The Goldman Sachs Group, Inc.

2015 Mid-Cycle Dodd-Frank Act Stress Test Disclosure

July 2015

2015 Mid-Cycle Dodd-Frank Act Company-Run Stress Test Disclosure for The Goldman Sachs Group, Inc.

Overview and Requirements

For the mid-cycle Dodd-Frank Act Stress Test (Mid-Cycle DFAST) currently completed in July of each year, The Goldman Sachs Group, Inc. (referred to herein as “Group Inc”, “we”, “our”, “us” or “the firm”) is required to conduct stress tests under a set of internally developed macroeconomic scenarios (internal baseline, internal adverse and internal severely adverse). Stress testing is an integral component of our internal capital adequacy assessment. We incorporate the Dodd-Frank Act Stress Test (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 2015 Mid-Cycle DFAST is not conducted under the Board of Governors of the Federal Reserve System’s (Federal Reserve Board) Capital Plan Rule and is not part of the annual Comprehensive Capital Analysis and Review process. Accordingly, the Federal Reserve Board does not provide an objection or non-objection to an institution’s Mid-Cycle DFAST results. Firms are required, however, to conduct the Mid-Cycle DFAST in accordance with the requirements of the Board’s Dodd-Frank Act stress test rules. The planning horizon for the 2015 Mid-Cycle DFAST is the second quarter of 2015 through and including the second quarter of 2017.

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 are based on the Basel I Capital Accord of the Basel Committee on Banking Supervision (Basel Committee), incorporating the revised market risk requirements, which became effective on January 1, 2013 (Basel I-based Capital Rules).

In addition, we are required to calculate our 2015 Mid-Cycle DFAST results reflecting certain aspects of the Federal Reserve Board’s revised risk-based capital and leverage regulations, subject to certain transitional provisions (Revised Capital Framework). These regulations are largely based on the Basel Committee’s final capital framework for strengthening international capital standards (Basel III) and also implement certain provisions of the Dodd-Frank Act.

Given these requirements, our calculation of capital ratios for the 2015 Mid-Cycle DFAST requires two different methodologies:

1. Basel I-based Capital Rules (Basel I):

We are required to compute a Tier 1 common ratio for each quarter of the planning horizon. The Tier 1 common ratio is calculated based on Basel I.

2. Standardized Capital Rules:

We are also required to calculate capital ratios in accordance with the Standardized approach, which became effective as of January 1, 2015, and market risk rules set out in the Revised Capital Framework (together, the Standardized Capital Rules). The firm is required to compute Common Equity Tier 1 (CET1), Tier 1 capital and Total capital ratios for all quarters in accordance with the Standardized Capital Rules. We are also required to calculate a Tier 1 leverage ratio for all quarters, using the Revised Capital Framework definition of Tier 1 capital in the numerator, and quarterly average adjusted total assets (which includes adjustments for certain capital deductions) in the denominator.

Minimum Regulatory Capital Ratio Requirements

The table below presents the required minimum capital ratios for the firm as of March 2015 and over the planning horizon:

	Minimum Capital Ratio
Tier 1 common ratio	5.0%
CET1 ratio	4.5%
Tier 1 capital ratio	6.0%
Total capital ratio	8.0%
Tier 1 leverage ratio	4.0%

Overview and Description of Group Inc's Severely Adverse Scenario

The firm's nine-quarter internally developed severely adverse scenario is characterized by a stressed global macroeconomic environment, including a severe U.S. recession. The scenario begins with a global market shock, which is a repricing of our trading and counterparty exposures, in the first quarter of the planning horizon. In addition, we include the impact of a counterparty default (counterparty default scenario) during the first quarter of the planning horizon. The planning horizon includes a decline in gross domestic product (real 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. We also incorporate a firm-specific event, which further reduces our franchise revenues.

In this scenario, we project variables across a range of macroeconomic indicators and asset classes that management determines are necessary to produce revenues, expenses, balance sheet and risk-weighted assets (RWA) projections. For example:

GDP and Unemployment

U.S. real GDP declines 3.5% over the first five quarters of the planning horizon. From the trough in the second quarter of 2016, U.S. real GDP experiences growth of approximately 2.5% over the remainder of the planning horizon. The U.S. unemployment rate increases from 5.6% in the first quarter of 2015 to 10.6% in the fourth quarter of 2016. Although beginning to trend downwards, the unemployment rate remains elevated at 10.5% at the end of the planning horizon.

Equity Markets and Volatility

Equity market indices experience sharp declines over the first five quarters of the planning horizon, with the S&P 500 Index decreasing 54% by the second quarter of 2016. The VIX Index increases from 17 to a peak of 42 in the second quarter of 2015. The S&P 500 Index partially recovers, ending 19% below the first quarter of 2015 starting point. The VIX Index gradually decreases to 13 over the remainder of the planning horizon.

U.S. Interest Rates and Credit Spreads

The 10-year Treasury (UST) yield decreases approximately 90 basis points to its trough in the first quarter of 2016. Over the remainder of the planning horizon, the 10-year UST yield gradually increases and ends modestly below its first quarter of 2015 starting point. By the first quarter of 2016, U.S. investment-grade credit spreads widen by approximately 160 basis points above the first quarter of 2015 starting point, and by the second quarter of 2016, U.S. high yield spreads widen by approximately 810 basis points. U.S. investment-grade and U.S. high yield spreads gradually contract over the remainder of the planning horizon, although still remain higher than their first quarter of 2015 starting points.

Similarly, international economies experience declines in real GDP and equity markets, as well as widening credit spreads.

