

Goldman Sachs Group UK
(GSGUK)

Pillar 3 Disclosures

For the year ended December 31, 2013

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Introduction

Overview

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. Goldman Sachs Group UK Limited (GSGUK) is a wholly owned subsidiary of Group Inc.. When we use the terms "Goldman Sachs" and "the firm", we mean Group Inc., a Delaware corporation, and its consolidated subsidiaries and when we use the terms "GSGUK", "we", "us" and "our", we mean Goldman Sachs Group UK Limited 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. As a bank holding company, the firm is 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.

GSGUK is supervised on a consolidated basis by the Prudential Regulation Authority (PRA) and as such is subject to minimum capital adequacy standards on a consolidated basis. Certain subsidiaries of GSGUK, as detailed below, are regulated by the Financial Conduct Authority (FCA) and the PRA and are also subject to minimum capital adequacy standards on a standalone basis. Until 31 March 2013, the primary regulator of GSGUK was the Financial Services Authority (FSA).

Capital requirements are expressed as capital ratios that compare measures of regulatory capital to Risk-Weighted Assets (RWAs). GSGUK's capital levels are subject to qualitative judgments by the regulators about components of capital, risk weightings and other factors. In addition, GSGUK is subject to requirements with respect to leverage.

For information on Group Inc.'s financial statements and regulatory capital ratios, please refer to the firm's most recent Quarterly Report on Form 10-Q and Annual Report on Form 10-K. References in this document to the "Quarterly Report on Form 10-Q" are to the firm's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2014 and references to the "2013 Form 10-K" are to the firm's Annual Report on Form 10-K for the year ended December 31, 2013. All references to September 2014 and December 2013 refer to the periods

ended, or the dates September 30, 2014 and December 31, 2013, respectively, as the context requires. We make qualitative references to more recent disclosures in order to reflect current management practices, however quantitative data is presented as at 31 December 2013.

The Basel Committee on Banking Supervision's (BCBS's) "International Convergence of Capital Measurement and Capital Standards, a Revised Framework", as published and updated in 2006 (Basel II) has been implemented in the European Union via the Capital Requirements Directive (CRD). In the UK, the General Prudential Sourcebook (GENPRU), and the Prudential Sourcebook for Banks, Building Societies and Investment Firms (BIPRU) together contain the rules implementing the CRD. The Basel II framework consists of three pillars: Pillar 1 "minimum capital requirements", Pillar 2 "supervisory review process" and Pillar 3 "market discipline".

This document sets out the Pillar 3 qualitative and quantitative disclosures required by the BIPRU rules of the PRA and the FCA in relation to GSGUK. Additional information required under Pillar 3 may also be found in the annual financial statements for GSGUK.

Information in the 2013 Form 10-K under the headings of Critical Accounting Policies, Equity Capital and Overview and Structure of Risk Management is fully applicable to GSGUK as an integrated subsidiary of Group Inc. The 2013 Form 10-K can be accessed via the following link:

<http://www.goldmansachs.com/investor-relations/financials/current/10k/2013-10-k.pdf>

Measures of exposures and other metrics disclosed in this report may not be based on UK generally accepted accounting principles (UK GAAP), may not be directly comparable to measures reported in GSGUK's financial statements, 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.

Pillar 3 Disclosures**Overview of Regulatory Capital Ratios**

The purpose of these disclosures is to provide information, as of December 31, 2013, on our risk management practices and regulatory capital ratios, as required under the regulatory capital requirements.

The adequacy of our capital is primarily measured by comparing the amount and quality of capital to RWAs, and through a leverage ratio, a non-risk-based capital measure comparing capital to average adjusted total assets, which becomes subject to a minimum requirement effective January 1, 2018 but with disclosure required from 2015.

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 relationship between available capital and capital requirements can be expressed in the form of a ratio, and RWAs are arrived at by multiplying capital requirements by 12.5. In this document, RWAs and capital requirements are used interchangeably.

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

Fair Value. The inventory reflected on our consolidated statements of financial condition as "financial instruments owned" and "financial instruments sold, but not yet purchased" as well as certain other financial assets and financial liabilities, are accounted for at fair value (i.e., marked-to-market), with related gains or losses generally recognized in our consolidated financial statements 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 the firm's risk management practices and is the firm's 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 accounting principles generally accepted in the United States (US GAAP) and controls over valuation of inventory, see Note 3. Significant Accounting Policies, and related footnotes in Part I, Item 1 "Financial Statements" and "Critical Accounting Policies – Fair Value" in Part I, Item 2 "Management's Discussion and Analysis of Financial Condition and Results of Operations in the firm's Quarterly Report on Form 10-Q. For additional information regarding the determination of fair value under accounting principles generally accepted in the United Kingdom (UK GAAP) and controls over valuation of inventory, see Note 1.p. and Note 1.q. in the GSGUK financial statements.

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 "intentionally for short-term resale and/or with the intention of benefiting from actual or expected short-term price differences between buying and selling prices, or from other price or interest rate variations¹". 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 "Credit Risk" 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 held "intentionally for short-term resale and/or with the intention of benefiting from actual or expected short-term price differences between buying and selling prices, or from other price or interest rate variations¹". Trading Book positions are subject to market risk regulatory capital requirements, as are foreign exchange and commodity 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 "Market Risk" for further details. Some trading book positions, such as derivatives, are also subject to counterparty credit risk capital requirements.

¹ See definition of "Trading Intent" in BIPRU 1.2.10

Pillar 3 Disclosures

Our trading book positions are accounted for at fair value. See Note 1. Accounting Policies, and related footnotes to our consolidated financial statements.

Consolidated Regulatory Capital Ratios

Goldman Sachs Group UK Limited is the holding company for a group that provides a wide range of financial services to clients located worldwide. The company primarily operates in a US Dollar environment as part of Group Inc. Accordingly, the company's functional currency is US Dollars and these disclosures are prepared in that currency.

As at 31 December 2013 the following subsidiaries of GSGUK were subject to BIPRU rules:

- Goldman Sachs International (GSI)
- Goldman Sachs International Bank (GSIB)
- Goldman Sachs Asset Management International (GSAMI)
- Montague Place Custody Services (MPCS)

The PRA requires significant subsidiaries to make certain capital disclosures on a standalone basis. GSAMI and MPCS have minimal balance sheet activity and have been determined non-significant for the purposes of these Pillar 3 disclosures. The most significant subsidiaries of GSGUK are GSI and GSIB. GSI's risk profile is materially the same as GSGUK and its results are material to GSGUK as a whole. GSIB is GSGUK's deposit-taking subsidiary. Risk management policies and procedures are applied consistently to GSI, GSIB and to GSGUK as a whole.

The basis of consolidation used for GSGUK for accounting purposes is materially consistent with that used for regulatory purposes, except for the inclusion of quasi subsidiaries for accounting purposes. These are not included in the regulatory consolidation, and their non-inclusion has no material impact on the regulatory capital position of GSGUK.

The Common Equity Tier 1 (CET1) Ratio is defined as Tier 1 common equity capital divided by RWAs. The Tier 1 Capital Ratio is defined as Tier 1 Capital divided by RWAs. Total Capital is the sum of Tier 1 and Tier 2 Capital. The Total Capital Ratio is defined as Total Capital divided by RWAs.

The CET1 Ratio is meaningful as it is one of the measures that we and our regulators use to assess capital adequacy.

The table below presents information about our regulatory capital ratios for GSGUK, GSI and GSIB, as implemented in BIPRU.

Table 1: Regulatory Capital Ratios

<i>\$ in millions</i>	as at 31 December 2013		
	GSGUK	GSI	GSIB
CET1 Capital	\$23,390	\$19,072	\$2,461
Tier 1 Capital	23,390	19,072	2,461
Tier 2 Capital	6,174	5,432	729
Total Capital	29,564	24,504	3,190
RWAs	\$148,357	\$132,266	\$12,557
CET1 Ratio	15.8%	14.4%	19.6%
Tier 1 Capital Ratio	15.8%	14.4%	19.6%
Total Capital Ratio	19.9%	18.5%	25.4%

Pillar 3 Disclosures**Regulatory Capital**

For regulatory purposes, under Basel II, a company's total available capital has the following components:

- CET1 capital is comprised of common shareholders' equity, after giving effect to deductions for disallowed items and other adjustments;
- Tier 1 capital which is comprised of CET1 Capital plus other qualifying capital instruments; and
- Tier 2 capital, which includes long term qualifying subordinated debt.

Capital elements are subject to 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 unsecured. A qualifying Tier 1 or Tier 2 capital instrument must also be subordinated to all senior indebtedness of the organisation.

