

The Goldman Sachs Group, Inc.

Regulatory Capital Disclosures

For the quarterly period ended June 30, 2013

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 regulatory capital requirements that are computed in accordance with the Federal Reserve Board's risk-based capital regulations. The regulations are based on the “Basel 1” Capital Accord of the Basel Committee on Banking Supervision (Basel Committee) as amended by the Federal Reserve Board's: “Risk-Based Capital Guidelines: Market Risk”, effective January 1, 2013 (the “revised market risk regulatory capital requirements”).

The purpose of these disclosures is to provide information 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 and our most recent Annual Report on Form 10-K. References to “Quarterly Report on Form 10-Q” are to our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2013 and references to “Annual Report on Form 10-K” are to our Annual Report on Form 10-K for the year ended December 31, 2012. All references to June 2013 refer to our period ended, or the date, June 30, 2013, 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 or 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.

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 Risk-Weighted Assets (RWAs), and a leverage ratio, 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 must obtain the prior written approval of its regulators before using any internal model to calculate its risk-based capital requirement¹.

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 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 "Management's Discussion and Analysis of

Financial Condition and Results of Operations – Critical Accounting Policies – Fair Value" in Part I, Item 2 of 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".² 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, 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 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".² In accordance with the Federal Reserve Board's revised rules, trading book positions are generally considered "covered" positions and are subject to market risk regulatory capital requirements. Foreign exchange and commodity positions are considered covered positions, whether or not they meet the other criteria for classification as trading book positions. Market risk is the risk of loss in the value of our inventory due to changes in market prices. 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, which are based on Basel 1 reflecting the revised market risk regulatory capital requirements, as implemented by the Federal Reserve Board, as well as our Tier 1 leverage ratio.

Table 1: Regulatory Capital Ratios

<i>\$ in millions</i>	As of June 2013
Tier 1 Common Capital	\$ 61,903
Tier 1 Capital	\$ 71,141
Tier 2 Capital	\$ 13,339
Total Capital	\$ 84,480
Risk-Weighted Assets	\$ 457,461
Tier 1 Common Ratio	13.5 %
Tier 1 Capital Ratio	15.6 %
Total Capital Ratio	18.5 %
Average Adjusted Assets	\$ 930,507
Tier 1 Leverage Ratio	7.6 %

The revised market risk regulatory capital requirements became effective on January 1, 2013, replacing earlier capital requirements for trading book positions. These revised requirements introduced a new methodology for determining RWAs for market risk and are designed to implement the new market risk framework of the Basel Committee, as well as 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 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. Federal Reserve Board regulations require 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 be considered 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 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 leverage ratio is defined as Tier 1 capital divided by average adjusted total assets (which includes adjustments for goodwill and intangible assets, and the carrying value of equity investments in non-financial companies that are subject to deductions from Tier 1 capital). The minimum Tier 1 leverage ratio is currently 3% for bank holding companies that have received the highest supervisory rating under Federal Reserve Board guidelines or that have implemented the Federal Reserve Board’s risk-based capital measure for market risk. Other bank holding companies must have a minimum Tier 1 leverage ratio of 4%. In January 2014 this minimum will be raised to 4% for all bank holding companies.

In July 2013, the Federal Reserve Board implemented new capital rules (Basel 3) which are largely based on the guidelines issued by the Basel Committee in December 2010 and address other aspects of the Dodd-Frank Act. The revised market risk regulatory capital requirements referenced above are also a significant part of these rules and will ultimately be reflected in our Basel 3 capital ratios. For additional information on Basel 3, 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 Basel 3) and other adjustments; and
- Total capital is comprised of Tier 1 capital plus Tier 2 capital. Tier 2 capital includes qualifying subordinated debt, redesignated junior subordinated debt issued to trusts, allowance for loan and lease losses (limited to 1.25% of RWAs) 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 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, which are based on Basel 1, as implemented by the Federal Reserve Board. In the table below:

- Equity investments in certain entities primarily represent a portion of our equity investments in non-financial companies.
- 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. See Note 16. Long-Term Borrowings, to the condensed consolidated financial statements in Part I, Item 1 of our Quarterly Report on Form 10-Q for additional information about the subordinated debt.

