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

2018 Annual Dodd-Frank Act
Stress Test Disclosure

June 2018
Overview and Requirements
For the U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act (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,” “our,” “us” 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 (FRB).

In addition, as part of our capital plan submitted to the FRB 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 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.

We are required to calculate our 2018 Annual DFAST in accordance with the regulations of the FRB (Capital Framework). These regulations are largely based on the Basel Committee on Banking Supervision’s capital framework for strengthening international capital standards (Basel III) and also implement certain provisions of the Dodd-Frank Act. The capital requirements are expressed as risk-based capital and leverage ratios that compare measures of regulatory capital to risk-weighted assets (RWAs), average assets and off-balance-sheet exposures.

The firm is required to calculate risk-based 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 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 adjusted total assets (which includes adjustments for certain capital deductions) in the denominator. The firm is also required to calculate a supplementary leverage ratio (SLR) for all quarters of the planning horizon. The SLR compares Tier 1 capital to a measure of leverage exposure, which consists of total assets for the quarter and certain off-balance-sheet exposures (which include a measure of derivatives, securities financing transactions, commitments, and guarantees) less certain balance sheet deductions.

The planning horizon for the 2018 Annual DFAST is the first quarter of 2018 through and including the first quarter of 2020.

Minimum Regulatory Capital Ratio Requirements
The table below presents the FRB’s minimum ratios applicable to the firm over the planning horizon in the Annual DFAST stress test.

<table>
<thead>
<tr>
<th>Minimum Capital Ratio</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>CET1 ratio</td>
<td>4.5%</td>
</tr>
<tr>
<td>Tier 1 capital ratio</td>
<td>6.0%</td>
</tr>
<tr>
<td>Total capital ratio</td>
<td>8.0%</td>
</tr>
<tr>
<td>Tier 1 leverage ratio</td>
<td>4.0%</td>
</tr>
<tr>
<td>Supplementary leverage ratio</td>
<td>3.0%</td>
</tr>
</tbody>
</table>
Summary of Results
The table below presents the results of the firm’s calculations under the FRB’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, respectively.

These results incorporate the following capital action assumptions, as prescribed by the FRB’s DFAST rules:

- Actual capital actions for the first quarter of 2018; and
- 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 2017 through and including the first quarter of 2018; 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 described above, these results do not include any requested capital actions that may be incorporated into our CCAR 2018 submission.

Based on the FRB’s severely adverse scenario, the most significant drivers of the firm’s capital ratios over the planning horizon are:

- Trading and counterparty losses, which include the global market shock, the counterparty default scenario, and trading incremental default risk losses;
- Stress Pre-Provision Net Revenues (PPNR) and operational risk losses; and
- Stress provisions and other losses in our loans and lending commitments

These results are not indicative of the FRB’s calculations of the firm’s regulatory capital ratios under its CCAR 2018 supervisory stress tests. The FRB has separately published its results for the supervisory stress test results incorporating the Annual DFAST capital actions. On June 28, 2018, the FRB is expected to publish its calculations for the supervisory stress test results incorporating our CCAR requested capital actions.

Additionally, this year’s results are based on the current Annual DFAST requirements and do not incorporate the proposed Stress Capital Buffer requirements.
2018 Annual DFAST Results
Projected Capital Ratios, RWAs, Pre-Provision Net Revenues (PPNR), Losses, Net Loss Before Taxes and Loan Losses
The Goldman Sachs Group, Inc. Estimates in the FRB'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.

Table 1
Actual Q4 2017 and Projected Capital Ratios through Q1 2020 under the FRB's Severely Adverse Scenario

<table>
<thead>
<tr>
<th>Regulatory Ratio</th>
<th>Actual Q4 2017</th>
<th>Projected Stressed Capital Ratios</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>CET1 ratio (%)</td>
<td>Ending</td>
<td>Minimum</td>
</tr>
<tr>
<td></td>
<td></td>
<td>12.1</td>
<td>7.8</td>
<td>7.6</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Tier 1 capital ratio (%)</td>
<td>14.1</td>
<td>9.7</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Total capital ratio (%)</td>
<td>16.8</td>
<td>12.9</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Tier 1 leverage ratio (%)</td>
<td>8.4</td>
<td>6.4</td>
</tr>
<tr>
<td></td>
<td></td>
<td>SLR (%)</td>
<td>5.8</td>
<td>4.4</td>
</tr>
</tbody>
</table>

In the table above:
* The lowest calculated capital ratios (minimum) from the first quarter of 2018 through the first quarter of 2020 are presented.