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 tables below presents information on the components of our regulatory capital structure, which are based on Basel II, as implemented by the PRA. In the table below:

- Other Adjustments within the CET1 capital of GSI primarily represent adjustments to accounting values in accordance with GENPRU 1.3.9 (1) and Other Adjustments within the CET1 capital of GSIB primarily represent the capital attributed to certain branch operations.
- Tier 2 Capital represents subordinated debt 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.

The following tables show available capital at GSGUK, GSI and GSIB as at December 31, 2013 based upon each company's audited financial statements. The PRA's GENPRU rules define the items that are included or deducted in the calculation of Total Available Capital.

Table 2: GSGUK Available Capital

<i>\$ in millions</i>	31 December 2013
Ordinary Share Capital	\$4,832
Share Premium Account Including Reserves	382
Audited Retained Earnings	19,539
CET1 Capital Before Deductions	24,753
Securitization Deductions (50%)	(846)
Pension Asset Deduction	(156)
Expected Loss Deduction (50%)	(197)
Other Adjustments	(164)
CET1 Capital After Deductions	23,390
Tier 1 Capital	23,390
Tier 2 Capital (Before Deductions)	7,297
Securitization Deductions (50%)	(846)
Expected Loss Deduction (50%)	(197)
Other Adjustments	(80)
Tier 2 Capital	6,174
Total Available Capital (Net of Deductions)	\$29,564

Table 3: GSI Available Capital

<i>\$ in millions</i>	31 December 2013
Ordinary Share Capital	\$533
Share Premium Account Including Reserves	2,880
Audited Retained Earnings	16,887
CET1 Capital Before Deductions	20,300
Securitization Deductions (50%)	(846)
Pension Asset Deduction	(156)
Expected Loss Deduction (50%)	(180)
Other Adjustments	(46)
CET1 Capital After Deductions	19,072
Tier 1 Capital	19,072
Tier 2 Capital (Before Deductions)	6,458
Securitization Deductions (50%)	(846)
Expected Loss Deduction (50%)	(180)
Tier 2 Capital	5,432
Total Available Capital (Net of Deductions)	\$24,504

Table 4: GSIB Available Capital

<i>\$ in millions</i>	31 December 2013
Ordinary share Capital	\$63
Share Premium Account Including Reserves	2,094
Audited Retained Earnings	438
CET1 Capital Before Deductions	2,595
Expected Loss Deduction (50%)	(17)
Other Adjustments	(117)
CET1 Capital After Deductions	2,461
Tier 1 Capital	2,461
Tier 2 Capital (Before Deductions)	826
Expected Loss Deduction (50%)	(17)
Other Adjustments	(80)
Tier 2 Capital	729
Total Available Capital (Net of Deductions)	\$3,190

Pillar 3 Disclosures**Risk-Weighted Assets****Overview**

RWAs under the PRA's current risk-based capital requirements are calculated based on measures of credit risk, operational risk and market risk. The table below presents information on the components of RWAs within GSGUK's, GSI's and GSIB's consolidated regulatory capital ratios, which are based on Basel II, as implemented by the PRA.

Table 5: Risk-Weighted Assets

\$ in millions	as at 31 December 2013		
	GSGUK	GSI	GSIB
OTC Derivatives	\$39,573	\$39,268	\$323
Commitments and Guarantees ¹	3,326	0	3,326
Securities Financing Transactions ²	7,545	7,545	0
Other ³	10,502	8,883	101
Credit RWAs	60,946	55,696	3,750
Regulatory VaR	11,969	10,894	1,448
Stressed VaR	18,446	16,338	1,736
Incremental Risk	10,079	5,163	4,916
Comprehensive Risk	3,778	3,778	0
Standard Rules	24,565	22,710	482
Securitization	4,193	4,193	0
Market RWAs	73,030	63,076	8,582
Operational Risk	14,381	13,494	225
Total RWAs	\$148,357	\$132,266	\$12,557

1. Principally includes certain commitments to extend credit
2. Represents resale and repurchase agreements and securities borrowed and loaned transactions.
3. Principally includes receivables from customers, certain loans, other assets, and cash and cash equivalents.

The table below represents a summary of the capital requirements for GSGUK, GSI and GSIB by type (capital requirements can be converted to RWAs, under regulatory convention, by multiplying by 12.5).

Table 6: Capital Requirements

\$ in millions	as at 31 December 2013		
	GSGUK	GSI	GSIB
Credit Risk Capital Requirement	\$4,876	\$4,456	\$300
Market Risk Capital Requirement	5,842	5,046	687
Operational Risk Capital Requirement	1,150	1,079	18
Total Capital Requirements	\$11,868	\$10,581	\$1,005

Credit Risk**Overview**

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. Our exposure to credit risk comes mostly from client transactions in OTC derivatives and loans and lending commitments. Credit risk also comes from cash placed with banks, securities financing transactions (i.e., resale and repurchase agreements and securities borrowing and lending activities) and receivables from brokers, dealers, clearing organizations, customers and counterparties.

Credit Risk Management, which is independent of the revenue-producing units and reports to the firm's Chief Risk Officer, has primary responsibility for assessing, monitoring and managing credit risk. The Credit Policy Committee and the Firmwide Risk Committee establish and review credit policies and parameters. In addition, we hold other positions that give rise to credit risk (e.g., bonds held in our inventory). These credit risks are captured as a component of market risk measures, which are monitored and managed by Market Risk Management, consistent with other inventory positions. We also enter into derivatives to manage market risk exposures. Such derivatives also give rise to credit risk which is monitored and managed by Credit Risk Management.

Policies authorized by the Firmwide Risk Committee and the Credit Policy Committee prescribe the level of formal approval required for the firm to assume credit exposure to a counterparty across all product areas, taking into account any applicable netting provisions, collateral or other credit risk mitigants. These policies and the credit risk management process described below also apply to the credit exposures of GSGUK.

Pillar 3 Disclosures**Credit Risk Management Process**

Effective management of credit risk requires accurate and timely information, a high level of communication and knowledge of customers, countries, industries and products. The firm's process for managing credit risk includes:

- approving transactions and setting and communicating credit exposure limits;
- monitoring compliance with established credit exposure limits;
- assessing the likelihood that a counterparty will default on its payment obligations;
- measuring current and potential credit exposure and losses resulting from counterparty default;
- reporting of credit exposures to senior management, the firm's Board and regulators;
- use of credit risk mitigants, including collateral and hedging; and
- communication and collaboration with other independent control and support functions such as operations, legal and compliance.

As part of the risk assessment process, Credit Risk Management performs credit reviews which include initial and ongoing analyses of the firm's counterparties. A credit review is an independent judgment about the capacity and willingness of a counterparty to meet its financial obligations. For substantially all of the firm's credit exposures, the core of the process is an annual counterparty review. A counterparty review is a written analysis of a counterparty's business profile and financial strength resulting in an internal credit rating which represents the probability of default on financial obligations to the firm. The determination of internal credit ratings incorporates assumptions with respect to the counterparty's future business performance, the nature and outlook for the counterparty's industry, and the economic environment. Senior personnel within Credit Risk Management, with expertise in specific industries, inspect and approve credit reviews and internal credit ratings.

The firm's global credit risk management systems capture credit exposure to individual counterparties and on an aggregate basis to counterparties and their subsidiaries (economic groups). These systems also provide management with comprehensive information on the firm's aggregate credit risk by product, internal credit rating, industry, country and region.

Credit Risk RWAs

Credit RWAs are calculated based upon measures of credit exposure which are then risk weighted. Set out below is a description of the methodology used to calculate RWAs for Wholesale exposure, which generally include credit exposures to corporates, sovereigns or government entities (other than securitization or equity exposures, which are covered in later sections). We have approval from the PRA to compute risk weights for certain exposures in accordance with the Advanced Internal Ratings Based ("AIRB") approach for Credit Risk, and the Internal Models Method ("IMM") for the measurement of exposure on OTC derivative and securities financing transactions.

Exposure at Default (EAD). The exposure amount for on-balance-sheet assets, such as receivables and cash, is generally based on the balance sheet value. For the calculation of EAD for off-balance-sheet exposures, including commitments and guarantees, a credit equivalent exposure amount is calculated based on the notional amount of each transaction multiplied by a credit conversion factor in accordance with BIPRU 4.

For substantially all of the counterparty credit risk arising from OTC derivatives and securities financing transactions, internal models calculate the distribution of exposure upon which the EAD calculation is based, in accordance with the IMM. The models estimate Expected Exposures (EE) at various points in the future using risk factor simulations. The model parameters are derived from historical data using the most recent three-year period. The models also estimate the Effective Expected Positive Exposure (EEPE) over the first year of the portfolio, which is the time-weighted average of non-declining positive credit exposure over the EE simulation. EAD is calculated by multiplying the EEPE by a standard regulatory factor of 1.4.