Table 2: Capital Structure

<i>in millions</i>	As of June 2013
Common stock	\$ 8
Restricted stock units and employee stock options	3,822
Additional paid-in capital	48,762
Retained earnings	68,783
Accumulated other comprehensive loss	(583)
Stock held in treasury, at cost	(49,949)
Common Shareholders' Equity	\$ 70,843
Less: Goodwill	(3,699)
Less: Intangible assets	(795)
Less: Equity investments in certain entities	(3,787)
Less: Disallowed deferred tax assets	(715)
Less: Debt valuation adjustment	(156)
Other adjustments	212
Tier 1 Common Capital	\$ 61,903
Perpetual non-cumulative preferred stock	7,200
Junior subordinated debt issued to trusts ¹	2,063
Other adjustments	(25)
Tier 1 Capital	\$ 71,141
Qualifying subordinated debt	12,573
Junior subordinated debt issued to trusts ¹	687
Other adjustments	79
Tier 2 Capital	\$ 13,339
Total Capital	\$ 84,480

1. Beginning 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. We have assumed a phase-out period allowing for only 75% of the capital instrument to be included in Tier 1 capital in calendar year 2013. The Basel 3 rules require that junior subordinated debt issued to trusts be phased-out of Tier 1 capital through December 31, 2015, after which it will be phased out of Tier 2 capital through December 31, 2021. See Note 16. Long-Term Borrowings to the condensed consolidated financial statements in Part I, Item 1 of our Quarterly Report on Form 10-Q 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 for the three months ended June 2013.

Table 3: Capital Rollforward

<i>in millions</i>	Three Months Ended June 2013
Tier 1 Common Capital	
Balance, beginning of period	\$ 61,135
Increase in restricted stock units and employee stock options	143
Increase in additional paid-in capital	30
Net earnings	1,931
Dividends and dividend-equivalents declared	(312)
Increase in accumulated other comprehensive loss	(375)
Common stock repurchases	(1,600)
Common stock reissued and other	(2)
Change in common shareholders' equity	(185)
Decrease in goodwill	3
Decrease in intangible assets	186
Decrease in equity investments in certain entities	172
Decrease in disallowed deferred tax assets	287
Increase in debt valuation adjustment	(41)
Change in other adjustments	346
Change in deductions for disallowed items	953
Balance, end of period	\$ 61,903
Tier 1 Capital	
Balance, beginning of period	\$ 69,371
Net increase in Tier 1 common capital	768
Increase in perpetual non-cumulative preferred stock	1,000
Change in other adjustments	2
Balance, end of period	\$ 71,141
Tier 2 Capital	
Balance, beginning of period	\$ 13,445
Decrease in qualifying subordinated debt	(148)
Change in other adjustments	42
Balance, end of period	\$ 13,339
Total Capital	\$ 84,480

Risk-Weighted Assets

Overview

RWAs under the Federal Reserve Board's existing 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 are based on Basel 1, as implemented by the Federal Reserve Board, reflecting the revised market risk regulatory capital requirements.

Table 4: Risk-Weighted Assets

<i>in millions</i>	As of June 2013
Credit RWAs	
OTC derivatives	\$ 93,655
Commitments and guarantees ¹	43,087
Securities financing transactions ²	48,139
Other ³	88,664
Total Credit RWAs	\$ 273,545
Market RWAs	
Regulatory VaR	\$ 14,325
Stressed VaR	39,150
Incremental risk	19,413
Comprehensive risk	20,813
Specific risk	90,215
Total Market RWAs	\$ 183,916
Total RWAs⁴	\$ 457,461

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, other assets, and cash and cash equivalents.
4. Under the existing regulatory capital framework, there is no explicit requirement for Operational Risk.

The table below presents the changes in RWAs for the three months ended June 2013.

Table 5: Risk-Weighted Assets Rollforward

<i>in millions</i>	Three Months Ended June 2013
RWAs Balance, beginning of period	\$ 480,080
Credit RWAs	
Decrease in OTC derivatives	(248)
Increase in commitments and guarantees	2,020
Increase in securities financing transactions	10,085
Decrease in other ¹	(11,127)
Change in Credit RWAs	\$ 730
Market RWAs	
Increase in regulatory VaR	1,725
Decrease in stressed VaR	(4,725)
Decrease in incremental risk	(3,975)
Decrease in comprehensive risk	(1,887)
Decrease in specific risk	(14,487)
Change in Market RWAs	\$ (23,349)
Total RWAs Balance, end of period	\$ 457,461

1. Reflects the sale of a majority stake in our Americas reinsurance business. See Note 12. Other Assets, to the condensed consolidated financial statements in Part I, Item 1 of our Quarterly Report on Form 10-Q for additional information about the transaction.