Table 2
Actual Q4 2017 and Projected Q1 2020 RWAs under the FRB’s Severely Adverse Scenario

<table>
<thead>
<tr>
<th>Item</th>
<th>Actual Q4 2017</th>
<th>Projected Q1 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>RWAs ($ in billions)</td>
<td>$555.6</td>
<td>$536.4</td>
</tr>
</tbody>
</table>

Table 3
Projected Loan Losses by Type of Loan from Q1 2018 through Q1 2020 under the FRB's Severely Adverse Scenario

<table>
<thead>
<tr>
<th>Loan Type</th>
<th>$ in billions</th>
<th>Portfolio Loss Rates (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan Losses</td>
<td>5.7</td>
<td>6.3%</td>
</tr>
<tr>
<td>First Lien Mortgages, Domestic</td>
<td>0.9</td>
<td>33.4</td>
</tr>
<tr>
<td>Junior Liens and HELOCs, Domestic</td>
<td>0.0</td>
<td>6.8</td>
</tr>
<tr>
<td>Commercial and Industrial</td>
<td>1.9</td>
<td>6.3</td>
</tr>
<tr>
<td>Commercial Real Estate, Domestic</td>
<td>0.3</td>
<td>5.6</td>
</tr>
<tr>
<td>Credit Cards</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other Consumer</td>
<td>0.8</td>
<td>11.9</td>
</tr>
<tr>
<td>Other Loans</td>
<td>1.8</td>
<td>3.9</td>
</tr>
</tbody>
</table>

In the table above:
* Loan losses and average loan balances used to calculate portfolio loss rates exclude loans and lending commitments held for sale or accounted for under the fair value option.
* For reporting purposes, provisions taken on the firm’s purchase credit impaired portfolio that are included in Table 4 are also included in loan losses in Table 3.

Table 4
Projected PPNR, Losses and Net Loss Before Taxes from Q1 2018 through Q1 2020 under the FRB’s Severely Adverse Scenario

<table>
<thead>
<tr>
<th>Item</th>
<th>$ in billions</th>
<th>Percentage of Average Assets (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>PPNR</td>
<td>$0.9</td>
<td>0.1%</td>
</tr>
<tr>
<td>Other Revenue</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Less:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provision for Loan Losses</td>
<td>7.0</td>
<td></td>
</tr>
<tr>
<td>Realized Losses/(Gains) on Securities</td>
<td>0.0</td>
<td></td>
</tr>
<tr>
<td>Trading and Counterparty Losses</td>
<td>17.2</td>
<td></td>
</tr>
<tr>
<td>Other Losses/(Gains)</td>
<td>1.9</td>
<td></td>
</tr>
<tr>
<td>Equals:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Loss Before Taxes</td>
<td>(25.2)</td>
<td>(3.1)</td>
</tr>
</tbody>
</table>

In the table above:
* PPNR includes net revenues and operating expenses (including operational risk events and other real estate owned costs).
* Trading and counterparty losses include mark-to-market losses, trading incremental default risk losses on positions held at fair value and changes in credit valuations adjustment (CVA) and other counterparty credit losses, 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.
* Other losses / (gains) primarily reflects the projected change in the fair value of loans and lending commitments, and associated hedges, held for sale or accounted for under the fair value option, which are not subject to the global market shock pursuant to the FRB’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. 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, 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 2018 Annual DFAST results under the FRB’s severely adverse scenario via the global market shock and the macroeconomic scenario. The global market shock includes counterparty credit losses (i.e., from credit valuation adjustments (CVA) and other counterparty credit losses). The counterparty default scenario may include counterparty credit losses due to defaults on OTC derivatives and securities financing transactions. Along with the global market shock, the counterparty default scenario is assumed to occur in the first quarter of the planning horizon. Projections for CVA and other counterparty credit losses over the planning horizon are also included in our revenue projections.

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 macromarket 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 2018 Annual DFAST results under the FRB’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., from credit valuation adjustments (CVA) and other counterparty credit losses). The counterparty default scenario may include counterparty credit losses due to defaults on OTC derivatives and securities financing transactions. Along with the global market shock, the counterparty default scenario is assumed to occur in the first quarter of the planning horizon. Projections for CVA and other counterparty credit losses over the planning horizon are also included in our revenue projections.

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 the probability of default, loss given default, exposure at default, industry classification, region, and borrower rating migration for loans receivable. We also include projections of estimated defaults and associated losses on our loans and lending commitments held for sale or accounted for under the fair value option.
Operational Risk

Operational risk is the risk of an adverse outcome resulting from inadequate or failed internal processes, people, its failed 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 2018 Annual DFAST results with losses estimated based on the firm’s historical operational risk experience, relevant internal factors, including the firmwide risk and control self-assessment, scenario analysis, recent industry matters and the assumed conditions of the FRB’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 of the 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 2018 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 2018 Annual DFAST results took into account certain liquidity risks by projecting potential liquidity outflows due to the FRB’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. Additionally, we projected increased funding costs.

