

The Goldman Sachs Group, Inc.

# Regulatory Capital Disclosures

For the period ended March 31, 2014

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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 which are computed in accordance with the applicable risk-based capital regulations of the Federal Reserve Board.

As of and for the period ended March 2014, the firm was subject to the Revised Capital Framework described below.

Information below as of December 2013, is in accordance with the Federal Reserve Board’s regulations applicable at that date, which were based on the Basel I Capital Accord of the Basel Committee (Basel I), inclusive of the revised market risk regulatory capital requirements, which became effective on January 1, 2013.

These capital requirements are expressed as capital ratios that compare measures of capital to risk-weighted assets (RWAs). 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.

### Revised Capital Framework

During 2013, the U.S. federal bank regulatory agencies (Agencies) approved revised risk-based capital and leverage ratio regulations establishing a new comprehensive capital framework for U.S. banking organizations (Revised Capital Framework), which became effective for the firm beginning January 1, 2014. These regulations are largely based on the Basel Committee’s December 2010 final capital framework for strengthening international capital standards (Basel III) and also 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 the firm, 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), as well as changes to the definition of Tier 1 capital.

Certain aspects of the revised requirements phase in over time (transitional provisions). These include, but are not limited to, increases in the minimum capital ratio requirements and the introduction of new capital buffers and certain deductions from CET1 (such as investments in nonconsolidated financial institutions). In addition, junior subordinated debt issued to trusts is being phased out of regulatory capital.

**Definition of Risk-Weighted Assets.** RWAs are calculated based on measures of credit risk and market risk in accordance with the Federal Reserve Board’s risk-based capital regulations:

- As of March 2014, RWAs are calculated under the “Basel I Adjusted” approach. This approach is based on Basel I and the revised market risk capital requirements, adjusted for certain items related to capital deductions under the previous framework and for the phase-in of new capital deductions. Certain amounts not required to be deducted from CET1 are either deducted from Tier 1 capital or are risk weighted.
- As of December 2013, RWAs are calculated under Basel I inclusive of the revised market risk regulatory capital requirements.

## Regulatory Capital Disclosures

See Note 20. Regulation and Capital Adequacy in Part I, Item 1 “Financial Statements” in our Quarterly Report on Form 10-Q for additional information regarding the Revised Capital Framework, including the firm’s regulatory capital requirements and ratios as of March 2014 and the transitional arrangements related to new deductions from CET1. Also see “Regulation” in Part I, Item 1 “Business” in our 2013 Form 10-K and see “Regulatory Reform” below for additional information about our regulatory requirements, including pending and proposed regulatory changes.

The purpose of these disclosures is to provide information, as of March 2014, 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 Quarterly Report on Form 10-Q. References to our “Quarterly Report on Form 10-Q” are to our Quarterly Report on Form 10-Q for the quarter ended March 31, 2014 and references to our “2013 Form 10-K” are to our Annual Report on Form 10-K for the year ended December 31, 2013. All references to March 2014 and December 2013 refer to the periods ended, or the dates, March 31, 2014 and December 31, 2013, 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 Quarterly Report on Form 10-Q, 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 and previous Regulatory Capital Disclosure documents 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 condensed 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 condensed consolidated statements of earnings and, therefore, in 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 or 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 I, Item 2 "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Quarterly Report on Form 10-Q.

**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 12 CFR 217.203(c)(1).

2. See definition of "Trading position" in 12 CFR 217.202.

## Consolidated Regulatory Capital Ratios

The table below presents information about our regulatory capital ratios and Tier 1 leverage ratio as of March 2014.

**Table 1: Regulatory Capital Ratios**

<i>\$ in millions</i>	<b>As of March 2014</b>
Common Equity Tier 1	\$ 67,415
Tier 1 Capital	\$ 75,408
Tier 2 Capital	\$ 13,893
Total Capital	\$ 89,301
Risk-Weighted Assets	\$ 462,323
<b>CET1 Ratio</b>	<b>14.6 %</b>
<b>Tier 1 Capital Ratio</b>	<b>16.3 %</b>
<b>Total Capital Ratio</b>	<b>19.3 %</b>
Total Average Adjusted Assets <sup>1</sup>	\$ 923,071
<b>Tier 1 Leverage Ratio</b>	<b>8.2 %</b>

1. Total average assets of \$928 billion net of adjustments of \$5 billion

The CET1 ratio is defined as CET1 divided by RWAs, 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.