Credit RWAs increased \$730 million compared with March 2013, reflecting an increase in securities financing exposure and an increase in commitments and guarantees, partially offset by a decrease in other credit RWAs, reflecting the sale of a majority stake in our Americas reinsurance business. Market RWAs decreased by \$23.35 billion compared with March 2013, primarily reflecting a decrease in specific risk. The decrease in specific risk includes a decrease in inventory positions.

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 must obtain the prior written approval of its regulators before using any internal model to calculate its risk-based capital requirement¹.

RWAs for market risk are computed using the following internal models: Value-at-Risk (VaR), Stressed VaR (SVaR), Incremental risk and Comprehensive risk (the RWAs for Comprehensive risk also include 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 due to adverse market movements over a defined time horizon with a specified confidence level. We use a single VaR model for risk management (positions subject to VaR limits) and for regulatory capital purposes (covered positions). Regulatory VaR will differ from risk management VaR, due to different time horizons (10-day vs. one-day), confidence levels (99% vs. 95%) and 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 electricity, natural gas, crude oil, petroleum products, 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.

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

The table below presents by risk category our period-end, high, low and mean of the average daily Regulatory VaR. Average, as 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 June 2013			
	Regulatory VaR	VaR x Multiplier	RWAs	
Group Inc.	\$ 382	\$ 1,146 ¹	\$ 14,325	
	Three Months Ended June 2013			
	As of June 2013	High	Low	Mean
Group Inc.	\$ 382	\$ 382	\$ 336	\$ 358
Interest rates	349	350	330	339
Equity prices	124	129	117	124
Currency rates	174	174	130	152
Commodity prices	94	98	91	94
<i>Diversification</i>	(359)			(351)

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.

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, as 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 June 2013			
	SVaR	SVaR x Multiplier	RWAs	
Group Inc.	\$ 1,044	\$ 3,132 ¹	\$ 39,150	
	Three Months Ended June 2013			
	As of June 2013	High	Low	Mean
Group Inc.	\$ 1,044	\$ 1,185	\$ 1,044	\$ 1,117

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, as 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 June 2013			
	Incremental risk	RWAs		
Group Inc.	\$ 1,553 ¹	\$ 19,413		
	Three Months Ended June 2013			
	As of June 2013	High	Low	Mean
Group Inc.	\$ 1,553	\$ 1,984	\$ 1,553	\$ 1,779

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).

Regulatory Capital Disclosures

As required by the revised market risk regulatory capital requirements, Comprehensive risk RWAs are comprised of a model-based measure and a surcharge based on the standardized measurement method. The modeled 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 June 2013, we had credit correlation positions, subject to the comprehensive risk measure, with a fair value of \$535 million in net assets and \$418 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, as 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 June 2013	
	Comprehensive risk	RWAs
Group Inc.	\$ 1,665 ^{1,2}	\$20,813

	As of June 2013	Three Months Ended June 2013		
		High	Low	Mean
Group Inc.	\$ 1,665	\$2,044	\$1,632	\$1,708