The EAD detailed in Tables 7-12 represents the exposures used in computing capital requirements and is not directly comparable to balance sheet amounts presented in the financial statements of GSGUK for the year ended December 31, 2013 due to differences in measurement methodology, counterparty netting and collateral offsets used.

As GSGUK calculates its credit exposure under the IMM, the impact of netting and collateral are integral to the calculation of the exposure. The exposures disclosed below are presented on a net basis where there is a legally enforceable netting opinion. This does not include the effect of any credit protection purchased on counterparties.

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AIRB Approach. RWAs are calculated by multiplying EAD by the counterparty's risk-weight. Under the AIRB approach, risk weights are a function of the counterparty's Probability of Default (PD), Loss Given Default (LGD) and the maturity of the trade or portfolio of trades, where:

- PD is an estimate of the probability that an obligor will default over a one-year horizon. For the majority of our Wholesale exposure, the PD is assigned using an approach where quantitative factors are combined with a qualitative assessment to determine internal credit rating grades. For each internal credit rating grade, over 5 years of historical empirical data is used to calculate a long run average annual PD which is assigned to each counterparty with that credit rating grade.
- Our internal credit rating grades each have external public rating agency equivalents. The scale that we employ for internal credit ratings corresponds to those used by the major rating agencies and our internal credit ratings, while arrived at independently of public ratings, are assigned using definitions of each internal credit rating grade that are consistent with the definitions used by the major rating agencies for their equivalent credit rating grades. As a result, we are able to map default data published by the major rating agencies for obligors with public ratings to our counterparties with equivalent internal credit ratings for quantification and validation of risk parameters.
- LGD is an estimate of the economic loss rate if a default occurs during economic downturn conditions. For Wholesale exposure, the LGD is determined using recognized vendor models, but exposure-specific estimates of LGD are employed where the recovery prospects of an exposure are more accurately captured by an analysis incorporating information about the specific collateral, structure or type of client.
- The definition of maturity depends on the nature of the exposure. For OTC derivatives, maturity is an average time measure weighted by credit exposure (based on EE and EEPE). For securities financing transactions, maturity represents the notional weighted average number of days to maturity. Maturity is floored at one year and capped at five years except where the rules allow a maturity of less than one year to be used as long as certain criteria are met. For other products, the maturity is based on the contractual maturity.

The table below represents a summary of the credit risk EAD and RWAs by approach as at December 31, 2013.

Table 7: Credit Risk EAD and RWAs

<i>\$ in millions</i>	EAD	RWA
Wholesale (AIRB)	\$103,350	\$53,988
Securitization	25	25
Other	6,817	6,933
GSGUK Total Credit Risk	\$110,192	\$60,946
Wholesale (AIRB)	\$99,545	\$50,371
Securitization	25	25
Other	5,139	5,300
GSI Total Credit Risk	\$104,709	\$55,696
Wholesale (AIRB)	\$3,918	\$3,737
Securitization	0	0
Other	13	13
GSIB Total Credit Risk	\$3,931	\$3,750

The table below shows GSGUK's, GSI's and GSIB's Wholesale credit risk capital requirements and credit risk exposures as measured for regulatory capital purposes as at December 31, 2013.

Table 8: AIRB Approach Wholesale Exposure Class

<i>\$ in millions</i>	EAD	RWA
Central Governments and Central Banks	\$15,478	\$4,788
Credit Institutions and Investment Firms	40,688	18,050
Corporates	47,184	31,150
GSGUK Total AIRB Approach	\$103,350	\$53,988
Central Governments and Central Banks	\$15,460	\$4,780
Credit Institutions and Investment Firms	40,015	17,688
Corporates	44,070	27,903
GSI Total AIRB Approach	\$99,545	\$50,371
Central Governments and Central Banks	\$18	\$8
Credit Institutions and Investment Firms	673	362
Corporates	3,227	3,367
GSIB Total AIRB Approach	\$3,918	\$3,737

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The table below shows GSGUK's, GSI's and GSIB's Wholesale credit exposure by residual maturity as at December 31, 2013.

Table 9: EAD by Residual Maturity

<i>\$ in millions</i>	Less than One Year	One to Five Years	Over Five Years	Total
Central Governments and Central Banks	\$11,095	\$1,243	\$3,140	\$15,478
Credit Institutions and Investment Firms	16,369	13,763	10,556	40,688
Corporates	14,558	13,376	19,250	47,184
GSGUK Total Wholesale Exposure	\$42,022	\$28,382	\$32,946	\$103,350
Central Governments and Central Banks	\$11,095	\$1,225	\$3,140	\$15,460
Credit Institutions and Investment Firms	16,324	13,385	10,306	40,015
Corporates	12,384	13,282	18,404	44,070
GSI Total Wholesale Exposure	\$39,803	\$27,892	\$31,850	\$99,545
Central Governments and Central Banks	\$0	\$18	\$0	\$18
Credit Institutions and Investment Firms	45	378	250	673
Corporates	2,174	207	846	3,227
GSIB Total Wholesale Exposure	\$2,219	\$603	\$1,096	\$3,918

The table below shows GSGUK's, GSI's and GSIB's Wholesale credit exposure by industry type as at December 31, 2013.

Table 10: EAD by Industry Type

<i>\$ in millions</i>	as at 31 December 2013		
	GSGUK	GSI	GSIB
Credit Institution	\$6,704	\$6,680	\$24
Insurance	8,754	8,605	149
Funds and Asset Management	25,016	24,475	541
Financial Services	37,865	36,155	1,823
Sovereign	15,478	15,460	18
Business and Other Services	5,899	5,378	521
Manufacturing and Construction	647	551	96
Energy	2,055	1,671	384
Transport	380	331	49
Property	552	239	313
Total Wholesale Credit Risk Exposure	\$103,350	\$99,545	\$3,918

The table below shows GSGUK's, GSI's and GSIB's credit exposure by geography as at December 31, 2013.

Table 11: EAD by Geography

<i>\$ in millions</i>	America	Asia	EMEA	Total
Central Governments and Central Banks	\$405	\$5,344	\$9,729	\$15,478
Credit Institutions and Investment Firms	6,529	15,471	18,688	40,688
Corporates	13,339	7,942	25,903	47,184
GSGUK Wholesale Credit Risk Exposure	\$20,273	\$28,757	\$54,320	\$103,350
Central Governments and Central Banks	\$405	\$5,326	\$9,729	\$15,460
Credit Institutions and Investment Firms	6,430	15,253	18,332	40,015
Corporates	11,868	7,784	24,418	44,070
GSI Wholesale Credit Risk Exposure	\$18,703	\$28,363	\$52,479	\$99,545
Central Governments and Central Banks	\$0	\$18	\$0	\$18
Credit Institutions and Investment Firms	99	218	356	673
Corporates	1,471	159	1,597	3,227
GSIB Wholesale Credit Risk Exposure	\$1,570	\$395	\$1,953	\$3,918

The table below shows GSGUK's, GSI's and GSIB's credit exposure by financial contract type as at December 31, 2013.

Table 12: EAD by Contract Type

<i>\$ in millions</i>	as at 31 December 2013		
	GSGUK	GSI	GSIB
Derivative Contracts	\$56,428	\$55,730	\$698
Securities Financing Transactions	36,546	36,546	0
Other	10,376	7,269	3,220
Total Wholesale Credit Risk Exposure	\$103,350	\$99,545	\$3,918

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The table below shows GSGUK's, GSI's and GSIB's distribution of EAD, Exposure-Weighted Average LGD, and Exposure-Weighted Average Risk Weight by IRB exposure class and by credit quality (PD band) as at December 31, 2013. EAD balances are shown post the application of Credit Risk Mitigation ("CRM").

