

The Goldman Sachs Group, Inc.

# Regulatory Capital Disclosures

For the period ended December 31, 2013

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## Introduction

The Goldman Sachs Group, Inc. (Group Inc.) is a leading global investment banking, securities and investment management firm that provides a wide range of financial services to a substantial and diversified client base that includes corporations, financial institutions, governments and high-net-worth individuals. When we use the terms “Goldman Sachs,” “the firm,” “we,” “us” and “our,” we mean Group Inc., a Delaware corporation, and its consolidated subsidiaries.

The Board of Governors of the Federal Reserve System (Federal Reserve Board) is the primary regulator of Group Inc., a bank holding company under the Bank Holding Company Act of 1956 (BHC Act) and a financial holding company under amendments to the BHC Act effected by the U.S. Gramm-Leach-Bliley Act of 1999. As a bank holding company, we are subject to consolidated risk-based regulatory capital requirements. These requirements are computed in accordance with the Federal Reserve Board's risk-based capital regulations which, as of December 2013, were based on the Basel I Capital Accord of the Basel Committee and also reflected the Federal Reserve Board's revised market risk regulatory capital requirements which became effective on January 1, 2013. The capital regulations also include requirements with respect to leverage. Our capital levels are also subject to qualitative judgments by our regulators about components of capital, risk weightings and other factors. Beginning January 1, 2014, the Federal Reserve Board implemented revised consolidated regulatory capital and

leverage requirements. See Note 20. Regulation and Capital Adequacy in Part II, Item 8 “Financial Statements and Supplementary Data” in our Annual Report on Form 10-K for additional information regarding the firm's risk-weighted assets (RWAs), required minimum capital ratios and the Revised Capital Framework.

The purpose of these disclosures is to provide information, as of December 31, 2013, on our risk management practices and regulatory capital ratios, as required under the revised market risk regulatory capital requirements. These disclosures should be read in conjunction with our most recent Annual Report on Form 10-K. References to “Annual Report on Form 10-K” are to our Annual Report on Form 10-K for the year ended December 31, 2013. All references to December 2013 and December 2012 refer to the periods ended, or the dates, December 31, 2013 and December 31, 2012, respectively, as the context requires.

Measures of exposures and other metrics disclosed in this report may not be based on U.S. generally accepted accounting principles (U.S. GAAP), may not be directly comparable to measures reported in our Annual Report on Form 10-K, and may not be comparable to similar measures used by other companies. These disclosures are not required to be, and have not been, audited by our independent auditors. The firm's historical filings with the SEC are located at: [www.gs.com/shareholders](http://www.gs.com/shareholders).

## Overview of Regulatory Capital Ratios

As required under the Federal Reserve Board's regulations, the adequacy of our capital is primarily measured using risk-based capital ratios, which compare measures of capital to RWAs, and a leverage ratio, a non-risk-based capital measure, which compares capital to average adjusted total assets. The risk weights that are used in the calculation of RWAs reflect an assessment of the riskiness of our assets and exposures. These risk weights are based on either predetermined levels set by regulators or on internal models which are subject to various qualitative and quantitative parameters. The revised market risk regulatory capital rules require that a bank holding company obtain the prior written approval of its regulators before using any internal model to calculate its risk-based capital requirement<sup>1</sup>.

In evaluating our regulatory capital ratios, the following matters should be considered.

**Fair Value.** The inventory reflected on our consolidated statements of financial condition as "Financial instruments owned, at fair value" and "Financial instruments sold, but not yet purchased, at fair value" and certain other financial assets and financial liabilities, are accounted for at fair value (i.e., marked-to-market), with related gains or losses generally recognized in our consolidated statements of earnings and, therefore, in Tier 1 common capital and Tier 1 capital. The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The use of fair value to measure financial instruments is fundamental to our risk management practices and is our most critical accounting policy. The daily discipline of marking substantially all of our inventory to current market levels is an effective tool for assessing and managing risk and provides transparent and realistic insight into our financial exposures. The use of fair value is an important aspect to consider when evaluating our capital base and our capital ratios; it is also a factor used to determine the classification of positions into the banking book and trading book, as discussed further below.

For additional information regarding the determination of fair value under U.S. GAAP and controls over valuation of

inventory, see "Critical Accounting Policies – Fair Value" in Part II, Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K.

**Banking Book / Trading Book Classification.** In order to determine the appropriate regulatory capital treatment for our exposures, positions must be first classified into either "banking book" or "trading book." Positions are classified as banking book unless they qualify to be classified as trading book.

Banking book positions may be accounted for at amortized cost, fair value or under the equity method; they are not generally held "for the purpose of short-term resale or with the intent of benefiting from actual or expected short-term price movements or to lock in arbitrage profits<sup>2</sup>." Banking book positions are subject to credit risk capital requirements. Credit risk represents the potential for loss due to the default or deterioration in credit quality of a counterparty (e.g., an OTC derivatives counterparty or a borrower) or an issuer of securities or other instruments we hold. See "Risk-Weighted Assets – Credit RWAs" for additional details.

Trading book positions generally meet the following criteria: they are assets or liabilities that are accounted for at fair value; they are risk managed using a Value-at-Risk (VaR) internal model; and they are positions that we hold as part of our market-making and underwriting businesses "for the purpose of short-term resale or with the intent of benefiting from actual or expected short-term price movements or to lock in arbitrage profits<sup>2</sup>." In accordance with the Federal Reserve Board's revised rules, trading book positions are generally considered "covered" positions; foreign exchange and commodity positions are considered covered positions, whether or not they meet the other criteria for classification as trading book positions. Covered positions are subject to market risk regulatory capital requirements which are designed to cover the risk of loss in the value of these positions due to changes in market conditions. See "Risk-Weighted Assets – Market RWAs" for further details. Some trading book positions, such as derivatives, are also subject to counterparty credit risk capital requirements.

1. See "Requirements for internal models" in Section 3. Requirements for Application of the Market Risk Capital Rule of Appendix E to 12 CFR Part-225 – Capital Adequacy Guidelines for Bank Holding Companies: Market Risk.

2. See definition of "Trading position" in Section 2. Definitions of Appendix E to 12 CFR Part 225 – Capital Adequacy Guidelines for Bank Holding Companies: Market Risk.

## Consolidated Regulatory Capital Ratios

The table below presents information about our regulatory capital ratios and Tier 1 leverage ratio, as implemented by the Federal Reserve Board. The capital ratios are based on Basel I and also reflect the revised market risk regulatory capital requirements.

**Table 1: Regulatory Capital Ratios**

<i>\$ in millions</i>	<b>As of December 2013</b>
Tier 1 Common Capital	\$ 63,248
Tier 1 Capital	\$ 72,471
Tier 2 Capital	\$ 13,632
Total Capital	\$ 86,103
Risk-Weighted Assets	\$ 433,226
<b>Tier 1 Common Ratio</b>	<b>14.6 %</b>
<b>Tier 1 Capital Ratio</b>	<b>16.7 %</b>
<b>Total Capital Ratio</b>	<b>19.9 %</b>
Average Adjusted Assets	\$ 894,329
<b>Tier 1 Leverage Ratio</b>	<b>8.1 %</b>

The Tier 1 common ratio is defined as Tier 1 common capital divided by RWAs. We believe that the Tier 1 common ratio is meaningful because it is one of the measures that we, our regulators and investors use to assess capital adequacy.

The Tier 1 capital ratio is defined as Tier 1 capital divided by RWAs, and the Total capital ratio is defined as Total capital divided by RWAs. As of December 2013, Federal Reserve Board regulations required bank holding companies to maintain a minimum Tier 1 capital ratio of 4% and a minimum Total capital ratio of 8%. The required minimum Tier 1 capital ratio and Total capital ratio in order to meet the quantitative requirements for being a “well-capitalized” bank holding company under the Federal Reserve Board guidelines are 6% and 10%, respectively. Bank holding companies may be expected to maintain ratios well above the minimum levels, depending on their particular condition, risk profile and growth plans.