The table below presents the minimum capital ratios currently applicable under the Revised Capital Framework.

**Table 2: Minimum Regulatory Capital Ratios**

	<b>As of March 2014</b>
CET1 ratio	<b>4.0 %</b>
Tier 1 capital ratio	<b>5.5 %</b>
Total capital ratio	<b>8.0 %</b>
Tier 1 leverage ratio <sup>1</sup>	<b>4.0 %</b>

1. 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 certain investments in nonconsolidated financial institutions).

The minimum CET1, Tier 1 capital and Total capital ratios that the firm is required to meet will increase in the future as new requirements phase in over time and as regulators finalize additional capital buffers.

Additionally, in order to meet the quantitative requirements for being “well-capitalized” under the Federal Reserve Board rules, bank holding companies must meet a required minimum Tier 1 capital ratio of 6.0% and Total capital ratio of 10.0%. Bank holding companies may be expected to maintain ratios well above these minimum levels, depending on their particular condition, risk profile and growth plans.

## Regulatory Capital

For regulatory purposes, our Total capital base is comprised of three main categories, namely CET1 capital, Tier 1 capital and Tier 2 capital as follows:

- CET1 capital is comprised of common shareholders’ equity, after deductions for various items including goodwill and identifiable intangible assets, net of associated deferred tax liabilities, investments in nonconsolidated financial institutions, and after other adjustments described below, including those related to accumulated other comprehensive loss;
- Tier 1 capital is comprised of CET1 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 (which will be also phased out of Tier 2 capital in the future), 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.

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.

## Regulatory Capital Disclosures

The table below presents information on the components of our regulatory capital structure as of March 2014.

**Table 3: Capital Structure**

<i>in millions</i>	<b>As of March 2014</b>
Common stock	\$ 8
Restricted stock units and employee stock options	3,572
Additional paid-in capital	49,959
Retained earnings	73,646
Accumulated other comprehensive loss	(560)
Stock held in treasury, at cost	(54,726)
<b>Common shareholders' equity</b>	<b>\$ 71,899</b>
Deductions for goodwill and identifiable intangible assets, net of deferred tax liabilities	(2,953)
Deductions for investments in nonconsolidated financial institutions	(1,818)
Other adjustments	287
<b>Common Equity Tier 1</b>	<b>\$ 67,415</b>
Perpetual non-cumulative preferred stock	7,200
Junior subordinated debt issued to trusts	1,375
Other adjustments	(582)
<b>Tier 1 capital</b>	<b>\$ 75,408</b>
Qualifying subordinated debt	12,321
Junior subordinated debt issued to trusts	1,375
Other adjustments	197
<b>Tier 2 capital</b>	<b>\$ 13,893</b>
<b>Total capital</b>	<b>\$ 89,301</b>

In the table above:

- The deduction for goodwill and identifiable intangible assets, net of deferred tax liabilities represents goodwill of \$3.71 billion and identifiable intangible assets of \$156 million (20% of \$780 million) net of associated deferred tax liabilities of \$909 million. The remainder of the deduction of identifiable intangible assets will be phased in at a rate of 20% per year from 2015 to 2018. Identifiable intangible assets that are not deducted during the transitional period are risk weighted.
- The deduction for investments in nonconsolidated financial institutions represents the amount by which our investments in the capital of nonconsolidated financial institutions exceed certain prescribed thresholds. As of March 2014, 20% of the deduction was reflected (calculated based on transitional thresholds). The remainder of this deduction will be phased in at a rate of 20% per year from 2015 to 2018. The balance that is not deducted during the transitional period is risk weighted.