Table 13: Credit Risk Wholesale Exposure by IRB exposure class and by PD Band

Obligor Grade	Sovereigns			Institutions			Corporates		
	EAD Post CRM \$m	Exposure-Weighted Average LGD %	Exposure-Weighted Average Risk Weight %	EAD Post CRM \$m	Exposure-Weighted Average LGD %	Exposure-Weighted Average Risk Weight %	EAD Post CRM \$m	Exposure-Weighted Average LGD %	Exposure-Weighted Average Risk Weight %
0 to <0.05%	\$8,214	76.31%	9.89%	\$5,001	75.04%	28.22%	\$16,987	77.54%	34.43%
0.05% to <0.25%	6,876	76.30%	51.25%	31,551	76.30%	34.55%	21,917	76.42%	40.96%
0.25% to <0.75%	328	76.29%	101.52%	3,091	72.29%	99.72%	4,635	79.55%	119.83%
0.75% to <5.0%	53	76.29%	178.27%	462	80.93%	177.01%	1,494	73.61%	207.61%
5.0% to <100%	7	76.49%	383.77%	580	76.05%	317.53%	2,151	77.56%	356.30%
100% (default)	0	0.00%	0.00%	3	80.51%	1.08%	0	0.00%	0.00%
GSGUK Total	\$15,478	76.31%	30.95%	\$40,688	75.89%	44.38%	\$47,184	77.09%	66.01%
0 to <0.05%	\$8,214	76.31%	9.89%	\$4,979	75.08%	28.20%	\$17,093	77.53%	34.44%
0.05% to <0.25%	6,858	76.29%	51.28%	30,932	76.36%	34.30%	19,668	75.41%	40.42%
0.25% to <0.75%	328	76.29%	101.52%	3,085	72.28%	99.72%	4,281	79.68%	120.25%
0.75% to <5.0%	53	76.29%	178.27%	447	80.82%	176.39%	1,380	72.98%	206.23%
5.0% to <100%	7	76.49%	383.77%	569	76.21%	316.56%	1,648	76.80%	363.66%
100% (default)	0	0.00%	0.00%	3	80.51%	1.08%	0	0.00%	0.00%
GSI Total	\$15,460	76.30%	30.94%	\$40,015	75.93%	44.19%	\$44,070	76.62%	63.21%
0 to <0.05%	\$0	0.00%	0.00%	\$21	63.50%	34.71%	7	80.80%	14.43%
0.05% to <0.25%	18	80.20%	38.56%	619	73.40%	46.96%	2,249	85.30%	45.71%
0.25% to <0.75%	0	0.00%	0.00%	7	80.52%	101.84%	356	77.96%	114.73%
0.75% to <5.0%	0	0.00%	0.00%	15	84.06%	195.53%	114	81.32%	224.36%
5.0% to <100%	0	0.00%	0.00%	11	68.21%	366.97%	501	80.06%	332.11%
100% (default)	0	0.00%	0.00%	0	0.00%	0.00%	0	0.00%	0.00%
GSIB Total	\$18	80.20%	38.56%	\$673	73.32%	55.78%	\$3,227	83.52%	104.08%

Pillar 3 Disclosures**Governance and Validation of Risk Parameters**

Committees within Credit Risk Management that ultimately report to the Chief Credit Risk Officer or the Credit Policy Committee oversee the methodology for determining PD and the performance of models used for both LGD and EAD.

To assess the performance of the PD parameters used, on an annual basis the firm performs a benchmarking and validation exercise which includes comparisons of realized annual default rates to the expected annual default rates for each credit rating band and comparisons of the internal realized long-term average default rates to the empirical long-term average default rates assigned to each credit rating band. At the time of the most recent review, for year-end 2013, as well as in previous annual periods, the PDs used for regulatory capital calculations were higher (i.e., more conservative) than the firm's actual internal realized default rate.

To assess the performance of LGD parameters used, on an annual basis the firm performs a validation exercise, including comparisons of recovery rates following counterparty defaults to the recovery rates based on LGD parameters assigned to the corresponding exposures prior to default. While the actual realized recovery on each defaulted exposure varies due to transaction and other situation-specific factors, on average, recovery rates remain higher than those implied by the LGD parameters used in the firm's regulatory capital calculations.

The models used to determine the EAD under the IMM are subject to review and validation by the firm's independent model validation group, which consists of quantitative professionals who are separate from model developers. This review includes:

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

The performance of each IMM model is also assessed quarterly via backtesting procedures, performed by comparing the predicted and realized exposure of a set of representative trades and portfolios at certain horizons. The firm's models are monitored and enhanced in response to backtesting results and portfolio changes. Changes to the firm's models which would result in material change in the

RWAs for an exposure type, or significant changes in the firm's modeling assumptions, require notification to our regulators.

Credit Risk Mitigation

To reduce our credit exposures on derivatives and securities financing transactions, we may enter into master netting agreements or similar arrangements (collectively, netting agreements) with counterparties that permit us to offset receivables and payables with such counterparties. A netting agreement is a contract with a counterparty that permits net settlement of multiple transactions with that counterparty, including upon the exercise of termination rights by a non-defaulting party. Upon exercise of such termination rights, all transactions governed by the netting agreement are terminated and a net settlement amount is calculated.

We may also reduce credit risk with counterparties by entering into agreements that enable us to receive and post cash and securities collateral with respect to our derivatives and securities financing transactions, subject to the terms of the related credit support agreements or similar arrangements (collectively, credit support agreements). An enforceable credit support agreement grants the non-defaulting party exercising termination provisions the right to liquidate collateral and apply the proceeds to any amounts owed. In order to assess enforceability of our right to setoff under netting and credit support agreements, we evaluate various factors, including applicable bankruptcy laws, local statutes and regulatory provisions in the jurisdiction of the parties to the agreement. We primarily receive cash collateral, and securities collateral consisting of high quality government bonds (mainly US and EU).

Our collateral is managed by an independent control function within the Operations Division. This function is responsible for reviewing exposure calculations, making margin calls with relevant counterparties, and ensuring subsequent settlement of collateral movements. We monitor the fair value of the collateral on a daily basis to ensure that our credit exposures are appropriately collateralized.

For additional information about the firm's derivatives see Note 7. Derivatives and Hedging Activities, in Part I, Item I "Financial Statements" in the Quarterly Report on Form 10-Q. See Note 9. Collateralized Agreements and Financings, in Part I, Item 1 "Financial Statements" in the Quarterly Report on Form 10-Q for further information about our collateralized agreements and financings.

Pillar 3 Disclosures

For loans and lending commitments, depending on the credit quality of the borrower and other characteristics of the transaction, we employ a variety of potential risk mitigants. Risk mitigants include: collateral provisions, guarantees, covenants, structural seniority of the bank loan claims and, for certain lending commitments, provisions in the legal documentation that allow us to adjust loan amounts, pricing, structure and other terms as market conditions change. The type and structure of risk mitigants employed can significantly influence the degree of credit risk involved in a loan.

When we do not have sufficient visibility into a counterparty's financial strength or when we believe a counterparty requires support from its parent company, we may obtain third-party guarantees of the counterparty's obligations. We may also mitigate our credit risk using credit derivatives or participation agreements.

Wrong-way Risk. We seek to ensure low exposures where there is a significant positive correlation between the creditworthiness of our counterparties and the market value of the collateral we receive, which is known as "wrong-way risk". Wrong-way risk is commonly categorized into two types: specific wrong-way risk and general wrong-way risk. We categorize exposure as specific wrong-way risk when our counterparty and the issuer of the reference asset of the transaction are the same entity or are affiliates, or if the collateral supporting a transaction is issued by the counterparty or its affiliates. General wrong-way risk arises when there is a significant positive correlation between the probability of default of a counterparty and general market risk factors affecting the exposure to that counterparty. We have procedures in place to actively monitor and control specific and general wrong-way risk, beginning at the inception of a transaction and continuing through its life, including assessing the level of risk through stress tests. We ensure that material wrong-way risk is mitigated using collateral agreements or increases to initial margin, where appropriate.

Equity Exposures in the Banking Book

The firm makes direct investments in public and private equity securities; it also makes direct investments, both through funds that it manages (some of which are consolidated) and through funds that are managed by third parties, in debt securities and loans, public and private equity securities and real estate entities. These investments are typically longer-term in nature and are primarily held for capital appreciation purposes; they are therefore classified for regulatory capital purposes as banking book equity investments. The firm also makes commitments to invest, primarily in private equity, real estate and other assets; such commitments are made both directly and through funds that the firm raises and manages. Equity exposures held in GSI's banking book are included in the Credit Risk Capital requirement row on Table 6 and are not material for GSI as at December 31, 2013.

Securitizations in the Banking Book

Overview

BIPRU defines certain activities as securitization transactions which attract capital requirements under the "Securitization Framework." A portion of our positions that meet the regulatory definition of a securitization are classified in our trading book, and capital requirements for these positions are calculated under the market risk capital rules (see "Market Risk – Securitization Positions"). However, we also have certain banking book positions that meet the regulatory definition of a securitization.

Under the PRA's BIPRU rules, the regulatory definition of a securitization includes the following criteria:

- The credit risk associated with an exposure or pool of exposures is separated into tranches (where a tranche represents a contractually established segment of the credit risk associated with an exposure or number of exposures, where a position in the segment entails a risk of credit loss greater than or less than a position of the same amount in each other such segment, without taking account of credit protection provided by third parties directly to the holders of positions in the segment or in other segments);
- Payments in the transaction or scheme are dependent upon the performance of the exposure or pool of exposures; and
- The subordination of tranches determines the distribution of losses during the ongoing life of the transaction or scheme.

The rules also distinguish between traditional and synthetic securitizations, the primary difference being that a traditional securitization involves the transfer of assets from a bank's balance sheet into a securitization vehicle, whereas a synthetic securitization involves the transfer of credit risk through credit derivatives or guarantees.