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

2. These results include a surcharge of \$1.02 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

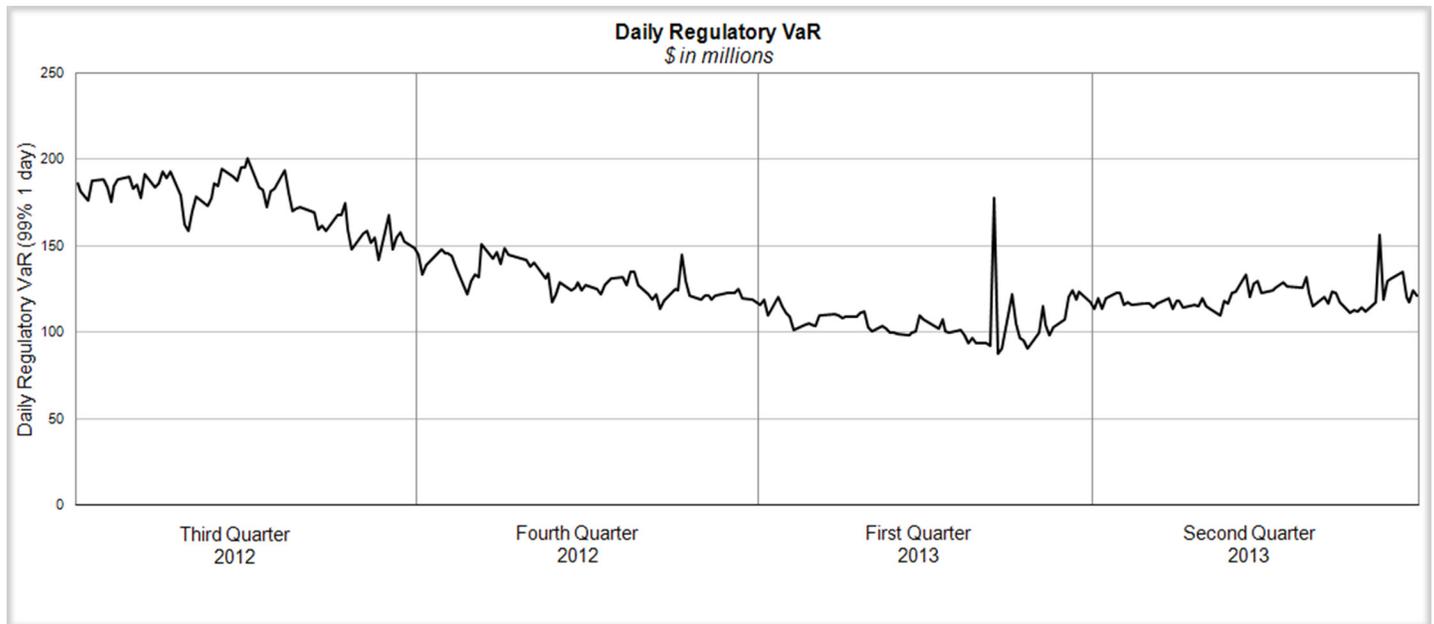
As required by the revised market risk regulatory capital requirements, we validate the accuracy of our Regulatory VaR models by backtesting the output of such models against the daily positional loss results. The actual number of exceptions (that is, the number of business days for which the positional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

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 “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Market Risk Management – Stress Testing” in Part I, Item 2 of 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 U.S. federal bank regulatory agencies (Agencies) to remove references to credit ratings from regulations and replace credit ratings with appropriate alternatives. 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 below.

Table 11: Specific Risk RWAs

<i>in millions</i>	As of June 2013
Securitization positions	\$ 62,822
Other specific risk	27,393
Total Specific Risk RWAs	\$ 90,215

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; 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 of 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 following table presents our aggregate on-balance sheet and off-balance sheet trading book securitization exposures (excluding credit correlation positions) 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 12: Trading Book Securitizations

<i>in millions</i>	As of June 2013
	Trading Book
	Securitization Exposures
Residential mortgages	\$ 5,130
Commercial mortgages	3,818
Corporate (CDO/ CLO) ¹	6,336
Asset-backed and other	3,249
Total Securitization Exposures²	\$ 18,533

1. Reflects corporate collateralized debt and loan obligations.

2. Includes securities with a fair value of \$9.86 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 “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Market Risk Management” and “- Credit Risk Management” in Part I, Item 2 of our Quarterly Report on Form 10-Q.

Other Specific Risk. The standard specific risk add-on for debt positions ranges from 0.25% to 12%. 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

The firm's trading book positions are accounted for at fair value. See Note 3. Significant Accounting Policies, and related footnotes to the condensed consolidated financial statements in Part I, Item 1 of 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 package, 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, credit risk management, human capital management, legal, market risk management, operations, 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 "Management's Discussion and Analysis of Financial Condition and Results of Operations – Market Risk Management" and "- Credit Risk Management" in Part I, Item 2 of 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 "Management's Discussion and Analysis of Financial Condition and Results of Operations – Overview and Structure of Risk Management" in Part I, Item 2 of 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, or in the case of Internal Audit, to the Audit Committee of the Board, are responsible for day-to-day oversight or monitoring of risk. Internal Audit, which 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. Accordingly, we have in place a comprehensive capital management policy that serves as a guide to determine the amount and composition of equity capital we maintain.