- Other adjustments within CET1 primarily include accumulated other comprehensive loss, the overfunded portion of our defined benefit pension plan obligation, net of associated deferred tax liabilities and disallowed deferred tax assets. As of March 2014, 20% of the overfunded portion of our defined benefit pension plan obligation, net of associated deferred tax liabilities, and disallowed deferred tax assets were included in CET1 and 80% of the deductions were included in other adjustments within Tier 1 capital. Most of the deductions that were included in other adjustments within Tier 1 capital will be phased into CET1 at a rate of 20% per year from 2015 to 2018.
- Junior subordinated debt issued to trusts is reflected in both Tier 1 capital (50%) and Tier 2 capital (50%) and it will be fully phased out of Tier 1 capital by 2016, and then also from Tier 2 capital by 2022. See Note 16. Long-Term Borrowings in Part I, Item 1 "Financial Statements" in our Quarterly Report on Form 10-Q for additional information about our junior subordinated debt issued to trusts.
- 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. See Note 16. Long-Term Borrowings in Part I, Item 1 "Financial Statements" in our Quarterly Report on Form 10-Q for additional information about our subordinated debt.

## Regulatory Capital Disclosures

The table below presents the changes in CET1, Tier 1 capital and Tier 2 capital for the period ended March 2014.

**Table 4: Capital Rollforward**

<i>in millions</i>	<b>Period Ended March 2014</b>
<b>Common Equity Tier 1</b>	
Balance, December 31, 2013	\$ 63,248
Change in restricted stock units and employee stock options	(267)
Change in additional paid-in capital	961
Net earnings	2,033
Dividends and dividend-equivalents declared	(348)
Change in accumulated other comprehensive loss	(36)
Common stock repurchases	(1,719)
Common stock reissued and other	8
<b>Increase in common shareholders' equity</b>	<b>632</b>
Change in CET1 related to the transition to the Revised Capital Framework	3,656
Change in deduction for goodwill and identifiable intangible assets, net of deferred tax liabilities	(22)
Change in deductions for investments in nonconsolidated financial institutions	(26)
Change in other adjustments	(73)
Balance, March 31, 2014	\$ 67,415
<b>Tier 1 capital</b>	
Balance, December 31, 2013	\$ 72,471
Change in CET1 related to the transition to the Revised Capital Framework	3,656
Change in Tier 1 capital related to the transition to the Revised Capital Framework	(219)
Other net increase in Common Equity Tier 1	511
Redesignation of junior subordinated debt issued to trusts	(688)
Change in other adjustments	(323)
Balance, March 31, 2014	\$ 75,408
<b>Tier 2 capital</b>	
Balance, December 31, 2013	\$ 13,632
Change in Tier 2 capital related to the transition to the Revised Capital Framework	(2)
Decrease in qualifying subordinated debt	(452)
Redesignation of junior subordinated debt issued to trusts	688
Change in other adjustments	27
Balance, March 31, 2014	\$ 13,893
<b>Total capital</b>	<b>\$ 89,301</b>

The change in CET1 related to the transition to the Revised Capital Framework is principally related to the change in treatment of equity investments in certain nonconsolidated entities. Under Basel I, such investments were treated as deductions. However, during the transition to the Revised Capital Framework, only a portion of such investments that exceed certain prescribed thresholds are treated as deductions from CET1 and the remainder are risk weighted.

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

The table below presents the components of Basel I Adjusted RWAs as of March 2014.

**Table 5: Risk-Weighted Assets**

<i>in millions</i>	<b>As of March 2014</b>
<b>Credit RWAs</b>	
Derivatives	\$ 93,268
Commitments, guarantees and loans	83,128
Securities financing transactions <sup>1</sup>	35,061
Equity Investments	27,405
Other <sup>2</sup>	69,240
<b>Total Credit RWAs</b>	<b>\$ 308,102</b>
<b>Market RWAs</b>	
Regulatory VaR	\$ 12,075
Stressed VaR	27,188
Incremental risk	14,038
Comprehensive risk	13,833
Specific risk	87,087
<b>Total Market RWAs</b>	<b>\$ 154,221</b>
<b>Total RWAs<sup>3</sup></b>	<b>\$ 462,323</b>

1. Represents resale and repurchase agreements and securities borrowed and loaned transactions.
2. Principally includes receivables, other assets, and cash and cash equivalents.
3. Under the Basel I Adjusted approach, there is no explicit requirement for Operational risk.