There are also specific rules for resecuritization exposures (a resecuritization exposure is one which involves the securitization of assets, one or more of which has already been securitized). As of December 2013, we did not have banking book securitization exposures that met the definition of a resecuritization.

We have described below our banking book activities that meet the regulatory definition of a securitization.

Warehouse Financing and Lending. We provide financing to clients who warehouse financial assets. These arrangements are secured by the warehoused assets, primarily consisting of corporate loans and commercial mortgage loans.

Other. We have certain other banking book securitization activities such as holding securities issued by securitization vehicles. See "Market Risk – Securitization Positions" for details on securitization activities in the trading book.

Risk Management

By engaging in the banking book securitization activities noted above, we are primarily exposed to credit risk and to the performance of the underlying assets. We mitigate the credit risk arising on our banking book securitization activities primarily through the purchase of credit protection and through obtaining collateral, predominantly in the form of cash, securities or loans. These positions are incorporated into our overall risk management of financial instruments.

Accounting / Valuation Policies

See Note 3. Significant Accounting Policies, and related footnotes in Part I, Item 1 "Financial Statements" in the firm's Quarterly Report on Form 10-Q, which address accounting and valuation policies applicable to these positions.

Calculation of Risk-Weighted Assets

Under the Ratings Based Approach, the risk weighted exposure amount of a rated securitization position or resecuritization position is calculated by applying to the exposure value a risk weight that depends on the associated credit rating, multiplied by 1.06.

RWAs for banking book securitization exposures (including counterparty credit risk exposures that arise from trading book derivative positions) are calculated using the Ratings Based Approach under BIPRU 7 or assigned a 1,250% risk weight capped at maximum loss.

Exposure Amount

The definition of "exposure amount" that is used for regulatory purposes for banking book securitizations is set out below.

Exposure Amount by Product - Banking Book

On-Balance-Sheet	Loans and Securities: carrying value (either fair value or cost)
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Pillar 3 Disclosures

The size of banking book securitization positions was not material as at the date of this report.

We account for a securitization as a sale when we have relinquished control over the transferred assets. Prior to securitization, we account for assets pending transfer at fair value and therefore do not typically recognize significant gains or losses upon the transfer of assets.

Market Risk

Overview

Trading book positions are subject to market risk capital requirements which are designed to cover the risk of loss in value of these positions due to changes in market conditions. These capital requirements are determined either by applying prescribed risk weighting factors, or they are based on internal models which are subject to various qualitative and quantitative parameters. The BIPRU 7 market risk capital rules require that a firm obtains the prior written agreement from its regulators before using any internal model to calculate its risk-based capital requirement.

Where relevant, RWAs for market risk are computed using the following internal models: Regulatory Value-at-Risk (VaR), Stressed VaR (SVaR), Incremental Risk Charge (IRC), and Comprehensive Risk Measure (which for PRA purposes is called the All Price Risk Measure (APRM) and is subject to a floor). In addition, Standardised Rules, in accordance with BIPRU7, are used to compute RWAs for market risk for certain securitized and non-securitized positions by applying risk-weighting factors predetermined by regulators, to positions after applicable netting is performed. 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 trading positions) we use a single VaR model. However, VaR used for regulatory capital requirements (Regulatory VaR) differs from risk management VaR due to different time horizons and confidence levels (10-day and 99% for regulatory VaR vs. one-day and 95% for risk management VaR), as well as differences in the scope of positions on which VaR is calculated.

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

- Interest rate risk: results from exposures to changes in the level, slope and curvature of yield curves, the volatilities of interest rates, mortgage prepayment speeds and credit spreads.

- Equity price risk: results from exposures to changes in prices and volatilities of individual equities, baskets of equities and equity indices.
- Currency rate risk: results from exposures to changes in spot prices, forward prices and volatilities of currency rates.
- Commodity price risk: results from exposures to changes in spot prices, forward prices and volatilities of commodities, such as crude oil, petroleum products, natural gas, electricity and precious and base metals.

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.

For further information on our VaR model and market risk management, see "Market Risk Management" in Part I, Item 2 "Management Discussion and Analysis of Financial Condition and Results of Operations" in the firm's Quarter Report on Form 10-Q.

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.

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 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.

Pillar 3 Disclosures

Comprehensive Risk. Comprehensive risk is the potential loss in value, due to price risk and defaults, within our 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 under the PRA's BIPRU rules, the All Price Risk Measure (APRM) comprises a model-based measure (Comprehensive Risk Measure) floored at the standardised 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 floor is 8% of the requirements calculated under the applicable standardized rules set out in BIPRU 7 for securitization positions and for non-securitization positions.

As of December 2013, we had credit correlation positions, subject to the Comprehensive Risk Measure, with a fair value under UK GAAP of \$399 million in net assets and \$383 million in net liabilities.

The table below presents a breakdown of GSGUK's, GSI's and GSIB's Market Risk Capital Requirement.

Table 14: Market Risk Capital Requirement

<i>\$ in millions</i>	as at 31 December 2013		
	GSGUK	GSI	GSIB
Regulatory VaR	\$627	\$554	\$73
Stressed VaR	1,109	970	139
Incremental Risk Charge	807	414	393
All Price Risk Measure ¹	302	302	0
Other	697	654	43
Model-Based Rules	3,542	2,894	648
Interest Rate Risk	1,371	1368	3
Equity Risk	139	139	0
Option Risk	58	58	0
Collective Investment Scheme Risk	55	55	0
Commodity Risk	195	88	0
Foreign Exchange Risk	147	109	36
Standardised Rules	1,965	1,817	39
Securitization²	335	335	0
Total Market Risk Capital Requirement	\$5,842	\$5,046	\$687

1. The APRM calculation resulted in a requirement of \$410m however the number referenced in the table above is the standard rules floor, excluding the amount that is deducted from capital resources.
2. This excludes amounts deducted from capital resources.

In the following table in respect of GSGUK, Regulatory VaR and Stressed VaR (SVaR) are expressed as 99% 10-day measures, and IRC is expressed at 99.9% over a 1 year time horizon, with an average liquidity horizon of 3 months.

Table 15: Model-Based Measures

<i>\$ in millions</i>	Regulatory VaR¹	SVaR¹	IRC	APRM²
High	\$245	\$483	\$2,110	\$1,122
Low	192	343	712	517
Mean	216	400	1,219	844
Period End	\$209	\$370	\$807	\$517

1. Regulatory VaR and Stressed VaR are 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.
2. The APRM number referenced in the table above is the standard rules floor, including the amount that is deducted from capital resources.

Pillar 3 Disclosures

The table below presents by risk category our period-end, high, low and mean of the daily GSGUK 95% one day VaR.

Table 16: Risk Management VaR

\$ in millions	Year Ended December 2013			
	Period End	High	Low	Mean
GSGUK	\$38	\$62	\$25	\$38
Interest Rates	28	42	19	30
Equity Prices	20	55	10	17
Currency Rates	6	8	2	5
Commodity Prices	0	3	0	1
Diversification ¹	(17)			

1. 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

Model Review and Validation

The models discussed above, which are used to determine VaR, SVaR, Incremental Risk and Comprehensive Risk, are subject to review and validation by the firm's 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.

These models are regularly reviewed and enhanced in order to incorporate changes in the composition of trading positions, as well as variations in market conditions. Prior to implementing significant changes to assumptions and/or models, we perform model validation and test runs. Significant changes to the firm's models are reviewed with the firm's Chief Risk Officer and chief financial officer, and approved by the Firmwide Risk Committee.

Regulatory VaR Backtesting Results

As required by the BIPRU 7 market risk regulatory capital rules, 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 BIPRU 7 market risk regulatory capital rules, 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, see "Market Risk Management" in Part I, Item 2 "Management Discussion and Analysis of Financial Condition and Results of Operations" in the firm's Quarterly Report on Form 10-Q.

Overall the backtesting results were well within the expected threshold over the year.

Stress Testing

Stress testing is a method of determining the effect on the firm and GSGUK 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 GSGUK. We use a variety of stress testing techniques to calculate the potential loss from a wide range of market moves on GSGUK's portfolios, including sensitivity analysis, scenario analysis and firmwide stress tests.

For a detailed description of the firm's stress testing practices, see "Risk Management and Risk Factors – Market Risk Management – Stress Testing" in Part I, Item 2 "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the firm's Quarterly Report on Form 10-Q.

Pillar 3 Disclosures**Securitization Positions**

The "Securitization Framework" section of the PRA's BIPRU rules is used to calculate the RWAs for any trading position that has been identified as a securitization or resecuritization (for detailed descriptions of the regulatory definition of a securitization and of the hierarchy of approaches used within the Securitization Framework to calculate regulatory capital requirements, see "Securitized in the Banking Book"). Products covered by the regulatory definition of a securitization 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.