The Tier 1 leverage ratio is defined as Tier 1 capital divided by average adjusted total assets (which includes adjustments for goodwill and identifiable intangible assets, and the carrying value of certain equity investments in nonconsolidated entities that are subject to deduction from Tier 1 capital). As of December 2013, the minimum Tier 1 leverage ratio was 3% for bank holding companies that had received the highest supervisory rating under Federal Reserve Board guidelines or that had implemented the Federal Reserve Board’s risk-based capital measure for market risk. Beginning January 1, 2014, all bank holding companies became subject to a minimum Tier 1 leverage ratio of 4%.

Revised market risk regulatory capital requirements became effective on January 1, 2013, replacing earlier capital requirements for trading book positions. These requirements introduced a revised methodology for determining RWAs for market risk, as well as an increase in capital requirements for securitization positions, and were designed to implement the new market risk framework of the Basel Committee, as well as to implement the prohibition on the use of external credit ratings, as required by the U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act).

The U.S. federal bank regulatory agencies (Agencies) have approved revised risk-based capital and leverage ratio regulations establishing a new comprehensive capital framework for U.S. banking organizations (Revised Capital Framework). These regulations, which became effective on January 1, 2014, are largely based on the Basel Committee’s December 2010 final capital framework for strengthening international capital standards (Basel III), and significantly revise the risk-based capital and leverage ratio requirements applicable to bank holding companies as compared to the previous U.S. risk-based capital and leverage ratio rules, and thereby, implement certain provisions of the Dodd-Frank Act.

For additional information on the Revised Capital Framework and other announced and proposed changes that will impact our regulatory capital ratios, regulatory leverage ratios and assessments of capital adequacy in the future, see “Regulatory Reform.”

## Regulatory Capital

For regulatory purposes, our Total capital base is divided into three main categories, namely Tier 1 common capital, Tier 1 capital and Tier 2 capital as follows:

- Tier 1 common capital is comprised of common shareholders' equity, after giving effect to deductions for disallowed items (for example, goodwill and intangible assets) and other adjustments;
- Tier 1 capital is comprised of Tier 1 common capital plus other qualifying capital instruments such as perpetual non-cumulative preferred stock and junior subordinated debt issued to trusts (a portion of the latter is being phased-out of Tier 1 capital, as required by the Dodd-Frank Act) and other adjustments; and
- Total capital is comprised of Tier 1 capital plus Tier 2 capital. Tier 2 capital primarily includes qualifying subordinated debt, redesignated junior subordinated debt issued to trusts, and other adjustments.

Capital elements are subject to various regulatory limits and restrictions. In general, to qualify as an element of Tier 1 or Tier 2 capital, an instrument must be fully paid and effectively unsecured. Accordingly, if a bank holding company has purchased its own capital instrument, or has directly or indirectly funded the purchase thereof, that instrument generally is disqualified from inclusion in regulatory capital. A qualifying Tier 1 or Tier 2 capital instrument must also be subordinated to all senior indebtedness of the organization. Additionally, Tier 1 capital must represent at least 50% of qualifying Total capital.

Assets that are deducted from capital in computing the numerator of the capital ratios are excluded from the computation of RWAs in the denominator of the ratios.

The table below presents information on the components of our regulatory capital structure under Basel I, as implemented by the Federal Reserve Board, and also reflect the revised market risk regulatory capital requirements. In the table below:

- Equity investments in certain entities primarily represent a portion of our nonconsolidated equity investments.
- Disallowed deferred tax assets represent certain deferred tax assets that are excluded from regulatory capital based upon an assessment which, in addition to other factors, includes an estimate of future taxable income.

- Debt valuation adjustment represents the cumulative change in the fair value of our unsecured borrowings attributable to the impact of changes in our own credit spreads (net of tax at the applicable tax rate).
- Other adjustments within our Tier 1 common capital primarily includes the cumulative change in our pension and postretirement liabilities (net of tax at the applicable tax rate) and investments in certain nonconsolidated entities.
- Qualifying subordinated debt represents subordinated debt issued by Group Inc. with an original term to maturity of five years or greater. The outstanding amount of subordinated debt qualifying for Tier 2 capital is reduced, or discounted, upon reaching a remaining maturity of five years.

**Table 2: Capital Structure**

<i>in millions</i>	<b>As of December 2013</b>
Common stock	\$ 8
Restricted stock units and employee stock options	3,839
Additional paid-in capital	48,998
Retained earnings	71,961
Accumulated other comprehensive loss	(524)
Stock held in treasury, at cost	(53,015)
<b>Common Shareholders' Equity</b>	<b>\$ 71,267</b>
Goodwill	(3,705)
Identifiable intangible assets	(671)
Equity investments in certain entities	(3,314)
Disallowed deferred tax assets	(498)
Debt valuation adjustment	10
Other adjustments	159
<b>Tier 1 Common Capital</b>	<b>\$ 63,248</b>
Perpetual non-cumulative preferred stock	7,200
Junior subordinated debt issued to trusts <sup>1</sup>	2,063
Other adjustments	(40)
<b>Tier 1 Capital</b>	<b>\$ 72,471</b>
Qualifying subordinated debt	12,773
Junior subordinated debt issued to trusts <sup>1</sup>	687
Other adjustments	172
<b>Tier 2 Capital</b>	<b>\$ 13,632</b>
<b>Total Capital</b>	<b>\$ 86,103</b>

1. On January 1, 2013, we began to incorporate the Dodd-Frank Act's phase-out of regulatory capital treatment for junior subordinated debt issued to trusts by allowing for only 75% of these capital instruments to be included in Tier 1 capital and 25% to be designated as Tier 2 capital in the calculation of our current capital ratios. In July 2013, the Agencies finalized the phase-out provisions of these capital instruments. See Note 16. Long-Term Borrowings in Part II, Item 8 "Financial Statements and Supplementary Data" in our Annual Report on Form 10-K for additional information about the junior subordinated debt issued to trusts.

## Regulatory Capital Disclosures

The table below presents the changes in Tier 1 common capital, Tier 1 capital and Tier 2 capital from December 31, 2012 to December 31, 2013.

**Table 3: Capital Rollforward**

<i>in millions</i>	<b>Period Ended December 2013</b>
<b>Tier 1 Common Capital</b>	
<b>Balance, beginning of period</b>	<b>\$ 58,047</b>
Increase in restricted stock units and employee stock options	541
Increase in additional paid-in capital	968
Net earnings	8,040
Dividends and dividend-equivalents declared	(1,302)
Increase in accumulated other comprehensive loss	(331)
Common stock repurchases	(6,175)
Common stock reissued and other	10
<b>Change in common shareholders' equity</b>	<b>1,751</b>
Increase in goodwill	(3)
Decrease in identifiable intangible assets	726
Decrease in equity investments in certain entities	1,491
Decrease in disallowed deferred tax assets	763
Change in debt valuation adjustment	190
Change in other adjustments	283
<b>Change in deductions for disallowed items</b>	<b>3,450</b>
<b>Balance, end of period</b>	<b>\$ 63,248</b>
<b>Tier 1 Capital</b>	
<b>Balance, beginning of period</b>	<b>\$ 66,977</b>
Net increase in Tier 1 common capital	5,201
Increase in perpetual non-cumulative preferred stock	1,000
Redesignation of junior subordinated debt issued to trusts	(687)
Change in other adjustments	(20)
<b>Balance, end of period</b>	<b>\$ 72,471</b>
<b>Tier 2 Capital</b>	
<b>Balance, beginning of period</b>	<b>\$ 13,429</b>
Decrease in qualifying subordinated debt	(569)
Redesignation of junior subordinated debt issued to trusts	687
Change in other adjustments	85
<b>Balance, end of period</b>	<b>\$ 13,632</b>
<b>Total Capital</b>	<b>\$ 86,103</b>

**Risk-Weighted Assets****Overview**

RWAs under the Federal Reserve Board's risk-based capital requirements are calculated based on measures of credit risk and market risk. The table below presents information on the components of RWAs within our consolidated regulatory capital ratios, which were based on Basel I, as implemented by the Federal Reserve Board, and also reflected the revised market risk regulatory capital requirements.