## Regulatory Capital Disclosures

The table below presents the changes in RWAs for the period ended March 2014.

**Table 6: Risk-Weighted Assets Rollforward**

<i>in millions</i>	<b>Period Ended March 2014</b>
<b>RWAs Balance, December 31, 2013</b>	<b>\$ 433,226</b>
<b>Credit RWAs</b>	
Change related to the transition to the Revised Capital Framework	26,669
Other changes:	
Decrease in derivatives	(1,485)
Increase in commitments, guarantees and loans	4,131
Increase in securities financing transactions	5,051
Decrease in equity investments	(695)
Increase in other	6,184
<b>Change in Credit RWAs</b>	<b>\$ 39,855</b>
<b>Market RWAs</b>	
Decrease in regulatory VaR	(1,350)
Decrease in stressed VaR	(11,062)
Increase in incremental risk	4,575
Decrease in comprehensive risk	(4,317)
Increase in specific risk	1,396
<b>Change in Market RWAs</b>	<b>\$ (10,758)</b>
<b>Total RWAs Balance, March 31, 2014</b>	<b>\$ 462,323</b>

Credit RWAs as of March 2014 increased \$39.86 billion compared with December 2013, primarily due to equity investments in certain nonconsolidated entities that are risk weighted under the Revised Capital Framework, and related transitional provisions. Market RWAs as of March 2014 decreased by \$10.76 billion compared with December 2013, reflecting a decrease in stressed VaR, primarily due to reduced fixed income and equities exposures.

**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 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 (and 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.

**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.

1. See "Requirements for internal models" in 12 CFR 217.203(c)(1).



## Regulatory Capital Disclosures

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 for period ended March 2014. 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 7: Regulatory VaR

<i>in millions</i>	As of	Three Months Ended		
	March 2014	March 2014		
	Group, Inc.	High	Low	Mean
<b>Regulatory VaR</b>	<b>\$ 322</b>			
<b>VaR x Multiplier</b>	<b>966</b> <sup>1</sup>			
<b>RWAs</b>	<b>\$ 12,075</b>			
	<b>As of</b>			
	<b>March 2014</b>			
<b>Group Inc.</b>	<b>\$ 322</b>	<b>\$ 358</b>	<b>\$ 322</b>	<b>\$ 343</b>
Interest rates	245	315	245	278
Equity prices	140	159	140	153
Currency rates	92	116	92	107
Commodity prices	104	104	85	96
<i>Diversification</i> <sup>2</sup>	(259)			(291)

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.

**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 for period ended March 2014. Average, per the revised market risk regulatory capital requirements, is determined based on the average weekly amount for the preceding 12 weeks.

Table 8: Stressed VaR

<i>in millions</i>	As of	Three Months Ended		
	March 2014	March 2014		
	Group, Inc.	High	Low	Mean
<b>SVaR</b>	<b>\$ 725</b>	<b>\$ 1,003</b>	<b>\$ 725</b>	<b>\$ 862</b>
<b>SVaR x Multiplier</b>	<b>2,175</b> <sup>1</sup>			
<b>RWAs</b>	<b>\$ 27,188</b>			

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

## Regulatory Capital Disclosures

**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 for period ended March 2014. Average, per the revised market risk regulatory capital requirements, is determined based on the average weekly amount over the preceding 12 weeks.

**Table 9: Incremental Risk**

<i>in millions</i>	As of	Three Months Ended		
	March 2014	March 2014		
	Group, Inc.	High	Low	Mean
<b>Incremental Risk</b>	\$ 1,123 <sup>1</sup>	\$ 1,301	\$ 1,000	\$ 1,160
<b>RWAs</b>	\$ 14,038			

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.

As of March 2014, we had credit correlation positions, subject to the Comprehensive risk measure, with a fair value of \$482 million in net assets and \$389 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 for the period ended March 2014. Average, per the revised market risk regulatory capital requirements, is determined based on the average weekly amount for the preceding 12 weeks.