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 GSGUK's 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.

Table 17: Trading Book Securitization Exposures

<i>\$ in millions</i>	As at 31 December 2013
Residential Mortgages	\$1,189
Commercial Mortgages	817
Corporates ¹	1,094
Asset-Backed and Other	3,230
Total Securitization Exposures²	\$6,330

1. Reflects corporate collateralized debt and loan obligations.

2. Includes securities with a fair value of \$3.03 billion.

Securitization positions, including resecuritizations, are incorporated into our overall risk management approach for financial instruments. For a detailed discussion of the firm's risk management process and practices, see "Risk Management and Risk Factors – Market Risk Management" and "Risk Management and Risk Factors – 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 public credit ratings and the remaining contractual maturity of the position. The add-on for corporate entities that have issued public financial instruments is based on public credit ratings 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.

Pillar 3 Disclosures**Operational Risk**

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Our exposure to operational risk arises from routine processing errors as well as extraordinary incidents, such as major systems failures. Potential types of loss events related to internal and external operational risk include:

- Clients, products and business practices;
- Execution, delivery and process management;
- Business disruption and system failures;
- Employment practices and workplace safety;
- Damage to physical assets;
- Internal fraud; and
- External fraud

The firm maintains a comprehensive control framework designed to provide a well-controlled environment to minimize operational risks. The Firmwide Operational Risk Committee, along with the support of the EMEA Operational Risk Committee and entity-specific working groups or committees, provides oversight of the ongoing development and implementation of the firm's operational risk policies and framework. Operational Risk Management is a risk management function independent of the firm's revenue-producing units, reports to the firm's Chief Risk Officer, and is responsible for developing and implementing policies, methodologies and a formalized framework for operational risk management with the goal of minimizing the firm's exposure to operational risk. These policies and the operational risk management process described below also apply to the operational risk exposures of GSGUK.

Operational Risk Management Process

Managing operational risk requires timely and accurate information as well as a strong control culture. The firm seeks to manage our operational risk through:

- the training, supervision and development of the firm's people;
- the active participation of senior management in identifying and mitigating key operational risks across the firm;
- independent control and support functions that monitor operational risk on a daily basis and implementation of extensive policies and procedures, and controls designed to prevent the occurrence of operational risk events;

- proactive communication between our revenue-producing units and the firm's independent control and support functions; and
- a network of systems throughout the firm to facilitate the collection of data used to analyze and assess our operational risk exposure.

The firm combines top-down and bottom-up approaches to manage and measure operational risk. From a top-down perspective, senior management assess firmwide and business level operational risk profiles. From a bottom-up perspective, revenue-producing units and independent control and support functions are responsible for risk management on a day-to-day basis, including identifying, mitigating, and escalating operational risks to senior management.

The firm's operational risk framework has evolved based on the changing needs of our businesses and regulatory guidance. The framework comprises the following practices:

- risk identification and reporting;
- risk measurement; and
- risk monitoring.

Internal Audit performs an independent review of the firm's operational risk framework, including key controls, processes and applications, on an annual basis to assess the effectiveness of the framework.

Risk Identification and Reporting

The core of the firm's operational risk management framework is risk identification and reporting. The firm has a comprehensive data collection process, including firmwide policies and procedures, for operational risk events.

The firm has established policies that require managers in the revenue-producing units and independent control and support functions to escalate operational risk events. When operational risk events are identified, the firm's policies require that the events be documented and analyzed to determine whether changes are required in systems and/or processes to further mitigate the risk of future events.

Pillar 3 Disclosures

In addition, the firmwide systems capture internal operational risk event data, key metrics such as transaction volumes, and statistical information such as performance trends. The firm uses an internally-developed operational risk management application to aggregate and organize this information. Managers from both revenue-producing units and independent control and support functions analyze the information to evaluate operational risk exposures and identify businesses, activities or products with heightened levels of operational risk. The firm also provide periodic operational risk reports to senior management, risk committees and the Board.

Risk Monitoring

The firm evaluates changes in the operational risk profile of businesses, including changes in business mix or jurisdictions in which the firm operates, by monitoring the factors noted above. The firm has both preventive and detective internal controls, which are designed to reduce the frequency and severity of operational risk losses and the probability of operational risk events. The firm monitors the results of assessments and independent internal audits of these internal controls.

GSGUK's capital requirements for operational risk are currently calculated under the Standardised Approach in accordance with BIPRU. GSI also follows this method. GSIB applies the Basic Indicator Approach in accordance with BIPRU.

The table below presents the operational risk capital requirement for GSGUK, GSI and GSIB.

Table 18: Operational Risk Capital Requirement

<i>\$ in millions</i>	as at 31 December 2013		
	GSGUK	GSI	GSIB
Standardised Approach	\$1,150	\$1,079	
Basic Indicator Approach			\$18

Interest Rate Risk in the Banking Book

Our banking book interest rate risk is primarily floating rate or hedged. These positions are principally funded with floating rate liabilities. Consequently, our banking book activities have immaterial exposure to movements in interest rates.

For information regarding asset-liability management, see "Risk Management and Risk Factors – Liquidity Risk Management" in Part I, Item 2 "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the firm's Quarterly Report on Form 10-Q.

Overview and Structure of Risk Management

Overview. Effective risk management is of primary importance to the success of the firm and GSGUK. Accordingly, we have comprehensive risk management processes through which the risks associated with our business are monitored, evaluated and managed. These risks include market, credit, liquidity, operational, legal, regulatory and reputational risks. Our risk management framework is built around three core components: governance, processes and people.

Governance. Our senior managers lead and participate in risk-oriented committees, as do the leaders of its 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.

We promote active communication about risk and 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 defence in managing risk rests with the managers in the 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 a strong culture of escalation and accountability across all division 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 our inventory to current market levels. We carry our 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.

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 us 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. 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 behaviour 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 our 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 GSGUK, 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. The firm's 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 the firm's 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. We also have a number of regional and entity committees for the entities forming part of GSGUK. 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 our 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.

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In addition, independent control and support functions, which report to the firm's chief financial officer, the general counsel, and the chief administrative officer are responsible for day-to-day oversight or monitoring of risk. Internal Audit, which reports to the Audit Committee of the Group Inc. 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.

Capital Adequacy

Overview

Capital adequacy is of critical importance to us. Our objective is to be conservatively capitalised 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 capital we maintain.

We determine the appropriate level and composition of capital by considering multiple factors including current and future consolidated regulatory capital requirements, our Internal Capital Adequacy Assessment Process (ICAAP), and results of stress tests, 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. 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.

For additional information regarding the firm's Comprehensive Capital Analysis and Review (CCAR) and Dodd-Frank Act Stress Tests (DFAST), see "Management's Discussion and Analysis of Financial Condition and Results of Operations – Equity Capital Management and Regulatory Capital" in Part I, Item 2 of the firm's Quarterly Report on Form 10-Q.

Internal Capital Adequacy Assessment Process

We perform an ICAAP with the objective of ensuring that GSGUK 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, concentration 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 additionally consider other risks and whether and to what extent capital is required to cover these 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. Stress testing is an integral component of our ICAAP and is designed to measure our estimated performance under various stressed market conditions and assists us in analyzing whether GSGUK holds an appropriate amount of capital relative to the risks of our businesses. 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.

Regulatory Reform

In June 2013, the European Union (the EU) approved the revised capital regulations establishing a new capital framework for EU-regulated financial institutions (the Capital Requirements Directive and Capital Requirements Regulation, collectively known as 'CRD IV'). These regulations are largely based on the Basel Committee's December 2010 final capital framework for strengthening international capital standards (Basel III).

The revised EU regulations introduced changes to the definition of regulatory capital which, subject to transitional provisions, became effective on 1 January 2014. These changes include detailed criteria for instruments to be recognized as CET1. In addition, the definition of Tier 1 capital has been narrowed to include only CET1 and other instruments which meet certain criteria.

Certain aspects of the requirements phase in over time, including increases in the minimum capital ratio requirements and the introduction of new capital buffers and certain deductions from and adjustments to regulatory capital.

The minimum CET1 Ratio is 4.0% as of 1 January 2014 and will increase to 4.5% on 1 January 2015. The minimum Tier 1 Capital Ratio increased from 4.0% to 5.5% on 1 January 2014 and will increase to 6.0% beginning 1 January 2015. The minimum Total Capital Ratio remains unchanged at 8.0%. These minimum ratios will be supplemented by a new capital conservation buffer that phases in, beginning 1 January 2016, in increments of 0.625% per year until it reaches 2.5% on 1 January 2019. The revised regulations also introduce 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.

CRD IV introduces a number of changes in the calibration of RWAs, in addition to new concepts that were previously not captured in RWAs.