**Table 4: Risk-Weighted Assets**

<i>in millions</i>	<b>As of December 2013</b>
<b>Credit RWAs</b>	
OTC derivatives	\$ 94,753
Commitments and guarantees <sup>1</sup>	47,397
Securities financing transactions <sup>2</sup>	30,010
Other <sup>3</sup>	96,087
<b>Total Credit RWAs</b>	<b>\$ 268,247</b>
<b>Market RWAs</b>	
Regulatory VaR	\$ 13,425
Stressed VaR	38,250
Incremental risk	9,463
Comprehensive risk	18,150
Specific risk	85,691
<b>Total Market RWAs</b>	<b>\$ 164,979</b>
<b>Total RWAs<sup>4</sup></b>	<b>\$ 433,226</b>

1. Principally includes certain commitments to extend credit and letters of credit.
2. Represents resale and repurchase agreements and securities borrowed and loaned transactions.
3. Principally includes receivables from customers, certain loans, other assets, and cash and cash equivalents.
4. Under the current regulatory capital framework, there is no explicit requirement for Operational risk.

## Regulatory Capital Disclosures

The table below presents the changes in these RWAs from December 31, 2012 to December 31, 2013. At the beginning of this period, in accordance with the Federal Reserve Board's rules that were applicable at that date, RWAs for market risk were calculated by reference to the firm's Value-at-Risk (VaR) model, supplemented by the standardized measurement method for specific risk on certain positions. However, the Federal Reserve Board's revised market risk regulatory capital requirements became effective on January 1, 2013, and are therefore reflected in the RWA balance at December 2013. See "Market RWAs" below for additional information on the market RWAs calculation.

**Table 5: Risk-Weighted Assets Rollforward**

<i>in millions</i>	Period Ended December 2013
<b>RWAs Balance, December 31, 2012</b>	<b>\$ 399,928</b>
<b>Credit RWAs</b>	
Decrease in OTC derivatives	(12,516)
Increase in commitments and guarantees	1,390
Decrease in securities financing transactions	(17,059)
Change in other	8,906
<b>Change in Credit RWAs</b>	<b>\$ (19,279)</b>
<b>Market RWAs</b>	
Increase related to the revised market risk rules	127,608
Decrease in regulatory VaR	(2,038)
Decrease in stressed VaR	(13,700)
Decrease in incremental risk	(17,350)
Decrease in comprehensive risk	(9,568)
Decrease in specific risk	(32,375)
<b>Change in Market RWAs</b>	<b>\$ 52,577</b>
<b>Total RWAs Balance, end of period</b>	<b>\$ 433,226</b>

Credit RWAs decreased \$19.28 billion compared with December 2012, primarily due to a decrease in securities financing exposure. Market RWAs increased by \$52.58 billion compared with December 2012, reflecting the impact of the revised market risk regulatory capital requirements, which became effective on January 1, 2013, partially offset by, among other things, a decrease in specific risk due to a decrease in inventory.

**Credit RWAs**

RWAs for credit risk reflect amounts for on-balance-sheet and off-balance-sheet exposures. Credit risk requirements for on-balance-sheet assets, such as receivables and cash, are generally based on the balance sheet value. Credit risk requirements for securities financing transactions are determined based upon the positive net exposure for each trade, and include the effect of counterparty netting and collateral, as applicable. For off-balance-sheet exposures, including commitments and guarantees, a credit equivalent amount is calculated based on the notional amount of each trade. Requirements for OTC derivatives are based on a combination of positive net exposure and a percentage of the notional amount of each trade, and include the effect of counterparty netting and collateral, as applicable. All such assets and exposures are then assigned a risk weight depending on, among other things, whether the counterparty is a sovereign, bank or a qualifying securities firm or other entity (or if collateral is held, depending on the nature of the collateral).

**Market RWAs**

As previously noted, our covered positions are subject to market risk capital requirements which are based on either predetermined levels set by regulators or on internal models, which are subject to various qualitative and quantitative parameters. The revised market risk regulatory capital rules require that a bank holding company obtain the prior written approval of its regulators before using any internal model to calculate its risk-based capital requirement<sup>1</sup>.

RWAs for market risk under the revised rules are computed using the following internal models: Value-at-Risk (VaR), Stressed VaR (SVaR), Incremental risk and Comprehensive risk (which also includes a surcharge). In addition, the Specific risk measure is also used to compute RWAs for market risk, under the standardized measurement method, for certain securitized and non-securitized covered positions by applying risk-weighting factors predetermined by regulators, to positions after applicable netting is performed. As defined in the Federal Reserve Board regulations, RWAs for market risk are the sum of each of these measures multiplied by 12.5. An overview of each of these measures is provided below.

1. See "Requirements for internal models" in Section 3. Requirements for Application of the Market Risk Capital Rule of Appendix E to 12 CFR Part-225 – Capital Adequacy Guidelines for Bank Holding Companies: Market Risk.

## Regulatory Capital Disclosures

**Regulatory VaR.** VaR is the potential loss in value of inventory positions, as well as certain other financial assets and financial liabilities, due to adverse market movements over a defined time horizon with a specified confidence level. For both risk management purposes (positions subject to VaR limits) and regulatory capital calculations (for covered positions) we use a single VaR model. VaR used for regulatory capital requirements (regulatory VaR) differs from risk management VaR due to different time horizons and confidence levels (10-day and 99% for regulatory VaR vs. one-day and 95% for risk management VaR), as well as differences in the scope of positions on which VaR is calculated.

The VaR model captures risks including interest rates, equity prices, currency rates and commodity prices. As such, VaR facilitates comparison across portfolios of different risk characteristics. VaR also captures the diversification of aggregated risk at the firmwide level. 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.
- 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.

In accordance with the revised market risk regulatory capital requirements, we evaluate the accuracy of our VaR model through daily backtesting. The results of the backtesting determine the size of the VaR multiplier used to compute RWAs. See “Regulatory VaR Backtesting Results” for additional information.

The table below presents by risk category our period-end, high, low and mean of the average daily Regulatory VaR. Average, per the revised market risk regulatory capital requirements, is determined based on the average daily Regulatory VaR over the preceding 60 business days.

**Table 6: Regulatory VaR**

<i>in millions</i>	As of		Three Months Ended		
	December 2013		December 2013		
	Group, Inc.		High	Low	Mean
<b>Regulatory VaR</b>	<b>\$ 358</b>				
<b>VaR x Multiplier</b>	<b>1,074</b> <sup>1</sup>				
<b>RWAs</b>	<b>\$ 13,425</b>				
	As of		December 2013		
	December 2013		High	Low	Mean
<b>Group Inc.</b>	<b>\$ 358</b>	<b>\$ 381</b>	<b>\$ 357</b>	<b>\$ 366</b>	
Interest rates	316	361	316	346	
Equity prices	151	152	123	135	
Currency rates	110	119	106	110	
Commodity prices	86	93	82	86	
Diversification <sup>2</sup>	(305)			(311)	

1. Regulatory VaR is subject to a regulatory multiplier that is set at a minimum of three (which is the multiplier used in this table) and can be increased up to four, depending upon the number of backtesting exceptions. See “Regulatory VaR Backtesting Results.” This result is further multiplied by 12.5 to convert into RWAs.

2. Diversification effect in the table above represents the difference between total VaR and the sum of the VaRs for the four risk categories. This effect arises because the four market risk categories are not perfectly correlated.



## Regulatory Capital Disclosures

**Stressed VaR.** SVaR is the potential loss in value of inventory positions during a period of significant market stress. SVaR is calculated at a 99% confidence level over a 10-day horizon using market data inputs from a continuous 12-month period of stress. We identify the stressed period by comparing VaR using market data inputs from different historical periods.