**Table 10: Comprehensive Risk**

<i>in millions</i>	As of	Three Months Ended		
	March 2014	March 2014		
	Group, Inc.	High	Low	Mean
<b>Comprehensive Risk</b>	\$ 1,107 <sup>1,2</sup>	\$ 1,403	\$ 1,058	\$ 1,202
<b>RWAs</b>	\$ 13,833			

1. In order to convert the Comprehensive risk measure into RWAs, it is multiplied by 12.5.

2. These results include a surcharge of \$0.79 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 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**

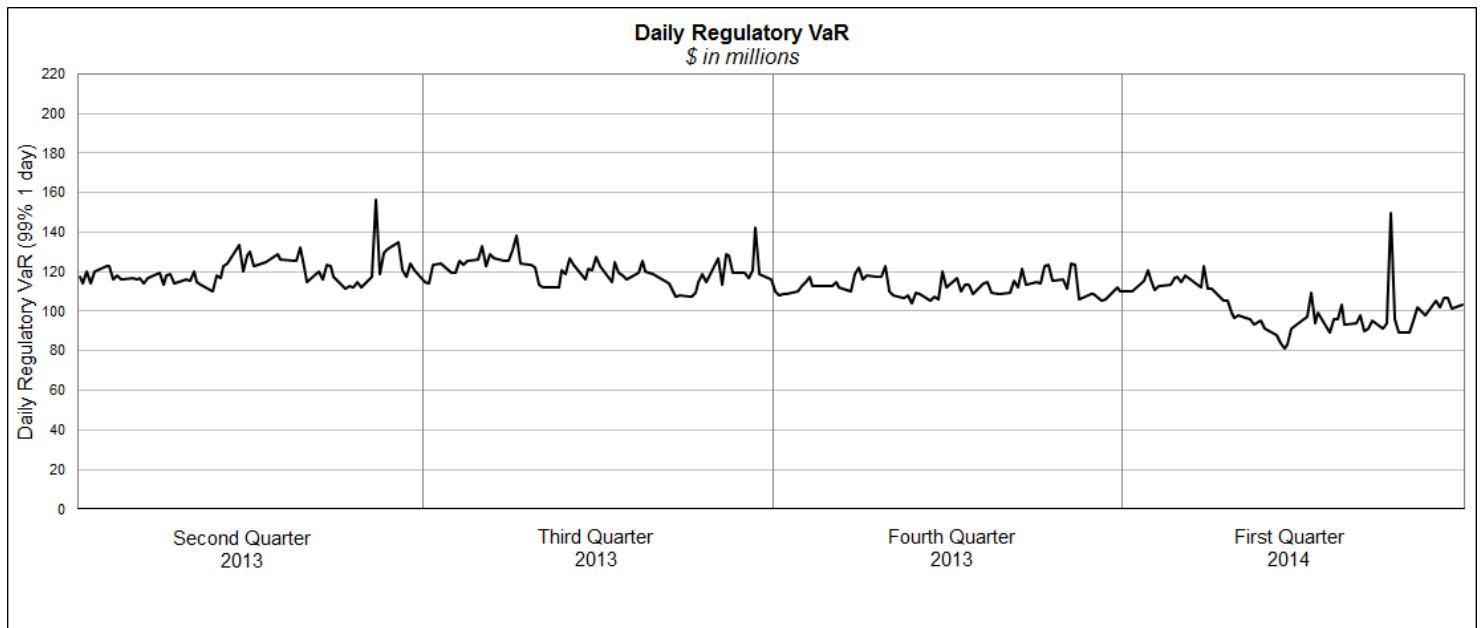
As required by the revised market risk regulatory capital requirements, we validate the accuracy of our Regulatory VaR models by backtesting the output of such models against the daily positional loss results. The actual number of exceptions (that is, the number of business days for which the positional 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 Quarterly Report on Form 10-Q.

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 11: 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 I, Item 2 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Quarterly Report on Form 10-Q.