The level and composition of our equity capital are determined by multiple factors including our current and future consolidated regulatory capital requirements, our Internal Capital Adequacy Assessment Process (ICAAP), Comprehensive Capital Analysis and Review (CCAR) and results of stress tests, and may also be influenced by 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. In addition, we maintain a capital plan which projects sources and uses of capital given a range of business environments, and a contingency capital plan which provides a framework for analyzing and responding to an actual or perceived capital shortfall.

Internal Capital Adequacy Assessment Process

We perform an ICAAP with the objective of ensuring that the firm is appropriately capitalized relative to the risks in our business.

As part of our ICAAP, we perform an internal risk-based capital assessment. This assessment incorporates market risk, credit risk and operational risk. Market risk is calculated by using VaR calculations supplemented by risk-based add-ons which include risks related to rare events (tail risks). Credit risk utilizes assumptions about our counterparties' probability of default, the size of our losses in the event of a default and the maturity of our counterparties' contractual obligations to us. Operational risk is calculated based on scenarios incorporating multiple types of operational failures. Backtesting is used to gauge the effectiveness of models at capturing and measuring relevant risks.

We evaluate capital adequacy based on the result of our internal risk-based capital assessment and regulatory capital ratios, supplemented with the results of stress tests which measure the firm's estimated performance under various market conditions. Our goal is to hold sufficient capital to ensure we remain adequately capitalized after experiencing a severe stress event. Our assessment of capital adequacy is viewed in tandem with our assessment of liquidity adequacy and is integrated into the overall risk management structure, governance and policy framework of the firm.

We attribute capital usage to each of our businesses based upon our internal risk-based capital and regulatory frameworks and manage the levels of usage based upon the balance sheet and risk limits established.

Comprehensive Capital Analysis and Review

As part of the Federal Reserve Board's annual CCAR, U.S. bank holding companies with total consolidated assets of \$50 billion or greater are required to submit capital plans for review by the Federal Reserve Board. The purpose of the Federal Reserve Board's review is to ensure that these institutions have robust, forward-looking capital planning processes that account for their unique risks and that permit continued operations during times of economic and financial stress. The Federal Reserve Board will evaluate a bank holding company based on whether it has the capital necessary to continue operating under the baseline and stressed scenarios

provided by the Federal Reserve Board and under the scenarios developed by the bank holding company. As part of the capital plan review, the Federal Reserve Board evaluates an institution's plan to make capital distributions, such as increasing dividend payments or repurchasing or redeeming stock, across a range of macro-economic and firm-specific assumptions. In addition, the Dodd-Frank Act Stress Test (DFAST) rules require us to conduct stress tests on a semi-annual basis and publish a summary of certain results. The Federal Reserve Board also conducts its own annual stress tests and publishes a summary of certain results.

We submitted our 2013 CCAR to the Federal Reserve Board on January 7, 2013 and published a summary of our DFAST results under the Federal Reserve Board's severely adverse scenario in March 2013. As part of our 2013 CCAR submission, the Federal Reserve Board informed us that it did not object to our proposed capital actions, including the repurchase of outstanding common stock, a potential increase in our quarterly common stock dividend and the possible issuance, redemption and modification of other capital securities through the first quarter of 2014. However, as required by the Federal Reserve Board, we will resubmit our capital plan by the end of the third quarter of 2013, incorporating certain enhancements to our stress test processes.

In addition, we submitted the results of our semi-annual DFAST to the Federal Reserve Board on July 3, 2013 and will publish a summary of our DFAST results under our internally developed severely adverse scenario in September 2013.

For additional information regarding our CCAR submissions, see "Management's Discussion and Analysis of Financial Condition and Results of Operations – Equity Capital" in Part I, Item 2 of 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.

