

Basel 3 Impact

The Basel Committee on Banking Supervision (“Basel Committee”) has undertaken a program of substantial revisions of its capital guidelines. In particular, the changes in the “Basel 2.5” guidelines will result in increased capital requirements for market risk; additionally, the “Basel 3” guidelines issued by the Basel Committee in December 2010 revise the definition of Tier 1 Capital, introduce Tier 1 common equity as a regulatory metric, set new minimum capital ratios, and make substantial revisions to the computation of risk-weighted assets for credit exposures. While precise dates for the implementation of the new requirements in the United States have not been announced, it is expected that these will begin to be implemented in the next couple of years, with an extended transition period.

Although the U.S. federal banking agencies have issued proposed rules that are intended to implement certain aspects of the Basel 2.5 guidelines, they have not yet addressed all aspects of those guidelines or the Basel 3 changes. In addition, the Financial Stability Board (“FSB”), Basel Committee and U.S. banking regulators implementing the Dodd-Frank Wall Street Reform and Consumer Protection Act have indicated that they will impose more stringent capital standards on Systemically Important Financial Institutions (“SIFIs”). While in November 2011, the FSB identified Goldman Sachs as one of 29 global banks that would be subject to a capital surcharge, the final determination of the amount of additional capital required for the firm has not been made. Therefore, the regulations ultimately applicable to the firm may be substantially different from those that have been published to date.

In order to assess the firm’s position under the Basel Committee’s new guidelines, we adjust our computation of Tier 1 common equity and risk-weighted assets to reflect our good faith estimate of the impact of the methodologies set out in Basel 2.5 and Basel 3.

In addition, we adjust the computation to reflect assumed changes in shareholders’ equity at year-end 2013, and risk-weighted assets at year-ends 2013 and 2015. In particular, shareholders’ equity as of the most recent quarter-end is increased by an amount equal to analysts’ consensus full-year earnings expectations for 2012 and 2013. Risk-weighted assets are adjusted for various mitigation efforts, primarily to reflect the contractual and expected run-off of our credit correlation and mortgage positions, both of which will be significantly impacted by the introduction of Basel 2.5. Given the absence of final detailed rules on Basel 2.5 and Basel 3, and the inherent uncertainties in forecasting, this calculation should not be taken as a projection of what our capital ratios, risk-weighted assets, earnings or other results will actually be at these future dates.