### 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 tables below, which present 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 12: Specific Risk**

<i>in millions</i>	<b>As of March 2014</b>	
Securitization positions	\$	55,487
Other specific risk positions		31,600
<b>Total Specific Risk RWAs</b>	<b>\$</b>	<b>87,087</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 Quarterly Report on Form 10-Q.

**Table 13: Trading Book Securitizations**

<i>in millions</i>	<b>As of March 2014</b>	
	<b>Trading Book</b>	
	<b>Securitization Exposures</b>	
Residential mortgages	\$	4,679
Commercial mortgages		2,800
Corporate (CDO / CLO) <sup>1</sup>		2,684
Asset-backed and other		2,560
<b>Total Securitization Exposures<sup>2</sup></b>	<b>\$</b>	<b>12,723</b>

1. Reflects corporate collateralized debt and loan obligations.
2. Includes securities with a fair value of \$9.06 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 I, Item 2 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Quarterly Report on Form 10-Q.

**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 I, Item 1 “Financial Statements” in our Quarterly Report on Form 10-Q, 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 I, Item 2 "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Quarterly Report on Form 10-Q 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 I, Item 2 "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Quarterly Report on Form 10-Q. 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 I, Item 2 "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Quarterly Report on Form 10-Q). 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) rules, 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.

We principally manage the level and composition of our equity capital through issuances and repurchases of our common stock. We may also, from time to time, issue or repurchase our preferred stock, junior subordinated debt issued to trusts, and other subordinated debt or other forms of capital as business conditions warrant and subject to approval of the Federal Reserve Board. We manage our capital requirements and the levels of our capital usage principally by setting limits on balance sheet assets and/or limits on risk, in each case both at the consolidated and business levels. 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 I, Item 2 "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Quarterly Report on Form 10-Q.



## 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 and for further detail see “Regulatory Developments” in Part I, Item 2 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Quarterly Report on Form 10-Q.

### Risk-Weighted Assets

In February 2014, the Federal Reserve Board informed us that we completed a satisfactory “parallel run,” as required of Advanced approach banking organizations under the Revised Capital Framework, and therefore changes to the calculation of 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:

- During the remaining quarters of 2014 - the higher of RWAs computed under the Basel III Advanced approach or under Basel I Adjusted; 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.

### Transitional Capital Ratios

The following table presents our ratio of CET1 to RWAs calculated under the Basel III Advanced approach and the Standardized approach reflecting the transitional provisions that became effective January 1, 2014.

**Table 14: Basel III Advanced and Standardized Ratios**  
**Transitional basis**

<i>\$ in millions</i>	<b>As of March 2014</b>
<b>Common shareholders' equity</b>	<b>\$71,899</b>
Deductions for goodwill and identifiable intangible assets, net of deferred tax liabilities	(2,953)
Deductions for investments in nonconsolidated financial institutions	(1,818)
Other adjustments	287
<b>CET1</b>	<b>\$67,415</b>
<b>Basel III Advanced RWAs</b>	<b>\$595,319</b>
<b>Basel III Advanced CET1 ratio</b>	<b>11.3%</b>
<b>Standardized RWAs</b>	<b>\$620,603</b>
<b>Standardized CET1 ratio</b>	<b>10.9%</b>

We believe that the ratios in the above table are meaningful because they are measures that we, our regulators and investors use to assess capital adequacy. The Standardized CET1 transitional ratio as of March 2014 is a non-GAAP measure and may not be comparable to similar non-GAAP measures used by other companies (as of that date). The Basel III Advanced CET1 transitional ratio became a formal regulatory measure for the firm on April 1, 2014.

In the table above:

- The deduction for goodwill and identifiable intangible assets, net of deferred tax liabilities represents goodwill of \$3.71 billion and identifiable intangible assets of \$156 million (20% of \$780 million), net of associated deferred tax liabilities of \$909 million. The remainder of the deduction of identifiable intangible assets will be phased in at a rate of 20% per year from 2015 to 2018. Identifiable intangible assets that are not deducted during the transitional period are risk weighted.