Basel 3

In July 2013, the Federal Reserve Board implemented the Basel 3 rules, certain aspects of which only apply to “advanced approach” banking institutions, such as us. While we are still evaluating the details of these rules, as compared to the Agencies’ current rules, the primary changes that impact us include:

- revisions to the definition of Tier 1 capital, including new deductions such as deductions for investments in nonconsolidated financial institutions;
- higher minimum Tier 1 capital and Total capital ratios;
- a new minimum ratio of Tier 1 common equity to RWAs;
- a higher minimum Tier 1 leverage ratio;
- a new minimum supplementary Tier 1 leverage ratio of 3%;
- new capital conservation and counter-cyclical capital buffers;
- revisions to the methodology for computing RWAs, particularly related to credit risk capital requirements for derivatives (including measures to add capital requirements to capture mark-to-market losses associated with a deterioration in the creditworthiness of a counterparty, assuming longer margining periods, and incorporating stressed exposures); and
- the introduction of a “floor” requirement, whereby our capital ratios will be the lower of those computed using the “standardized approach” and those computed using the “advanced approach”.

The primary difference between the standardized approach and the advanced approach is that the standardized approach utilizes prescribed calculations and does not contemplate the use of internal models to compute exposure for credit risk on derivatives and securities financing transactions, whereas the advanced approach permits the use of such models, subject to supervisory approval. In addition, risk weights 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.

Although some aspects of the revisions will be implemented over a transition period that lasts several years, many of these changes will become effective on January 1, 2014. Some of these changes are subject to supervisory approval, which includes the completion of a parallel run period under the advanced approach. See “Parallel Run and Basel 2” below for additional details. The supplementary leverage ratio will be effective beginning January 1, 2018 but is required to be disclosed beginning January 1, 2015. See “Supplementary Leverage Ratio” below for additional details.

The Basel 3 rules require that junior subordinated debt issued to trusts be phased out of regulatory capital. This junior subordinated debt issued to trusts will first be phased-out of Tier 1 capital but will be eligible as Tier 2 capital for an interim period through December 31, 2015, after which it will 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 both our Basel 1 and Basel 3 capital ratios.

Although we are still evaluating the details of these rules, we have performed a preliminary evaluation and estimate that our Basel 3 Tier 1 common ratio as of June 2013 under the advanced approach would have been 9.3% on a fully-phased-in basis. The estimate of the Basel 3 Tier 1 common ratio will continue to evolve as we assess the details of these rules and discuss their interpretation and application with our regulators.

The estimated Basel 3 Tier 1 common ratio on a fully-phased-in basis equals estimated Basel 3 Tier 1 common capital divided by estimated RWAs under Basel 3. Management believes that the estimated Basel 3 Tier 1 common ratio is meaningful because it is one of the measures that we, our regulators and investors use to assess capital adequacy.

Regulatory Capital Disclosures

The table below presents a reconciliation of our common shareholders' equity to the estimated Basel 3 Tier 1 common capital on a fully-phased-in basis:

Table 13: Basel 3 Tier 1 Common Ratio (estimated)

<i>\$ in millions</i>	As of June 2013
Common Shareholders' Equity	\$ 70,843
Less: Goodwill	(3,699)
Less: Intangible assets	(795)
Less: Deductions for investments in nonconsolidated financial institutions ¹	(9,872)
Other adjustments ²	(680)
Basel 3 Tier 1 Common Capital	\$ 55,797
Basel 3 RWAs³	\$ 600,222
Basel 3 Tier 1 Common Ratio	9.3%

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. Under the transitional arrangements applicable to this requirement, the percentage of such investments that is subject to the capital deduction thresholds increases from 20% in 2014 to 100% in 2018. 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 disallowed deferred tax assets, debt valuation adjustments and credit valuation adjustments on derivative liabilities, as well as other required credit risk-based deductions.

3. Basel 3 RWAs differ from RWAs under Basel 1 as implemented by the Federal Reserve Board. Both RWAs reflect the revised market risk regulatory capital requirements, but differ primarily as Basel 3 RWAs incorporate the use of internal models and parameters for credit risk, and also includes RWAs for operational risk.

Basel 3 establishes transition periods for several aspects of the revised requirements, including for certain adjustments to regulatory capital. The first year of transition for such adjustments will begin on January 1, 2014, and the adjustments will progressively phase-in every year through 2017. As of June 2013, our estimated Basel 3 Tier 1 common ratio, under the advanced approach, assuming the transitional guidance that will be in effect on January 1, 2014, is approximately 150 basis points higher than the estimated Basel 3 Tier 1 common ratio on a fully-phased-in basis.