CRD IV regulations will also introduce a new leverage ratio which compares Tier 1 capital (as defined under the revised framework) to a measure of leverage exposure, defined as the sum of assets less CET1 deductions plus off-balance sheet exposures (including a measure of derivatives exposures, securities financing transactions and commitments). The leverage ratio becomes effective 1 January 2018, although public disclosure commences from 2015.

The table below presents a breakdown of actual capital components and capital ratios under CRD IV on a fully phased-in basis as at 30 June 2014 given the publication date of these disclosures.

Table 19: Available Capital and Ratios under CRD IV

<i>\$ in millions</i>	as at 30 June 2014		
	GSGUK	GSI	GSIB
Ordinary Share Capital	\$4,832	\$533	\$63
Share Premium Account Inc Reserves	382	2,880	2,094
Retained Earnings	19,238	16,887	438
CET1 Capital (before Deductions)	24,452	20,300	2,595
Deductions from CET1 Capital	(1,035)	(948)	(130)
CET1 Capital (after Deductions)	23,417	19,352	2,465
Tier 1 Capital	23,417	19,352	2,465
Tier 2 Capital (before Deductions)	7,284	6,458	826
Deductions from Tier 2 Capital	(826)	0	(80)
Tier 2 Capital	6,458	6,458	746
Total Available Capital (Net of Deductions)	\$29,875	\$25,810	\$3,211
Risk-Weighted Assets	\$240,134	\$227,213	\$9,491
CET1 Ratio	9.8%	8.5%	26.0%
Tier 1 Capital Ratio	9.8%	8.5%	26.0%
Total Capital Ratio	12.4%	11.4%	33.8%

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 actual capital ratios under CRD IV as at 30 June 2014. The statements with respect to the estimated ratios are forward-looking statements, based on our current interpretation, expectations and understandings of CRD IV, and reflect assumptions concerning the treatment of various assets and liabilities and the manner in which our capital ratios are calculated. As a result, the methods used to calculate these estimates may differ, possibly materially, from those used in calculating the estimates for any future voluntary disclosures as well as those used when such ratios are required to be disclosed. The ultimate methods of calculating the ratios will depend among other things on the implementation of guidance from the authorities and the development of market practices and standards.

It is possible 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 the firm's Annual Report on Form 10-K.

Glossary

- **Advanced Internal Ratings-Based (AIRB).** The AIRB approach of Basel II provides a methodology for banks, subject to supervisory approval, to use various risk parameters to determine the EAD and risk-weights for regulatory capital calculations. Other risk parameters used in the determination of risk weights are each counterparty's Probability of Default (PD), Loss Given Default (LGD) and the effective maturity of the trade or portfolio of trades.
- **Comprehensive Risk or All Price Risk Measure.** 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.** A default is considered to have occurred when either or both of the two following events have taken place: (i) the firm considers that the obligor is unlikely to pay its credit obligations to us in full; or (ii) the obligor has defaulted on a payment and/or is past due more than 90 days on any material Wholesale credit obligation, 180 days on residential mortgage obligations or 120 days on other retail obligations.
- **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.
- **Effective Expected Positive Exposure (EEPE).** The time-weighted average of non-declining positive credit exposure over the EE simulation. EEPE is used under the IMM as the exposure measure that is then risk weighted to determine counterparty risk capital requirements.
- **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.
- **Expected Exposure (EE).** The expected value of the probability distribution of non-negative credit risk exposures to a counterparty at any specified future date before the maturity date of the longest term transaction in a netting set.
- **Exposure at Default (EAD).** The exposure amount that is risk weighted for regulatory capital calculations. For on-balance-sheet assets, such as receivables and cash, EAD is generally based on the balance sheet value. For the calculation of EAD for off-balance-sheet exposures, including commitments and guarantees, an equivalent exposure amount is calculated based on the notional amount of each transaction multiplied by a credit conversion factor designed to estimate the net additions to funded exposures that would be likely to occur over a one-year horizon, assuming the obligor were to default. For substantially all of the counterparty credit risk arising from OTC derivatives and securities financing transactions, internal models calculate the distribution of exposure upon with the EAD calculation is based.
- **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.
- **Internal Models Methodology (IMM).** The IMM under the PRA's BIPRU rules establishes a methodology for entities to use their internal models to estimate exposures arising from OTC derivatives, securities financing transactions, and eligible margin loans, subject to qualitative and quantitative requirements and supervisory approval.
- **Loss Given Default (LGD).** An estimate of the economic loss rate if a default occurs during economic downturn conditions.
- **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.

Pillar 3 Disclosures

- **Operational Risk.** The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.
- **Probability of Default (PD).** Estimate of the probability that an obligor will default over a one-year horizon.
- **Ratings Based Approach.** Under the ratings based method, the risk weighted exposure amount of a rated securitization position or resecuritization position must be calculated by applying to the exposure value the risk weight associated with the credit quality step with which the credit assessment is associated as prescribed in BIPRU 9.12.11 multiplied by 1.06.
- **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 a transaction in which the credit risk associated with an exposure or pool of exposures is separated into tranches (where a tranche represents a contractually established segment of the credit risk associated with an exposure or number of exposures, where a position in the segment entails a risk of credit loss greater than or less than a position of the same amount in each other such segment, without taking account of credit protection provided by third parties directly to the holders of positions in the segment or in other segments); payments in the transaction or scheme are dependent upon the performance of the exposure or pool of exposures; and the subordination of tranches determines the distribution of losses during the ongoing life of the transaction or scheme.
- **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.
- **Stress Testing.** Stress testing is a method of determining the effect on the firm of various hypothetical stress scenarios.
- **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.
- **Synthetic Securitization.** Defined as a securitization transaction in which the tranching is achieved by the use of credit derivatives or guarantees, and the pool of exposures is not removed from the balance sheet of the originator.
- **Traditional Securitization.** Defined as a securitization transaction which involves the economic transfer of the exposures being securitized to a securitization special purpose entity which issues securities; and so that this must be accomplished by the transfer of ownership of the securitized exposures from the originator or through sub-participation; and the securities issued do not represent payment obligations of the originator.
- **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.
- **Wholesale Exposure.** A term used to refer collectively to credit exposures to companies, sovereigns or government entities (other than securitization, retail or equity exposures).

UK Remuneration Disclosures

The following disclosures are made in accordance with section 11.5.18 R of the UK Prudential Regulation Authority's ("PRA") Prudential sourcebook for Banks, Building Societies and Investment Firms ("BIPRU"), and the requirements of the Remuneration Code of the PRA and the Financial Conduct Authority ("FCA") (previously the Financial Services Authority ("FSA") (the "Remuneration Code") in respect of Goldman Sachs International, Goldman Sachs International Bank, Goldman Sachs Asset Management International and Montague Place Custody Services (together, the "UK Companies"¹).

Remuneration Programme Philosophy

Retention of talented employees is critical to executing the firm's business strategy successfully. Remuneration is, therefore, a key component of the costs the firm incurs to generate revenues, similar to cost of goods sold or manufacturing costs in other industries.

The remuneration philosophy and the objectives of the remuneration programme for the firm are reflected in GS Group's Compensation Principles as posted on the Goldman Sachs public website

<http://www.goldmansachs.com/investor-relations/corporate-governance/corporate-governance-documents/compensation-principles.pdf>

The firm's Compensation Principles were approved by shareholders at the 2010 annual shareholders' meeting. In particular, effective remuneration practices should:

- (i) Encourage a real sense of teamwork and communication, binding individual short-term interests to the institution's long-term interests;
- (ii) Evaluate performance on a multi-year basis;
- (iii) Discourage excessive or concentrated risk-taking;
- (iv) Allow an institution to attract and retain proven talent; and
- (v) Align aggregate remuneration for the firm with performance over the cycle.

Remuneration Governance

The Compensation Committee

The Board of Directors of GS Group (the "Board") oversees the development, implementation and effectiveness of the firm's global remuneration practices, which it generally exercises directly or through delegation to the Compensation Committee of the Board (the "Compensation Committee"). The responsibilities of the Compensation Committee include:

- Review and approval of (or recommendation to the Board to approve) the firm's variable remuneration structure, including the portion to be paid as equity-based awards, all year-end equity-based grants for eligible employees (including those employed by the UK Companies), and the terms and conditions of such awards.
- Assisting the Board in its oversight of the development, implementation and effectiveness of policies and strategies relating to the Human Capital Management ("HCM") function, including recruiting, retention, career development and progression, management succession (other than that within the purview of the Corporate Governance, Nominating and Public Responsibilities Committee) and diversity.

The Compensation Committee held 8 meetings in 2013 to discuss and make determinations regarding remuneration.