## Regulatory Capital Disclosures

- The deduction for investments in nonconsolidated financial institutions represents the amount by which our investments in the capital of nonconsolidated financial institutions exceed certain prescribed thresholds. As of March 2014, 20% of the deduction was reflected (calculated based on transitional thresholds). The remainder of this deduction will be phased in at a rate of 20% per year from 2015 to 2018. The balance that is not deducted during the transitional period is risk weighted.
- Other adjustments primarily include accumulated other comprehensive loss, the overfunded portion of our defined benefit pension plan obligation, net of associated deferred tax liabilities and disallowed deferred tax assets. As of March 2014, 20% of the overfunded portion of our defined benefit pension plan obligation, net of associated deferred tax liabilities, and disallowed deferred tax assets were included in CET1. The remainder of these deductions will be phased into CET1 at a rate of 20% per year from 2015 to 2018.

These ratios are based on our current interpretation, expectations and understanding of the Revised Capital Framework and may evolve as we discuss its interpretation and application with our regulators.

### Fully Phased-in Capital Ratios

The following table presents our ratio of CET1 to RWAs calculated under the Basel III Advanced approach and the Standardized approach on a fully phased-in basis.

**Table 15: Basel III Advanced and Standardized Ratios Fully phased-in basis**

<i>\$ in millions</i>	<b>As of March 2014</b>
<b>Common shareholders' equity</b>	<b>\$71,899</b>
Deductions for goodwill and identifiable intangible assets, net of deferred tax liabilities	(3,577)
Deductions for investments in nonconsolidated financial institutions	(9,278)
Other adjustments	(972)
<b>CET1</b>	<b>\$58,072</b>
<b>Basel III Advanced RWAs</b>	<b>\$597,406</b>
<b>Basel III Advanced CET1 ratio</b>	<b>9.7%</b>
<b>Standardized RWAs</b>	<b>\$624,188</b>
<b>Standardized CET1 ratio</b>	<b>9.3%</b>

We believe that the ratios in the above table are meaningful because they are measures that we, our regulators and investors use to assess capital adequacy. The fully phased-in Basel III Advanced CET1 ratio and Standardized CET1 ratio are non-GAAP measures as of March 2014 and may not be comparable

to similar non-GAAP measures used by other companies (as of that date).

In the table above:

- The deduction for goodwill and identifiable intangible assets, net of deferred tax liabilities represents goodwill of \$3.71 billion and identifiable intangible assets of \$780 million net of associated deferred tax liabilities of \$909 million.
- The deduction for investments in nonconsolidated financial institutions represents the amount by which our investments in the capital of nonconsolidated financial institutions exceed certain prescribed thresholds.
- Other adjustments primarily include the overfunded portion of our defined benefit pension plan obligation, net of associated deferred tax liabilities, and disallowed deferred tax assets, credit valuation adjustments on derivative liabilities and debt valuation adjustments, as well as other required credit risk-based deductions.

These estimated ratios are based on our current interpretation, expectations and understanding of the Revised Capital Framework and may evolve as we discuss its interpretation and application with our regulators.

### Minimum Capital Ratios and Capital Buffers

The table below presents the minimum capital ratios currently applicable under the Revised Capital Framework.

**Table 16: Minimum Regulatory Capital Ratios**

	<b>As of March 2014</b>
CET1 ratio	<b>4.0 %</b>
Tier 1 capital ratio	<b>5.5 %</b>
Total capital ratio	<b>8.0 %</b>
Tier 1 leverage ratio <sup>1</sup>	<b>4.0 %</b>

1. 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 certain investments in nonconsolidated financial institutions).

Under the Revised Capital Framework, on January 1, 2015 the minimum CET1 ratio will increase from 4.0% to 4.5% and the minimum Tier 1 capital ratio will increase from 5.5% to 6.0%. In addition, 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.

These buffers may be supplemented in the future by an additional amount required for Global Systemically Important Banks (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.

### Supplementary Leverage Ratio

The Revised Capital Framework will introduce a new supplementary leverage ratio for Advanced approach banking organizations. The supplementary leverage ratio compares Tier 1 capital to a measure of leverage exposure, defined as the sum of our assets less certain 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 5.0% (comprised of the minimum requirement of 3.0% plus a 2.0% buffer) for U.S. banks deemed to be G-SIBs, effective January 1, 2018, but with disclosure required beginning in the first quarter of 2015. As of March 2014, our supplementary leverage ratio based upon the Revised Capital Framework was approximately 5%.