The table below presents our period-end, high, low and mean of the average weekly SVaR. Average, per the revised market risk regulatory capital requirements, is determined based on the average weekly amount for the preceding 12 weeks.

**Table 7: Stressed VaR**

<i>in millions</i>	As of	Three Months Ended		
	December 2013	December 2013		
	Group, Inc.	High	Low	Mean
SVaR	\$ 1,020	\$ 1,035	\$ 956	\$ 995
SVaR x Multiplier	3,060 <sup>1</sup>			
RWAs	\$ 38,250			

1. SVaR is subject to the same regulatory multiplier used for Regulatory VaR and is further multiplied by 12.5 to convert into RWAs.

**Incremental Risk.** Incremental risk is the potential loss in value of non-securitized inventory positions due to the default or credit migration of issuers of financial instruments over a one-year time horizon. As required by the revised market risk regulatory capital rules this measure is calculated at a 99.9% confidence level over a one-year time horizon. It uses a multi-factor model assuming a constant level of risk. When assessing the risk, we take into account market and issuer-specific concentration, credit quality, liquidity horizons and correlation of default and migration risk. The liquidity horizon is calculated based upon the size of exposures and the speed at which we can reduce risk by hedging or unwinding positions, given our experience during a historical stress period, and is subject to the prescribed regulatory minimum.

The table below presents our period-end, high, low and mean of the maximum of the average weekly Incremental risk measure or the point-in-time measure. Average, per the revised market risk regulatory capital requirements, is determined based on the average weekly amount over the preceding 12 weeks.

**Table 8: Incremental Risk**

<i>in millions</i>	As of	Three Months Ended		
	December 2013	December 2013		
	Group, Inc.	High	Low	Mean
Incremental Risk	\$ 757 <sup>1</sup>	\$ 948	\$ 656	\$ 734
RWAs	\$ 9,463			

1. In order to convert the results of Incremental risk into RWAs, it is multiplied by 12.5.

**Comprehensive Risk.** Comprehensive risk is the potential loss in value, due to price risk and defaults, within the firm's credit correlation positions. A credit correlation position is defined as a securitization position for which all or substantially all of the value of the underlying exposures is based on the credit quality of a single company for which a two-way market exists, or indices based on such exposures for which a two-way market exists, or hedges of these positions (which are typically not securitization positions).

As required by the revised market risk regulatory capital requirements, Comprehensive risk comprises a model-based measure and a surcharge based on the standardized measurement method. The model-based measure is calculated at a 99.9% confidence level over a one-year time horizon applying a constant level of risk. The model comprehensively covers price risks including nonlinear price effects and takes into account contractual structure of cash flows, the effect of multiple defaults, credit spread risk, volatility of implied correlation, recovery rate volatility and basis risk. The liquidity horizon is based upon our experience during a historical stress period, subject to the prescribed regulatory minimum.

The surcharge is 8% of the standardized specific risk add-on. For detail on the calculation of the add-on for securitization positions, see "Specific Risk - Securitization Positions" below, and for detail on the calculation of the add-on for hedges see "Specific Risk - Other Specific Risk" below.

**Regulatory Capital Disclosures**

As of December 2013, we had credit correlation positions, subject to the Comprehensive risk measure, with a fair value of \$432 million in net assets and \$384 million in net liabilities.

The table below presents our period-end, high, low and mean of the maximum of the average weekly Comprehensive risk measure or the point-in-time measure, inclusive of both modeled and non-modeled components. Average, per the revised market risk regulatory capital requirements, is determined based on the average weekly amount for the preceding 12 weeks.

**Table 9: Comprehensive Risk**

<i>in millions</i>	As of December 2013	Three Months Ended December 2013		
	Group, Inc.	High	Low	Mean
<b>Comprehensive Risk</b>	\$ 1,452 <sup>1,2</sup>	\$ 1,713	\$ 1,452	\$ 1,624
<b>RWAs</b>	\$ 18,150			

1. In order to convert the Comprehensive risk measure into RWAs, it is multiplied by 12.5.
2. These results include a surcharge of \$0.92 billion on credit correlation positions.

**Model Review and Validation**

The models discussed above, which are used to determine Regulatory VaR, SVaR, Incremental risk and Comprehensive risk, are subject to review and validation at least annually by our independent model validation group, which consists of quantitative professionals who are separate from model developers. This review includes:

- a critical evaluation of the model, its theoretical soundness and adequacy for intended use;
- verification of the testing strategy utilized by the model developers to ensure that the model functions as intended; and
- verification of the suitability of the calculation techniques incorporated in the model.

Our models are regularly reviewed and enhanced in order to incorporate changes in the composition of covered positions, as well as variations in market conditions. Prior to implementing significant changes to our assumptions and/or models, we perform model validation and test runs. Additionally, we evaluate the accuracy of our Regulatory VaR model through daily backtesting. See “Regulatory VaR Backtesting Results” for further detail.

**Regulatory VaR Backtesting Results**

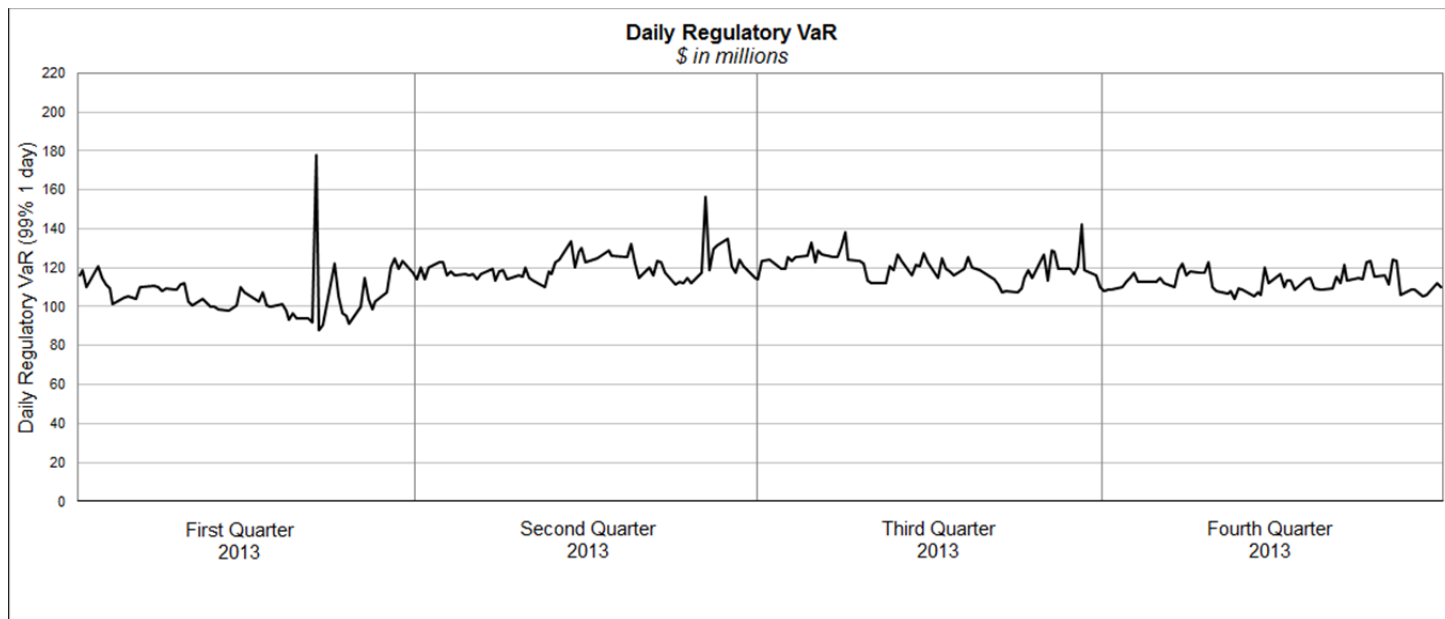
As required by the revised market risk regulatory capital requirements, we validate the accuracy of our Regulatory VaR models by backtesting the output of such models against the daily positional loss results. The actual number of exceptions (that is, the number of business days for which the positional losses exceed the corresponding 99% one-day Regulatory VaR) over the most recent 250 business days is used to determine the size of the VaR multiplier, which could increase from a minimum of three to a maximum of four, depending on the number of exceptions.