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 we believe 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, a firm-specific event, as well as reduced, but still elevated, levels of volatility, 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 it does not reflect our forecast of likely macroeconomic conditions over the planning horizon.

Summary of Results

The table below presents 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 2015;
- 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 2014 through and including the second quarter of 2015; 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.

Based on the firm's severely adverse scenario, the most significant drivers of the changes in the firm's capital ratios over the planning horizon, when compared with actual capital ratios as of the first quarter of 2015 under the 2015 Mid-Cycle DFAST are:

- 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;
- Lower Pre-Provision Net Revenues (PPNR) over the planning horizon primarily due to decreased 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; and
- Further transition towards fully phased Standardized Capital Rules, as applicable

These 2015 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 2015 Annual DFAST results for the firm's calculations based on the Federal Reserve Board's supervisory severely adverse scenario and instructions.

2015 Mid-Cycle DFAST Results

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

The Goldman Sachs Group, Inc. Estimates under 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 2015 and Projected Capital Ratios through Q2 2017 under Our Severely Adverse Scenario			
	Actual Q1 2015	Stressed Capital Ratios	
		Ending	Lowest
Tier 1 common ratio (%) ¹	15.8	13.3	10.9
Common Equity Tier 1 ratio (%) ²	11.4	9.3	8.4
Tier 1 capital ratio (%) ²	12.8	11.1	10.2
Total capital ratio (%) ²	14.8	13.3	12.7
Tier 1 leverage ratio (%) ²	9.2	8.1	7.3

¹ Capital ratio presented under Basel I.

² Common Equity Tier 1, Tier 1 capital, Total capital and Tier 1 leverage ratios are calculated under the Standardized Capital Rules, subject to transitional provisions, for Q1 2015 to Q2 2017.

Actual Q1 2015 and Projected Q2 2017 RWAs under Our Severely Adverse Scenario				
	Actual Q1 2015		Projected Q2 2017	
	Basel I	Standardized Capital Rules	Basel I	Standardized Capital Rules
RWAs (dollars in billions)	437.6	626.1	419.2	600.4

Projected Loan Losses by Type of Loan from Q2 2015 through Q2 2017 under Our Severely Adverse Scenario		
	Dollars in billions ¹	Portfolio Loss Rates (%) ¹
Loan Losses	\$1.7	3.2%
First Lien Mortgages, Domestic	-	-
Junior Liens and HELOCs, Domestic	0.0	0.6
Commercial and Industrial	1.0	7.2
Commercial Real Estate, Domestic	0.1	3.7
Credit Cards	-	-
Other Consumer	0.0	0.1
Other Loans	0.5	1.6

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 2015 through Q2 2017 under Our Severely Adverse Scenario			
	Dollars in billions	Percentage of Average Assets (%)	
PPNR ¹	\$5.7	0.7%	
Other Revenue	-		
Less:			
Provision for Loan Losses	1.9		
Realized Losses/(Gains) on Securities	-		
Trading and Counterparty Losses ²	17.4		
Other Losses/(Gains) ³	3.1		
Equals:			
Net (Loss)/Income Before Taxes	(16.7)	(2.1)	

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 include mark-to-market losses, trading incremental default risk losses on positions held at fair value and changes in credit valuation adjustment ("CVA") as a result of the global market shock, in addition to the impact of the counterparty default scenario and subsequent counterparty losses over the planning horizon.

³ Other losses primarily reflects the impact of the global market shock on certain loans and lending commitments accounted for at fair value under the fair value option, as well as the projected change in the fair value of these loans and lending commitments based on our severely adverse scenario.

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 2015 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 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. 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, as applicable.

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 2015 Mid-Cycle DFAST results, in part, via the global market shock, under the severely adverse macroeconomic scenario. The global market shock includes counterparty credit losses from credit valuation adjustments (CVA) and the default of a large counterparty. In addition to the global market shock, CVA and incremental default risk (IDR) are projected over the planning horizon to capture the impact of losses due to the change in counterparty credit quality and correlated defaults under the scenario.

Credit risk is also incorporated into our projections for changes in provisions and loan losses in our loans receivables (loans held for investment that are accounted for at amortized cost net of allowance) and related lending commitments. We utilize a model that estimates losses based on projections of exposure at default, loss given default, probability of default and ratings migration for loans in the accrual portfolio. We also include projections of estimated defaults and associated losses on our fair value loans.

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, including litigation-related losses, is incorporated into our 2015 Mid-Cycle DFAST results with losses estimated based on the firm's historical operational risk experience, relevant internal factors, scenario analysis, 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.

Liquidity Risk:

Liquidity is of critical importance to financial institutions. We have 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 2015 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 four business segments: Investment Banking, Institutional Client Services, Investing & Lending and Investment Management.

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, restructurings, spin-offs and risk management, and debt and equity underwriting of public offerings and private placements, including local 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.

When projecting segment revenues for these four businesses, we utilize multiple approaches, 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. The projected revenues under our severely adverse scenario are an aggregation of projected revenues for each of these business segments.

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 include compensation and benefits and non-compensation expenses.

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

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 and trading IDR losses on positions held at fair value. Additionally, we include changes in CVA and credit IDR as a result of the global market shock, as well as 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, including subsequent counterparty losses over the planning horizon.

Other Losses:

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

Balance Sheet:

Balance sheet projections 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 2015 actual capital actions and assumed capital actions required by the DFAST rules for the third quarter of 2015 through and including the second quarter of 2017. Projected RWAs reflect the impact of the macroeconomic environment; for example, changes in volatilities 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 and the Standardized Capital Rules, including transitional provisions where appropriate.

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