The Goldman Sachs Group, Inc. and
Goldman Sachs Bank USA

2016 Annual Dodd-Frank Act Stress Test Disclosure

June 2016

2016 Annual Dodd-Frank Act Company-Run Stress Test Disclosure for The Goldman Sachs Group, Inc.

Overview and Requirements

For the Dodd-Frank Act stress test ("DFAST") conducted annually ("Annual DFAST") and completed in April of each year, The Goldman Sachs Group, Inc. (referred to herein as "Group Inc.," "we," "us," "our" or "the firm") is 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").

In addition, as part of our capital plan submitted to the Federal Reserve Board in connection with its annual Comprehensive Capital Analysis and Review ("CCAR"), we are also required to assess our capital adequacy under internally developed baseline and severely adverse scenarios. Stress testing is an integral component of our internal capital assessment processes to ensure that the firm holds an appropriate amount of capital relative to the risks of our businesses.

We are required to calculate our 2016 Annual 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. The risk-based capital requirements are expressed as capital ratios that compare measures of regulatory capital to risk-weighted assets ("RWAs").

The firm is required to calculate Common Equity Tier 1 ("CET1"), Tier 1 capital and Total capital ratios for all quarters of the planning horizon in accordance with the Standardized approach and market risk rules set out in the Revised Capital Framework (together 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.

The planning horizon for the 2016 Annual DFAST is the first quarter of 2016 through and including the first quarter of 2018.

Minimum Regulatory Capital Ratio Requirements

The table below presents the required minimum capital ratios over the planning horizon in the stress test:

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

Summary of Results

The following table presents the results of the firm's calculations under the Federal Reserve Board's 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 first quarter of 2016;
- 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 second quarter of 2015 through and including the first quarter of 2016; 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.

Other than as described above, these results do not include any requested capital actions that may be incorporated into our 2016 CCAR submission.

Based on the Federal Reserve Board's severely adverse scenario, the most significant drivers of the changes in the firm's capital ratios over the planning horizon are:

- Trading and counterparty losses, which include both the global market shock and the counterparty default scenario, are included in our net (loss)/income projections. However, based on the Federal Reserve Board's instructions, we did not incorporate the impacts of the global market shock and the counterparty default scenario on our balance sheet or RWA projections, which further increased the impact on our capital ratios;
- Lower Pre-Provision Net Revenues ("PPNR") primarily due to decreased revenues and increased operational risk losses;
- Increased provisions and other losses in our loans and lending commitments; and
- Further transition towards the fully phased-in Standardized Capital Rules, as applicable.

These results are not indicative of the Federal Reserve Board's calculations of the firm's regulatory capital ratios under its CCAR 2016 supervisory stress tests. The Federal Reserve Board has separately published its results for the supervisory stress test results incorporating the Annual DFAST capital actions. On June 29th, 2016, the Federal Reserve Board is expected to publish its calculations for the supervisory stress test results incorporating our CCAR requested capital actions.

2016 Annual 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 in the Federal Reserve Board's 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 Q4 2015 and Projected Capital Ratios through Q1 2018 under the Federal Reserve Board's Severely Adverse Scenario

	Actual	Stressed Capital Ratios	
	Q4 2015	Ending	Lowest
CET1 ratio (%) [1]	13.6	8.9	8.9
Tier 1 capital ratio (%) [1]	15.6	10.3	10.3
Total capital ratio (%) [1]	18.7	13.4	13.4
Tier 1 leverage ratio (%) [1]	9.3	6.5	6.5

[1] CET1, Tier 1 capital, Total capital and Tier 1 leverage ratios are calculated under the Standardized Capital Rules, subject to transitional provisions. The lowest calculated capital ratios from Q1 2016 to Q1 2018 are presented in the table.

Actual Q4 2015 and Projected Q1 2018 RWAs under the Federal Reserve Board's Severely Adverse Scenario

	Actual	Projected
	Q4 2015	Q1 2018
	Standardized Capital Rules	
RWAs ($ in billions)	$524.1	$524.4

Projected Loan Losses by Type of Loan from Q1 2016 through Q1 2018 under the Federal Reserve Board's Severely Adverse Scenario

	$ in billions[1]	Portfolio Loss Rates (%) [1]
Loan Losses	$3.3	4.7%
First Lien Mortgages, Domestic	0.0	4.1
Junior Liens and HELOCs, Domestic	0.0	0.0
Commercial and Industrial	1.6	6.2
Commercial Real Estate, Domestic	0.4	9.7
Credit Cards	-	-
Other Consumer	0.0	1.2
Other Loans	1.3	3.6

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

Projected PPNR, Losses and Net (Loss)/Income Before Taxes from Q1 2016 through Q1 2018 under the Federal Reserve Board's Severely Adverse Scenario

	$ in billions	Percentage of Average Assets (%)
PPNR [1]	$5.3	0.6%
Other Revenue	-	
Less:		
Provision for Loan Losses	4.1	
Realized Losses/(Gains) on Securities	-	
Trading and Counterparty Losses [2]	21.7	
Other Losses/(Gains) [3]	2.7	
Equals:		
Net (Loss)/Income Before Taxes	(23.2)	(2.8)

[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 and the impact of the counterparty default scenario. Subsequent trading incremental default risk losses over the planning horizon are also included.