As defined in the revised market risk regulatory capital requirements, positional net revenues for any given day represent the impact of that day’s price variation on the value of positions held at the close of business the previous day. As a consequence, these results exclude certain revenues associated with market-making businesses, such as bid/offer

net revenues, which by their nature are more likely than not to be positive. In addition, positional net revenues used in our Regulatory VaR backtesting relate only to positions which are included in Regulatory VaR and, as noted above, differ from positions included in our risk management VaR. This measure of positional net revenues is used to evaluate the performance of the Regulatory VaR model and is not comparable to our actual daily trading net revenues, as reported in our Annual Report on Form 10-K.

Positional losses observed on a single day did not exceed our 99% one-day Regulatory VaR (as presented in the table below) during the previous 12 months. Note that, although a one-day time horizon is used for backtesting purposes, a 10-day time horizon is used, as described earlier, to determine RWAs associated with Regulatory VaR.

**Table 10: Daily Regulatory VaR**



**Stress Testing**

Stress testing is a method of determining the effect on the firm of various hypothetical stress scenarios. We use stress testing to examine risks of specific portfolios as well as the potential impact of significant risk exposures across the firm. We use a variety of stress testing techniques to calculate the potential loss from a wide range of market moves on the firm’s portfolios, including sensitivity analysis, scenario analysis and

firmwide stress tests. For a detailed description of our stress testing practices, see “Market Risk Management – Stress Testing” in Part II, Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Annual Report on Form 10-K.

### Specific Risk

Specific risk is the risk of loss on a position that could result from factors other than broad market movements and includes event risk, default risk and idiosyncratic risk. The specific risk add-on is applicable for both securitization positions and for certain non-securitized debt and equity positions, to supplement the model-based measures.

The revised market risk regulatory capital requirements introduced new standards to assess creditworthiness, in response to an obligation of the Dodd-Frank Act mandating the Agencies to remove references to, and requirements of reliance on, external credit ratings from regulations and supervisory guidance and replace them with appropriate alternative standards of creditworthiness. These alternative measures of creditworthiness, which are used to determine appropriate risk-weighting factors within the specific risk component of the market risk measure, are incorporated in the table below, which presents the RWAs of our non-modeled-based specific risk measure on securitization (excluding credit correlation positions captured by the Comprehensive risk measure) and non-securitization positions.

**Table 11: Specific Risk**

<i>in millions</i>	<b>As of December 2013</b>
Securitization positions	\$ 60,180
Other specific risk positions	25,511
<b>Total Specific Risk RWAs</b>	<b>\$ 85,691</b>

**Securitization Positions.** The “Securitization Framework” section of the rules is used to calculate the RWAs for any position that has been identified as a securitization or resecuritization. Criteria used to identify positions subject to the Securitization Framework include, but are not limited to, the following: whether there is a transfer of risk to third parties; whether the credit risk associated with the underlying exposures has been separated into at least two tranches reflecting different levels of seniority (i.e., tranching credit risk); whether a position references tranching credit risk; and whether the underlying exposures are financial exposures. Products covered by this definition include mortgage-backed securities (MBS) and other asset-backed securities (ABS), derivatives referencing MBS or ABS, or derivatives referencing indices of MBS or ABS, which are held in inventory. The population includes positions purchased in the secondary market, as well as retained interests in securitization structures we sponsor. Consistent with the rules, this notably excludes mortgage-backed pass-through securities guaranteed by government-sponsored entities (for example, Federal National Mortgage Association).

The Securitization Framework for trading book positions offers a two-step hierarchy of approaches for calculating RWAs. Under the first approach, the Simplified Supervisory Formula Approach (SSFA), the specific risk-weighting factor is determined using attachment and detachment points, delinquency levels and the risk-based capital requirements for the underlying exposures in the securitization. Under the second approach, if the securitization position does not qualify for the SSFA (for example, if the data is not available or if the most current available data is more than 91 calendar days old) it is subject to a 100% capital requirement.

The RWAs for trading book securitization positions are calculated by multiplying the exposure amount by the specific risk-weighting factors assigned and then multiplying by 12.5. The exposure amount is defined as the carrying value for securities, or the market value of the effective notional of the instrument or indices underlying derivative positions. The securitization capital requirements are the greater of the capital requirements on the net long or short exposure (incorporating applicable netting), and are capped at the maximum loss that could be incurred on any given transaction.

The table below presents our aggregate on-balance-sheet and off-balance-sheet trading book securitization exposures (excluding credit correlation positions captured by the Comprehensive risk measure) by underlying exposure type. Amounts below reflect securitization exposures, as defined for regulatory capital purposes and are not comparable to securitization measures reported in our Annual Report on Form 10-K.

**Table 12: Trading Book Securitizations**

<i>in millions</i>	<b>As of December 2013</b>	
	<b>Trading Book</b>	
	<b>Securitization</b>	<b>Exposures</b>
Residential mortgages	\$	4,694
Commercial mortgages		3,081
Corporate (CDO / CLO) <sup>1</sup>		6,466
Asset-backed and other		2,709
<b>Total Securitization Exposures<sup>2</sup></b>	<b>\$</b>	<b>16,950</b>

1. Reflects corporate collateralized debt and loan obligations.
2. Includes securities with a fair value of \$9.45 billion.

Securitization positions, including resecuritizations, are incorporated into our overall risk management approach for financial instruments. For a detailed discussion of our risk management process and practices, see “Market Risk Management” and “Credit Risk Management” in Part II, Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Annual Report on Form 10-K.

**Other Specific Risk Positions.** The standard specific risk add-on for debt positions ranges from 0.25% to 12%, other than for certain sovereign and supranational positions which have a 0% add-on. The add-on for sovereigns, public sector entities and depository institutions is based on the Organization for Economic Co-operation and Development country risk classifications of the sovereign and the remaining contractual maturity of the position. The add-on for corporate entities that have issued public financial instruments is based on internal assessments of creditworthiness and the remaining contractual maturity of the position. All other types of debt positions are subject to an 8% add-on. The standard specific risk add-on for equity positions will generally be 8%, but this could decrease to 2% for well-diversified portfolios of equities, certain indices, and certain futures-related arbitrage strategies.

The standard specific risk RWAs for debt and equity positions are calculated by multiplying the exposure amount by the appropriate standard specific risk add-on, and then multiplying by 12.5. The exposure amount is defined as the carrying value for securities and loans, or the market value of the effective notional of the instrument or indices underlying derivative positions. The specific risk capital requirements are capped at the maximum loss that could be incurred on any given transaction.

## Valuation and Accounting Policies

Our trading book positions are accounted for at fair value. See Note 3. Significant Accounting Policies, and related footnotes in Part II, Item 8 “Financial Statements and Supplementary Data” in our Annual Report on Form 10-K, which address accounting and valuation policies applicable to these positions.

## Overview and Structure of Risk Management

### Overview

We believe that effective risk management is of primary importance to the success of the firm. Accordingly, we have comprehensive risk management processes through which we monitor, evaluate and manage the risks we assume in conducting our activities. These include market, credit, liquidity, operational, legal, regulatory and reputational risk exposures. Our risk management framework is built around three core components: governance, processes and people.