Supplementary Leverage Ratio

In July 2013, the Agencies also issued proposals for the minimum supplementary leverage ratio requirement for the largest U.S. banks, including Group Inc., to be increased from the required minimum of 3% to 5% (comprised of a minimum requirement of 3% plus a 2% buffer). If these proposals are enacted as proposed, this higher minimum requirement would be effective beginning January 1, 2018.

In addition, in June 2013, the Basel Committee released a consultative paper which proposed further changes to the supplementary Basel 3 leverage ratio. The impact of these developments on the firm will not be known until the rules are finalized by the Agencies.

Parallel Run and Basel 2

With respect to the parallel run, we are currently working to implement the requirements set out in the Federal Reserve Board's "Risk-Based Capital Standards: Advanced Capital Adequacy Framework — Basel 2" (Basel 2), enhanced by the Basel 3 rules described above, to the extent that they are applicable to Group Inc. as a bank holding company and as an advanced approach banking institution. The firm will implement Basel 2 and Basel 3 once approved to do so by regulators following the completion of a parallel run period.

The Basel 2 framework consists of three pillars:

- Pillar 1 – Minimum Capital Requirements
- Pillar 2 – Supervisory Review / Internal Capital Adequacy Assessment Process
- Pillar 3 – Market Discipline

The first pillar establishes methods for calculating the minimum level of regulatory capital required. The minimum amount of regulatory capital is expressed as a capital ratio that compares measures of capital to RWAs. Basel 2, among other things, revises the regulatory capital framework for credit risk and equity investments, and introduces a new operational risk capital requirement.

The second pillar addresses the requirement for banks to establish a process to develop their own internal assessment of the amount of capital needed to ensure that they are adequately capitalized. Consequently, as part of our ICAAP, an internal risk-based capital assessment is performed, incorporating market risk, credit risk and operational risk, and supplemented with the results of stress tests.

The third pillar sets minimum public disclosure requirements for banks. Such public disclosures are intended to allow market participants to assess key information about a bank's risk profile and its associated level of capital.

Global Systemically Important Banks

In July 2013, the Basel Committee updated its methodology for assessing the global systemic importance of banking institutions and determining the range of additional Tier 1 common equity that should be maintained by those deemed to be globally systemically important. The required amount of additional Tier 1 common equity 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 2012, the Financial Stability Board indicated that the firm, based on its 2011 financial data, would be required to hold an additional 1.5% of Tier 1 common equity as a globally systemically important banking institution. The final determination of the amount of additional Tier 1 common equity 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 globally systemically important banking institutions will be required to meet the capital surcharges on a phased-in basis from 2016 through 2019.

Other Impacts

The Basel Committee and the Financial Stability Board (established at the direction of the leaders of the Group of 20) have also recently issued several consultation papers which propose further changes to capital regulations. If these proposals are adopted by the Agencies, they could impact the firm's future regulatory capital requirements. However, the impact of such developments on the firm will not be known until the rules are finalized.

The interaction among the Dodd-Frank Act, other reform initiatives announced by the Agencies, the Basel Committee's proposed and announced changes and other proposed or announced changes from other governmental entities and regulators adds further uncertainty to the firm's future capital and liquidity requirements and those of the firm's subsidiaries.

For additional information about related regulatory requirements, including pending and proposed regulatory changes see: (i) "Business - Regulation" in Part I, Item 1, of our Annual Report on Form 10-K; (ii) "Management's Discussion and Analysis of Financial Condition - Results of Operations – Regulatory Developments" in Part I, Item 2 of our Quarterly Report on Form 10-Q ; (iii) "Management's Discussion and Analysis of Financial Condition and Results of Operations – Equity Capital" in Part 1, Item 2 of our Quarterly Report on

Form 10-Q; and (iv) Note 20. Regulation and Capital Adequacy, to the condensed consolidated financial statements in Part I, Item 1 of 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 our belief regarding 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.

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.

- **Comprehensive Risk.** The potential loss in value, due to price risk and defaults, within the firm's credit correlation positions. The modeled measure is calculated at a 99.9% confidence level over a one-year time horizon. The surcharge 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, 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 due to changes in market prices.
- **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 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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