In April 2014, the Agencies proposed to further revise the definition of leverage exposure measure (April 2014 proposal) in order to more closely align it to the updated definition of leverage established by the Basel Committee in January 2014. As of March 2014, our supplementary leverage ratio (reflecting the April 2014 proposal) on a fully phased-in basis was 4.2%, including Tier 1 capital on a fully phased-in basis of approximately \$64.88 billion (CET1 of \$58.07 billion plus perpetual non-cumulative preferred stock of \$7.20 billion less other adjustments of \$395 million) divided by total leverage exposure of \$1.56 trillion (total average assets of \$928 billion plus adjustments of \$628 billion, primarily comprised of off-balance sheet exposure related to derivatives, commitments and guarantees).

Our supplementary leverage ratio (reflecting the April 2014 proposal), including the capital impact of reducing the firm's fund investments to comply with the Volcker Rule, was 4.7% as of March 2014, including Tier 1 capital of \$74.52 billion (Tier 1 capital on a fully phased-in basis of \$64.88 billion adjusted for the estimated capital impact of reducing fund investments to comply with the Volcker rule of \$9.64 billion) divided by total leverage exposure of \$1.57 trillion (total average assets of \$928 billion plus adjustments of \$637 billion, primarily comprised of off-balance sheet exposure related to derivatives, commitments and guarantees and an estimated adjustment for the impact of reducing fund investments to comply with the Volcker Rule).

We believe that the supplementary leverage ratios are meaningful because they are measures that we, our regulators and investors use to assess capital adequacy. The supplementary leverage ratios are non-GAAP measures and may not be comparable to similar non-GAAP measures used by other companies. For further detail on the supplementary leverage ratio see "Regulatory Developments" in Part I, Item 2 "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Quarterly Report on Form 10-Q.

These estimated supplementary leverage ratios are based on our current interpretation, expectations and understanding of the April 2014 proposal and may evolve as we discuss its interpretation and application with our regulators.

**Other Developments**

The Basel Committee has recently issued several updates and consultative papers which propose further changes to capital regulations. In particular, it has finalized a revised standard approach for calculating RWAs for counterparty credit risk on derivatives exposures (“Standardized Approach for measuring Counterparty Credit Risk exposures,” known as “SA-CCR”). In addition, it has published guidelines for measuring and controlling large exposures (“Supervisory Framework for measuring and controlling Large Exposures”). The Basel Committee has also issued consultation papers on a “Fundamental Review of the Trading Book” and “Revisions to the Securitization Framework.” The impact of all of these developments on the firm (including RWAs and regulatory capital ratios) will not be known with certainty until after any resulting rules are finalized by the Agencies.

The Dodd-Frank Act along with 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 regulatory requirements, including pending and proposed regulatory changes see: (i) “Regulation” in Part I, Item 1 “Business” in our 2013 Form 10-K; (ii) “Regulatory Developments” in Part I, Item 2 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Quarterly Report on Form 10-Q; (iii) “Equity Capital” in Part I, Item 2 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Quarterly Report on Form 10-Q; and (iv) Note 20. Regulation and Capital Adequacy in Part I, Item 1 “Financial Statements” in our Quarterly Report on Form 10-Q.

## 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 capital ratios, including the estimated CET1 ratio under the Basel III Advanced approach on a fully phased-in basis and estimated CET1 ratios under the Standardized approach on a fully phased-in and transitional basis, and estimated supplementary leverage ratios. The

statements with respect to these estimated ratios are forward-looking statements, based on our current interpretation, expectations and understanding of the relevant regulatory rules and guidance, and reflect significant assumptions concerning the treatment of various assets and liabilities and the manner in which the ratios are calculated. As a result, the methods used to calculate these ratios may differ, possibly materially, from those used in calculating the ratios 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 implementation guidance or further rulemaking 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 “Risk Factors” of our 2013 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 March 2014

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