**Governance.** Risk management governance starts with our Board of Directors (Board), which plays an important role in reviewing and approving risk management policies and practices, both directly and through its committees, including its Risk Committee. The Board also receives regular briefings on firmwide risks, including market risk, liquidity risk, credit risk and operational risk from our independent control and support functions, including the chief risk officer, and on matters impacting our reputation from the chair of our Firmwide Client and Business Standards Committee. The chief risk officer, as part of the review of the firmwide risk portfolio, regularly advises the Risk Committee of the Board of relevant risk metrics and material exposures. Next, at the most senior levels of the firm, our leaders are experienced risk managers, with a sophisticated and detailed understanding of the risks we take. Our senior managers lead and participate in risk-oriented committees, as do the leaders of our independent control and support functions — including those in Compliance, Controllers, our Credit Risk Management department (Credit Risk Management), Human Capital Management, Legal, our Market Risk Management department (Market Risk Management), Operations, our Operational Risk Management department (Operational Risk Management), Tax, Technology and Treasury.

The firm’s governance structure provides the protocol and responsibility for decision-making on risk management issues and ensures implementation of those decisions. We make extensive use of risk-related committees that meet regularly and serve as an important means to facilitate and foster ongoing discussions to identify, manage and mitigate risks.

We maintain strong communication about risk and we have a culture of collaboration in decision-making among the revenue-producing units, independent control and support functions, committees and senior management. While we believe that the first line of defense in managing risk rests with the managers in our revenue-producing units, we dedicate extensive resources to independent control and support functions in order to ensure a strong oversight structure and an appropriate segregation of duties. We regularly reinforce the firm's strong culture of escalation and accountability across all divisions and functions.

**Processes.** We maintain various processes and procedures that are critical components of our risk management. First and foremost is our daily discipline of marking substantially all of the firm's inventory to current market levels. Goldman Sachs carries its inventory at fair value, with changes in valuation reflected immediately in our risk management systems and in net revenues. We do so because we believe this discipline is one of the most effective tools for assessing and managing risk and that it provides transparent and realistic insight into our financial exposures.

We also apply a rigorous framework of limits to control risk across multiple transactions, products, businesses and markets. This includes setting credit and market risk limits at a variety of levels and monitoring these limits on a daily basis. Limits are typically set at levels that will be periodically exceeded, rather than at levels which reflect our maximum risk appetite. This fosters an ongoing dialogue on risk among revenue-producing units, independent control and support functions, committees and senior management, as well as rapid escalation of risk-related matters. See "Market Risk Management" and "Credit Risk Management" in Part II, Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for further information on our risk limits.

Active management of our positions is another important process. Proactive mitigation of our market and credit exposures minimizes the risk that we will be required to take outsized actions during periods of stress.

We also focus on the rigor and effectiveness of the firm's risk systems. The goal of our risk management technology is to get the right information to the right people at the right time, which requires systems that are comprehensive, reliable and timely. We devote significant time and resources to our risk management technology to ensure that it consistently provides us with complete, accurate and timely information.

**People.** Even the best technology serves only as a tool for helping to make informed decisions in real time about the risks we are taking. Ultimately, effective risk management requires our people to interpret our risk data on an ongoing and timely basis and adjust risk positions accordingly. In both our revenue-producing units and our independent control and support functions, the experience of our professionals, and their understanding of the nuances and limitations of each risk measure, guide the firm in assessing exposures and maintaining them within prudent levels.

We reinforce a culture of effective risk management in our training and development programs as well as the way we evaluate performance, and recognize and reward our people. Our training and development programs, including certain sessions led by the most senior leaders of the firm, are focused on the importance of risk management, client relationships and reputational excellence. As part of our annual performance review process, we assess reputational excellence including how an employee exercises good risk management and reputational judgment, and adheres to our code of conduct and compliance policies. Our review and reward processes are designed to communicate and reinforce to our professionals the link between behavior and how people are recognized, the need to focus on our clients and our reputation, and the need to always act in accordance with the highest standards of the firm.

## Structure

Ultimate oversight of risk is the responsibility of the firm's Board. The Board oversees risk both directly and through its committees, including its Risk Committee. The Risk Committee consists of all of our independent directors. Within the firm, a series of committees with specific risk management mandates have oversight or decision-making responsibilities for risk management activities. Committee membership generally consists of senior managers from both our revenue-producing units and our independent control and support functions. We have established procedures for these committees to ensure that appropriate information barriers are in place. Our primary risk committees, most of which also have additional sub-committees or working groups, are described in further detail in "Overview and Structure of Risk Management" in Part II, Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K. In addition to these committees, we have other risk-oriented committees which provide oversight for different businesses, activities, products, regions and legal entities. All of our firmwide, regional and divisional committees have responsibility for considering the impact of transactions and activities which they oversee on our reputation.

Membership of the firm's risk committees is reviewed regularly and updated to reflect changes in the responsibilities of the committee members. Accordingly, the length of time that members serve on the respective committees varies as determined by the committee chairs and based on the responsibilities of the members within the firm.

In addition, independent control and support functions, which report to the chief financial officer, the general counsel and the chief administrative officer, are responsible for day-to-day oversight or monitoring of risk (for further detail see "Overview and Structure of Risk Management" in Part II, Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K). Internal Audit, which reports to the Audit Committee of the Board and includes professionals with a broad range of audit and industry experience, including risk management expertise, is responsible for independently assessing and validating key controls within the risk management framework.

## Equity Capital

### Overview

Capital adequacy is of critical importance to us. Our objective is to be conservatively capitalized in terms of the amount and composition of our equity base, both relative to our risk exposures and compared to external requirements and benchmarks. Accordingly, we have in place a comprehensive capital management policy that provides a framework and set of guidelines to assist us in determining the level and composition of capital that we target and maintain.

We determine the appropriate level and composition of our equity capital by considering multiple factors including our current and future consolidated regulatory capital requirements, the results of our capital planning and stress testing process and other factors such as rating agency guidelines, subsidiary capital requirements, the business environment, conditions in the financial markets, and assessments of potential future losses due to adverse changes in our business and market environments. Our capital planning and stress testing process incorporates our internally designed stress tests and those required under Comprehensive Capital Analysis and Review (CCAR) and Dodd-Frank Act Stress Test (DFAST), and is also designed to identify and measure material risks associated with our business activities, including market risk, credit risk and operational risk. We project sources and uses of capital given a range of business environments, including stressed conditions. In addition, as part of our comprehensive capital management policy, we maintain a contingency capital plan that provides a framework for analyzing and responding to an actual or perceived capital shortfall.

For additional information regarding our capital planning and stress testing process, including CCAR, DFAST, our internally designed stress tests and our internal risk-based capital assessment, see "Equity Capital" in Part II, Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K.

## Regulatory Reform

Over the past several years, the Basel Committee has made substantial revisions to its capital guidelines. The Agencies have modified their regulatory capital requirements to incorporate many of these revisions, and they have indicated their intent to make further changes in the future to incorporate other revisions, several of which we have summarized below.

### Revised Capital Framework

The Agencies have approved revised risk-based capital and leverage ratio regulations establishing a new comprehensive capital framework for U.S. banking organizations (Revised Capital Framework). These regulations are largely based on the Basel Committee's December 2010 final capital framework for strengthening international capital standards (Basel III), and significantly revise the risk-based capital and leverage ratio requirements applicable to bank holding companies as compared to the previous U.S. risk-based capital and leverage ratio rules, and thereby, implement certain provisions of the Dodd-Frank Act.

Under the Revised Capital Framework, Group Inc. is an "Advanced approach" banking organization. Below are the aspects of the rules that are most relevant to us, as an Advanced approach banking organization.

**Definition of Capital and Capital Ratios.** The Revised Capital Framework introduced changes to the definition of regulatory capital, which, subject to transitional provisions, became effective across our regulatory capital and leverage ratios on January 1, 2014. These changes include the introduction of a new capital measure called Common Equity Tier 1 (CET1), and the related regulatory capital ratio of CET1 to RWAs (CET1 ratio). In addition, the definition of Tier 1 capital has been narrowed to include only CET1 and instruments such as perpetual non-cumulative preferred stock, which meet certain criteria.