[3] Other losses/(gains) primarily includes the projected changes in the fair value of certain loans and lending commitments accounted for under the fair value option, which are not subject to the global market shock per the Federal Reserve Board's 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 employ a variety of risk measures to monitor market risk. 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 2016 Annual DFAST results under the Federal Reserve Board's severely adverse scenario via the global market shock and the macroeconomic scenario. The global market shock is applied to certain fair value positions with changes in the fair value being reflected in our revenue projections in the first quarter of the planning horizon. Per the Federal Reserve Board's instructions, certain loans and lending commitments accounted for under the fair value option are not subject to the global market shock.

In addition to the global market shock, trading incremental default risk losses are estimated over the planning horizon.

We further stress our positions based on the prescribed changes in macroeconomic variables and asset values over 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 2016 Annual DFAST results under the Federal Reserve Board's severely adverse scenario via the global market shock, the counterparty default scenario and the macroeconomic scenario. The global market shock includes counterparty credit losses (i.e., credit valuation adjustments ("CVA")). The counterparty default scenario includes counterparty credit losses due to defaults on OTC derivative and securities financing transactions. Along with the global market shock, the counterparty default scenario is recognized in the first quarter of the planning horizon. Projections for CVA 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 loans held for investment that are accounted for at amortized cost, net of allowance (loans receivable) and related lending commitments. We utilize a model that estimates losses based on projections of exposure at default, loss given default, probability of default, industry classification, region, and ratings migration for loans receivable. We also include projections of estimated defaults and associated losses on our loans and lending commitments accounted for under the fair value option.

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 or legal and regulatory matters. 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 2016 Annual 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 Federal Reserve Board's severely adverse scenario. Operational risk losses are included within non-compensation expense projections over the planning horizon.

Liquidity Risk:

Liquidity risk is the risk that we will be unable to fund the firm or meet our liquidity needs in the event of firm-specific, broader industry, or market liquidity stress events. Liquidity is of critical importance to us, as most failures of financial institutions have occurred in large part due to insufficient liquidity. Accordingly, we have in place a comprehensive and conservative set of liquidity and funding policies. 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 2016 Annual DFAST, we analyzed how we would manage our balance sheet through the duration of a severe crisis and we included assumptions regarding our ability to access the secured and unsecured funding markets to generate incremental liquidity. Our 2016 Annual DFAST results took liquidity risk into account by projecting potential liquidity outflows due to the Federal Reserve Board's 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.

When projecting segment revenues for the below 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 the Federal Reserve Board's 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 the Federal Reserve Board's 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, restructurings, spin-offs and risk management, and debt and equity underwriting of public offerings and private placements, including local and cross-border transactions and acquisition financing, 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 and separate accounts 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.

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 fraud costs (including cyber-attack associated losses), 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, industry classification, region, and ratings migration for loans receivable and lending commitments in the accrual portfolio.

Trading and Counterparty Losses:

Trading and counterparty losses include mark-to-market losses, trading incremental default risk losses on positions held at fair value and changes in CVA as a result of the global market shock and the impact of the counterparty default scenario. Subsequent trading incremental default risk losses over the planning horizon are also included. 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 includes projected changes over the planning horizon in the fair value of certain loans and lending commitments accounted for under the fair value option, which are not subject to the global market shock per the Federal Reserve Board's instructions.

Balance Sheet:

Balance sheet projections are based on 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.

Per the Federal Reserve Board's instructions, the impact of the global market shock and the counterparty default scenario are not incorporated into the firm's balance sheet projections under the Federal Reserve Board's severely adverse scenario.

Capital and RWAs:

Capital projections incorporate projected net earnings, other changes in equity including the impact of the first quarter of 2016 actual capital actions and assumed capital actions required by the DFAST rules and capital deductions. 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 the Standardized Capital Rules, including transitional provisions where appropriate.

2016 Annual Dodd-Frank Act Stress Test Disclosure for Goldman Sachs Bank USA

DFAST rules also require Goldman Sachs Bank USA ("GS Bank USA") to conduct stress tests on an annual basis.

GS Bank USA is a wholly-owned subsidiary of Group Inc. The Dodd-Frank Act requires stress test results of any subsidiary depository institution to be disclosed along with the stress test results of the bank holding company parent.

For the 2016 Annual DFAST, the required minimum capital ratios and the planning horizon for GS Bank USA are consistent with those for Group Inc.

The following table summarizes the results of GS Bank USA's 2016 Annual DFAST based on the Federal Reserve Board's severely adverse scenario.

2016 Annual DFAST Results - GS BANK USA

Actual Q4 2015 and Projected Capital Ratios through Q1 2018 under the Federal Reserve Board's Severely Adverse Scenario

	Actual	Stressed Capital Ratios	
	Q4 2015	Ending	Lowest
CET1 ratio (%) [1]	11.4	9.9	9.9
Tier 1 capital ratio (%) [1]	11.4	9.9	9.9
Total capital ratio (%) [1]	12.5	11.1	11.1
Tier 1 leverage ratio (%) [1]	16.4	13.5	13.5

[1] CET1, Tier 1 capital, Total capital and Tier 1 leverage ratios are calculated under the Standardized Capital Rules. The lowest calculated capital ratios from Q1 2016 to Q1 2018 are presented in the table.

The most significant drivers of the changes in GS Bank USA's capital ratios over the planning horizon are decreased earnings and increased RWAs. Decreased earnings are primarily driven by decreased revenues, including the impact of the global market shock, increased provisions and losses in GS Bank USA's loans receivable and lending commitments and increased operational risk losses. GS Bank USA was not required to include the counterparty default scenario in its Annual DFAST results.

More information on the CCAR and DFAST stress tests, as well as the Federal Reserve Board's severely adverse scenario, is available on the Federal Reserve Board's website at http://www.federalreserve.gov