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 revenues for these four segments, we utilize multiple approaches, including models based on regression analyses, management’s judgment and re-pricing inventory due to the projected changes in asset values under the FRB’s severely adverse scenario. We also incorporate the impact of broader industry performance during historical stressed periods to help guide management’s judgment regarding our future performance in the assumed stressed operating environment. The projected revenues under the FRB’s severely adverse scenario are an aggregation of projected revenues for each of these business segments.

- Investment Banking. We provide 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.
THE GOLDMAN SACHS GROUP, INC.
2018 Annual Dodd-Frank Act Company-Run Stress Test Disclosure

- **Institutional Client Services.** We facilitate client transactions and make markets in fixed income, equity, currency and commodity products, primarily with institutional clients such as corporations, financial institutions, investment funds, and governments. We also make markets in and clear client transactions on major stock, options and futures exchanges worldwide and provide financing, securities lending, and other prime brokerage services to institutional clients.

- **Investing & Lending.** We invest in and originate loans to provide financing to clients. These investments and loans are typically longer-term in nature. We make investments, some of which are consolidated, in debt securities and loans, public and private equity securities, infrastructure and real estate entities. Some of these investments are made indirectly through funds that we manage. We also make unsecured and secured loans to retail clients through our digital platforms.

- **Investment Management.** We provide investment management services and offer 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. We also offer wealth advisory services, including portfolio management, financial planning, counseling, brokerage and other transaction services to high-net-worth individuals and families.

**Operating Expenses.** Operating expense projections over the planning horizon include compensation and benefits and non-compensation expenses.

Compensation and benefits include salaries, estimated year-end discretionary compensation, amortization of equity awards and other items such as benefits. Discretionary compensation is significantly impacted by, among other factors, the level of net revenues, overall financial performance, prevailing labor markets, business mix, 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 operational risk losses, including but not limited to litigation reserves (and corresponding legal fees), as well as any projected impairments of nonfinancial 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 the probability of default, loss given default, exposure at default, industry classification, region and borrower 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 and other counterparty credit losses as a result of the global market shock, as well as 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 include projected changes over the planning horizon in the fair value of loans and lending commitments, and associated hedges, held for sale or accounted for under the fair value option, which are not subject to the global market shock pursuant to the FRB’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 marking our inventory to market, as well as management’s judgment as to how we manage our balance sheet, funding, and liquidity over the planning horizon.

Pursuant to the FRB’s instructions, the impact of the global market shock and the counterparty default scenario are not incorporated into our balance sheet projections under the FRB’s severely adverse scenario.

**Capital and RWAs**
Capital projections incorporate projected net earnings, capital deductions, the impact of the Tax Cuts and Jobs Act and other changes in equity, which includes the impact of actual capital actions from the first quarter of 2018 and assumed capital actions required by the DFAST rules. Projected RWAs reflect the impact of the macroeconomic environment such as changes in volatilities and credit spreads. 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 risk-based capital and leverage ratios under the Standardized Capital Rules.

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**2018 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 its parent bank holding company.

For the 2018 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 2018 annual DFAST based on the FRB’s severely adverse scenario.

<table>
<thead>
<tr>
<th>Regulatory Ratio</th>
<th>Actual Q4 2017</th>
<th>Projected Stressed Capital Ratios</th>
</tr>
</thead>
<tbody>
<tr>
<td>CET1 ratio (%)</td>
<td>11.0</td>
<td>8.2</td>
</tr>
<tr>
<td>Tier 1 Capital ratio (%)</td>
<td>11.0</td>
<td>8.2</td>
</tr>
<tr>
<td>Total Capital ratio (%)</td>
<td>12.1</td>
<td>10.2</td>
</tr>
<tr>
<td>Tier 1 Leverage ratio (%)</td>
<td>15.0</td>
<td>12.2</td>
</tr>
<tr>
<td>SLR (%)</td>
<td>7.3</td>
<td>6.0</td>
</tr>
</tbody>
</table>

The lowest calculated ratios (minimum) from the first quarter of 2018 through the first quarter of 2020 are presented in the table.

The most significant drivers of the changes in GS Bank USA’s regulatory capital ratios over the nine-quarter projection horizon are increased RWAs, increased expenses, and increased provisions and other losses in its loans and loan commitments portfolios. GS Bank USA was not required to include the counterparty default scenario in its stress test. The GS Bank USA results disclosed above incorporate capital action assumptions as prescribed by the FRB’s DFAST rules.

More information on the CCAR and DFAST stress tests and the FRB’s severely adverse scenario is available on the FRB’s website at [http://www.federalreserve.gov](http://www.federalreserve.gov)