Certain aspects of the revised requirements phase in over time. These include increases in the minimum capital ratio requirements and the introduction of new capital buffers and certain deductions from regulatory capital (such as investments in nonconsolidated financial institutions). In addition, junior subordinated debt issued to trusts is being phased out of regulatory capital. It is first phased out of Tier 1 capital but is eligible as Tier 2 capital for an interim period through December 31, 2015, after which it will also be phased out of Tier 2 capital through December 31, 2021. We have already begun the phase-out from Tier 1 capital of our junior subordinated debt issued to trusts in the calculation of our

capital ratios, allowing for only 75% of these capital instruments to be included in Tier 1 capital and 25% to be designated as Tier 2 capital in calendar year 2013. For 2014, only 50% of these capital instruments can be included in Tier 1 capital, with 50% permitted to be designated as Tier 2 capital.

The minimum CET1 ratio is 4.0% as of January 1, 2014 and will increase to 4.5% on January 1, 2015. The minimum Tier 1 capital ratio increased from 4.0% to 5.5% on January 1, 2014 and will increase to 6.0% beginning January 1, 2015. The minimum Total capital ratio remains unchanged at 8.0%. These minimum ratios will be supplemented by a new capital conservation buffer that phases in, beginning January 1, 2016, in increments of 0.625% per year until it reaches 2.5% on January 1, 2019. The Revised Capital Framework also introduces a new counter-cyclical capital buffer, to be imposed in the event that national supervisors deem it necessary in order to counteract excessive credit growth.

Certain adjustments to calculate CET1 are subject to transition provisions. Most items that were previously deducted from Tier 1 capital become deductions from CET1, many of which transition into CET1 deductions at a rate of 20% per year, beginning in January 2014. The Revised Capital Framework also introduced new deductions from CET1 (such as investments in nonconsolidated financial institutions), which are also phased in as CET1 deductions at a rate of 20% per year with residual amounts subject to risk weighting.

**Risk-Weighted Assets.** In February 2014, the Federal Reserve Board informed us that we have completed a satisfactory "parallel run," as required of Advanced approach banking organizations under the Revised Capital Framework, and therefore changes to RWAs will take effect beginning with the second quarter of 2014. Accordingly, the calculation of RWAs in future quarters will be based on the following methodologies:

- During the first quarter of 2014 - the Basel I risk-based capital framework adjusted for certain items related to existing capital deductions and the phase-in of new capital deductions (Basel I Adjusted);
- During the remaining quarters of 2014 - the higher of RWAs computed under the Basel III Advanced approach or the Basel I Adjusted calculation; and
- Beginning in the first quarter of 2015 - the higher of RWAs computed under the Basel III Advanced or Standardized approach.



The primary difference between the Standardized approach and the Basel III Advanced approach is that the Standardized approach utilizes prescribed risk-weightings and does not contemplate the use of internal models to compute exposure for credit risk on derivatives and securities financing transactions, whereas the Basel III Advanced approach permits the use of such models, subject to supervisory approval. In addition, RWAs under the Standardized approach depend largely on the type of counterparty (e.g., whether the counterparty is a sovereign, bank, broker-dealer or other entity), rather than on assessments of each counterparty's creditworthiness. Furthermore, the Standardized approach does not include a capital requirement for operational risk. RWAs for market risk under both the Standardized and Basel III Advanced approaches are based on the Federal Reserve Board's revised market risk regulatory capital requirements described above.

**Estimated Capital Ratios.** We estimate that our ratio under the Basel III Advanced approach (Basel III Advanced CET1 ratio) as of December 2013 would have been 9.8% on a fully phased-in basis (i.e., after the expiration of transition provisions). The estimate of the Basel III Advanced CET1 ratio will continue to evolve as we assess the details of these rules and discuss their interpretation and application with our regulators.

Management believes that the estimated Basel III Advanced CET1 ratio is meaningful because it is one of the measures that we, our regulators and investors use to assess capital adequacy. The estimated Basel III Advanced CET1 ratio is a non-GAAP measure as of December 2013 and may not be comparable to similar non-GAAP measures used by other companies (as of that date). It will become a formal regulatory measure for the firm on April 1, 2014.

The table below presents a reconciliation of our common shareholders' equity to the estimated Basel III Advanced CET1 on a fully phased-in basis.

**Table 13: Basel III Advanced CET1 Ratio (estimated)**

<i>\$ in millions</i>	<b>As of December 2013</b>
<b>Common Shareholders' Equity</b>	<b>\$ 71,267</b>
Goodwill	(3,705)
Identifiable intangible assets	(671)
Deferred tax liabilities	908
Goodwill and identifiable intangible assets, net of deferred tax liabilities	(3,468)
Deductions for investments in nonconsolidated financial institutions <sup>1</sup>	(9,091)
Other adjustments <sup>2</sup>	(489)
<b>Basel III CET1</b>	<b>\$ 58,219</b>
<b>Basel III Advanced RWAs</b>	<b>\$ 594,662</b>
<b>Basel III Advanced CET1 Ratio</b>	<b>9.8%</b>

1. This deduction, which represents the fully phased-in requirement, is the amount by which our investments in the capital of nonconsolidated financial institutions exceed certain prescribed thresholds. During both the transitional period and thereafter, no deduction will be required if the applicable proportion of our investments in the capital of nonconsolidated financial institutions falls below the prescribed thresholds.

2. Principally includes credit valuation adjustments on derivative liabilities and debt valuation adjustments, as well as other required credit risk-based deductions.

In addition, beginning with the first quarter of 2015, subject to transitional provisions, we will also be required to disclose ratios calculated under the Standardized approach. Our estimated CET1 ratio under the Standardized approach (Standardized CET1 ratio) on a fully phased-in basis was approximately 60 basis points lower than our estimated Basel III Advanced CET1 ratio in the table above.

Both the Basel III Advanced CET1 ratio and the Standardized CET1 ratio are subject to transitional provisions. Reflecting the transitional provisions that became effective January 1, 2014, our estimated Basel III Advanced CET1 ratio and our estimated Standardized CET1 ratio are approximately 150 basis points higher than the respective CET1 ratios on a fully phased-in basis as of December 2013.

Effective January 1, 2014, Group Inc.'s capital and leverage ratios are calculated under, and subject to the minimums as defined in, the Revised Capital Framework. The changes to the definition of capital and minimum ratios, subject to transitional provisions, were effective beginning January 1, 2014. RWAs are based on Basel I Adjusted. The firm will transition to Basel III beginning on April 1, 2014. Including the impact of the changes to the definition of regulatory capital and reflecting the transitional provisions effective in 2014, our estimated CET1 ratio (CET1 to RWAs on a Basel I Adjusted basis) as of December 2013 would have been essentially unchanged as compared to our Tier 1 common ratio under Basel I.

**Regulatory Leverage Ratios.** The Revised Capital Framework increased the minimum Tier 1 leverage ratio applicable to us from 3% to 4% effective January 1, 2014.

In addition, the Revised Capital Framework will introduce a new Tier 1 supplementary leverage ratio (supplementary leverage ratio) for Advanced approach banking organizations. The supplementary leverage ratio compares Tier 1 capital (as defined under the Revised Capital Framework) to a measure of leverage exposure, defined as the sum of our assets less certain CET1 deductions plus certain off-balance-sheet exposures, including a measure of derivatives exposures and commitments. The Revised Capital Framework requires a minimum supplementary leverage ratio of 3%, effective January 1, 2018, but with disclosure required beginning in the first quarter of 2015. While a definition of the leverage exposure measure was set out in the Revised Capital Framework, this measure and/or the minimum requirement applicable may be amended by the regulatory authorities prior to the January 2018 effective date.

Subsequent to the approval of the Revised Capital Framework, the Agencies issued a proposal to increase the minimum supplementary leverage ratio requirement for the largest U.S. banks (those deemed to be global systemically important banking institution (G-SIBs) under the Basel G-SIB framework described below). These proposals would require us and other G-SIBs to meet a 5% supplementary leverage ratio (comprised of the minimum requirement of 3% plus a 2% buffer). As of December 2013, our estimated supplementary leverage ratio based on the Revised Capital Framework approximates this proposed minimum.

In addition, the Basel Committee recently finalized revisions that would increase the size of the leverage exposure for the purposes of the supplementary leverage ratio, but would retain a minimum supplementary leverage ratio requirement of 3%.

### Global Systemically Important Banking Institutions

The Basel Committee has updated its methodology for assessing the global systemic importance of banking institutions and determining the range of additional CET1 that should be maintained by those deemed to be G-SIBs. The required amount of additional CET1 for these institutions will initially range from 1% to 2.5% and could be higher in the future for a banking institution that increases its systemic footprint (e.g., by increasing total assets). In November 2013, the Financial Stability Board (established at the direction of the leaders of the Group of 20) indicated that based on our 2012 financial data, we would be required to hold an

additional 1.5% of CET1 as a G-SIB. The final determination of the amount of additional CET1 that we will be required to hold will initially be based on our 2013 financial data and the manner and timing of the U.S. banking regulators' implementation of the Basel Committee's methodology. The Basel Committee indicated that G-SIBs will be required to meet the capital surcharges on a phased-in basis beginning 2016 through 2019.

### Other Developments

The Basel Committee and the Financial Stability Board have also recently issued several consultative papers which propose further changes to capital regulations. In particular, the Basel Committee has issued consultation papers on a "Fundamental Review of the Trading Book" and "Revisions of the Securitization Framework" that could have an impact on the level of the firm's RWAs and regulatory capital ratios.

The Dodd-Frank Act, other reform initiatives proposed and announced by the Agencies, the Basel Committee, and other governmental entities and regulators are not in all cases consistent with one another, which adds further uncertainty to our future capital, leverage and liquidity requirements, and those of our subsidiaries.

For additional information about related regulatory requirements, including pending and proposed regulatory changes see: (i) "Regulation" in Part I, Item 1 "Business" in our Annual Report on Form 10-K; (ii) "Regulatory Developments" in Part II, Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K; (iii) "Equity Capital" in Part II, Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K; and (iv) Note 20. Regulation and Capital Adequacy, in Part II, Item 8 "Financial Statements and Supplementary Data" in our Annual Report on Form 10-K.

## **Cautionary Note on Forward-Looking Statements**

We have included or incorporated by reference in these disclosures, and from time to time our management may make, statements that may constitute “forward-looking statements.” Forward-looking statements are not historical facts, but instead represent only our beliefs regarding future events, many of which, by their nature, are inherently uncertain and outside our control. These statements include statements other than historical information or statements of current condition and may relate to our future plans and objectives and results, among other things, and may also include statements about the effect of changes to the capital and leverage rules applicable to bank holding companies, the impact of the Dodd-Frank Act on our businesses and operations, as well as statements about the objectives and effectiveness of our risk management and liquidity policies, statements about trends in or growth opportunities for our businesses, and statements about our future status, activities or reporting under U.S. or non-U.S. banking and financial regulation.

We have voluntarily provided in this report information regarding our consolidated estimated capital ratios, including CET1 ratios under the Advanced and Standardized approaches on a fully phased-in and transitional basis, Basel I Adjusted capital ratio and supplementary leverage ratio. The statements with respect to the estimated ratios are forward-looking statements, based on our current interpretation, expectations

and understandings of the Revised Capital Framework and related proposals to increase the minimum supplementary leverage ratio. The information regarding estimated ratios includes significant assumptions concerning the treatment of various assets and liabilities and the manner in which the ratios are calculated under the Revised Capital Framework. As a result, the methods used to calculate these estimates may differ, possibly materially, from those used in calculating the estimates for any future voluntary disclosures as well as those used when such ratios are required to be disclosed. The ultimate methods of calculating the ratios will depend on, among other things, the promulgation of final rules to increase the minimum supplementary leverage ratio, supervisory approval of our internal models used under the Advanced approach for calculating CET1, implementation guidance from the Agencies and the development of market practices and standards.

By identifying these statements for you in this manner, we are alerting you to the possibility that our actual results and financial condition may differ, possibly materially, from the anticipated results and financial condition indicated in these forward-looking statements. Important factors that could cause our actual results and financial condition to differ from those indicated in the forward-looking statements include, among others, those discussed under “Risk Factors” in Part I, Item 1A of our Annual Report on Form 10-K.

## Glossary of Risk Terms

- **Comprehensive Risk.** The potential loss in value, due to price risk and defaults, within the firm's credit correlation positions. Comprehensive risk comprises a modeled measure which is calculated at a 99.9% confidence level over a one-year time horizon plus a surcharge which is 8% of the standardized specific risk add-on.
- **Credit Correlation Position.** A securitization position for which all or substantially all of the value of the underlying exposures is based on the credit quality of a single company for which a two-way market exists, or indices based on such exposures for which a two-way market exists, or hedges of these positions (which are typically not securitization positions).
- **Credit Risk.** The potential for loss due to the default or deterioration in credit quality of a counterparty (e.g., an OTC derivatives counterparty or a borrower) or an issuer of securities or other instruments we hold.
- **Default Risk.** The risk of loss on a position that could result from failure of an obligor to make timely payments of principal or interest on its debt obligation, and the risk of loss that could result from bankruptcy, insolvency, or similar proceedings.
- **Event Risk.** The risk of loss on equity or hybrid equity positions as a result of a financial event, such as the announcement or occurrence of a company merger, acquisition, spin-off, or dissolution.
- **Idiosyncratic Risk.** The risk of loss in the value of a position that arises from changes in risk factors unique to that position.
- **Incremental Risk.** The potential loss in value of non-securitized inventory positions due to the default or credit migration of issuers of financial instruments over a one-year time horizon. This measure is calculated at a 99.9% confidence level over a one-year time horizon using a multi-factor model.
- **Market Risk.** 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.
- **Operational Risk.** The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.
- **Regulatory Value-at-Risk (VaR).** The potential loss in value of covered positions due to adverse market movements over a 10-day time horizon with a 99% confidence level.
- **Regulatory VaR Backtesting.** Comparison of daily positional loss results to the Regulatory VaR measure calculated as of the prior business day.
- **Resecuritization Position.** Represents an on or off-balance-sheet transaction in which one or more of the underlying exposures is a securitization position or an exposure that directly or indirectly references a re-securitization exposure.
- **Securitization Position.** Represents an on or off-balance-sheet transaction in which all or a portion of the credit risk of one or more underlying exposures is transferred to one or more third parties; the credit risk associated with the underlying exposures has been separated into at least two tranches, reflecting different levels of seniority; performance of securitization exposures is dependent upon the performance of the underlying exposures; all or substantially all of the underlying exposures are financial exposures; and the underlying exposure ownership is subject to certain ownership criteria prescribed by the regulatory rules.
- **Specific Risk.** The risk of loss on a position that could result from factors other than broad market movements and includes event risk, default risk and idiosyncratic risk. The specific risk add-on is applicable for both securitization positions and for certain non-securitized debt and equity positions, to supplement the model-based measures.
- **Stressed VaR (SVaR).** The potential loss in value of inventory positions during a period of significant market stress. SVaR is calculated at a 99% confidence level over a 10-day horizon using market data inputs from a continuous 12-month period of stress.
- **Stress Testing.** Stress testing is a method of determining the effect on the firm of various hypothetical stress scenarios.
- **Value-at-Risk (VaR).** The potential loss in value of inventory positions, as well as certain other financial assets and financial liabilities, due to adverse market movements over a defined time horizon with a specified confidence level. Risk management VaR is calculated at a 95% confidence level over a one-day horizon.

## Regulatory Capital Disclosures

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As of December 2013

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