The members of the Compensation Committee at the end of 2013 were James A. Johnson (Chair), M. Michele Burns, Claes Dahlbäck, William W. George, Lakshmi N. Mittal, James J. Schiro, Debora L. Spar, Adebayo O. Ogunlesi and Mark E. Tucker. None of the members of the Compensation Committee were an employee of the firm. All members of the Compensation Committee were "independent" within the meaning of the New York Stock Exchange Rules and the firm's Director Independence Policy, and were also members of the Audit Committee, the Corporate Governance, Nominating and Public Responsibilities Committee and the Risk Committee of the Board.

¹ These disclosures include any employees assigned from time to time to Goldman Sachs Bank (USA) London branch

Pillar 3 Disclosures

Role of the Relevant Stakeholders

In carrying out the responsibilities of the Compensation Committee, individual members of the Compensation Committee met multiple times with senior management during the year. In addition, the Chair of the Compensation Committee met frequently with the firm's Chief Financial Officer ("CFO") and other members of senior management.

The firm's Chief Risk Officer ("CRO") presented an annual compensation-related risk assessment to the Compensation Committee, meeting jointly with the Risk Committee of the Board, to assist the Compensation Committee in its assessment of the effectiveness of the firm's remuneration programme in addressing risk, and particularly, whether the programme is consistent with regulatory guidance that financial services firms ensure variable remuneration does not encourage imprudent risk-taking.

The firm's global process for setting variable remuneration (including the requirement to consider risk and compliance issues) applies to employees of the UK Companies in the same way as to employees in other regions and is subject to oversight by the senior management of the firm in the region. The firm uses a highly disciplined and robust process for setting variable remuneration across all divisions and regions, which occurs prior to the Compensation Committee's review and approval. The process involves divisional compensation managers, divisional compensation committees, division heads, HCM, the firmwide Management Committee (the firm's most senior executives), senior management (e.g., the firm's Chief Executive Officer ("CEO"), the Chief Operating Officer ("COO"), the CFO and the Head of HCM) and/or the Compensation Committee, as appropriate.

In addition, as part of the remuneration determination process, members of the firm's Compliance, Risk, Employment Law Group and Employee Relations functions make recommendations to divisional management to take into consideration all compliance or conduct-related disciplinary matters when determining remuneration of individuals. Before any remuneration decisions are finalised, Employee Relations and the Employment Law Group assess the recommended remuneration for these individuals in the context of overall performance and other factors, and recommendations are reviewed with respect to comparators.

External Consultants

The Compensation Committee has for several years recognised the importance of using an independent remuneration consultant that is appropriately qualified and that provides services solely to the Compensation Committee and not to the firm. The Compensation Committee continued to retain Semler Brossy Consulting Group LLC ("Semler Brossy") as its independent remuneration consultant in 2013. Consistent with past practice, the Compensation Committee asked Semler Brossy during 2013 to assess the remuneration programme for Participating Managing Directors ("PMDs", the firm's approximately 440 most senior employees as at 31 December 2013), and to identify the challenges and accompanying considerations that could inform remuneration decisions for 2013.

In connection with its work for the Compensation Committee, Semler Brossy reviewed the information provided to the Compensation Committee by the CFO, HCM, and the firm's remuneration consultants. In its assessment of the 2013 remuneration programme for PMDs, Semler Brossy confirmed that, consistent with 2012, the programme has been aligned with, and is sensitive to, corporate performance, contains features that reinforce significant alignment with shareholders and a long-term focus, and utilises policies and procedures, including subjective determinations that facilitate the firm's approach to risk-taking and risk management by supporting the mitigation of known and perceived risks.

Semler Brossy also reviewed and participated in the CRO's annual compensation-related risk assessment that was presented to the Compensation Committee, meeting jointly with the Risk Committee of the Board, in December 2013 to facilitate discussion on risk management and the remuneration programme.

Pillar 3 Disclosures**Link Between Pay and Performance**

In 2013, annual remuneration for employees was generally comprised of salary and variable remuneration. The firm's remuneration practices provide for variable remuneration determinations to be made on a discretionary basis. Variable remuneration is based on multiple factors and is not set as a fixed percentage of revenue or by reference to any other formula. Firmwide performance is a key factor in determining variable remuneration.

The firm is committed to aligning variable remuneration with performance. In order to do so, the performance of the firm, division and individual over the past year, as well as over the past several years, are taken into account. The firm believes that the firm's senior leaders have responsibility for overall performance and, as a result, senior employees have experienced more volatility in their remuneration year-over-year, particularly in periods when net revenues have declined significantly.

The firm believes that multi-year guarantees should be avoided entirely to avoid misaligning remuneration and performance, and guaranteed remuneration in employment contracts should be used only in exceptional circumstances (for example, for certain new hires).

Performance Measurement

In connection with making remuneration decisions for 2013, the Compensation Committee reviewed with the CFO certain firmwide financial metrics and year-on-year changes, including the following:

- Return on average common shareholders' equity ("ROE");
- Diluted earnings per common share;
- Book value per share ("BVPS");
- Net earnings;
- Net revenues;
- Remuneration and benefits expense;
- Ratio of remuneration and benefits to net revenues; and
- Non-remuneration expense.

No specific goals for these metrics were used, nor were any specific weights ascribed to them, in making remuneration determinations.

Additionally, each revenue-producing division, in coordination with the CRO, identified the quantitative and/or qualitative financial metrics (none of which are given specific weight in determining remuneration) specific to the division, its business units and, where applicable, desks to be used to evaluate the performance of the division and its employees. Metrics included, but were not limited to:

- For the *Investment Bank*: Pre-tax income, lost business, revenue and backlog, client team and activity, relationship lending history, principalling, key transactions, as well as franchise accretion.
- For the *Investment Manager*: Revenues, pre-tax profit, pre-tax margin, assets under management and net sales (including gross contributions and redemptions), as well as business-specific measures such as client metrics for distribution channels and investment performance and risk measures for the portfolio management business units.

All employees are evaluated annually as part of the "360 degree" feedback process. This process reflects input from a number of employees, including supervisors, peers and those who are junior to the employee, regarding an array of performance measures for 2013. The detailed performance evaluations for 2013 included assessments of risk management, reputational judgment and compliance with firm policies, as well as teamwork, citizenship and communication.

Pillar 3 Disclosures**Risk Adjustment**

Prudent risk management is a hallmark of the firm's culture and sensitivity to risk and risk management are key elements in assessing employee performance, including as part of the "360 degree" feedback process noted above.

The firm takes risk into account in setting the amount and form of variable remuneration for employees. Different lines of business have different risk profiles and these are taken into account when determining remuneration. These include credit, market, liquidity, operational, reputational, legal and compliance risks. Guidelines are provided to assist compensation managers when applying discretion during the remuneration process to promote consistent consideration of the different risks presented by the firm's businesses. Further, to ensure the independence of control function employees, remuneration for those employees is not determined by individuals in revenue-producing positions but rather by the management of the relevant control function.

For 2013, all employees with total remuneration above a particular threshold were subject to deferral of part of their variable remuneration in the form of an equity-based award. As in prior years, all 2013 equity-based awards were subject to a number of terms and conditions that could result in forfeiture or recapture. For further details, see "Structure of Remuneration" below.

In the 2013 annual compensation-related risk assessment presented to the Compensation Committee, meeting jointly with the Risk Committee of the Board, the CRO presented his view that the various components of the firm's remuneration programmes and policies (for example, process, structure and governance) worked together to balance risk and incentives in a manner that does not encourage imprudent risk-taking. In addition, the CRO stated that the firm has a risk management process that, among other things, is consistent with the safety and soundness of the firm and focuses on our:

- (i) *Risk management culture*: while the nature of the firm's business requires certain employees to make decisions involving the use of firm capital on a daily basis, the firm's culture emphasises continuous and prudent risk management
- (ii) *Risk-taking authority*: there is a formal process for identifying employees who, individually or as part of a group, have the ability to expose the firm to material amounts of risk

- (iii) *Upfront risk management*: the firm has tight controls on the allocation, utilisation and overall management of risk-taking, as well as comprehensive profit and loss and other management information which provide ongoing performance feedback
- (iv) *Remuneration structure and policies*: there are rigorous, multi-party (i) employee performance assessments and (ii) remuneration decisions
- (v) *Governance*: the oversight of the Board, management structure and the associated processes all contribute to a strong control environment and control functions have input into remuneration structure and design

Structure of Remuneration*Fixed Remuneration*

In fiscal year 2010, the firm introduced a global salary approach to ensure greater consistency in salary levels and to achieve an appropriate balance between fixed and variable remuneration. For 2013, increases in salaries for UK employees were generally determined based on total remuneration levels and/or corporate title (the approach to the determination and payment of fixed remuneration has subsequently been reviewed in response to the introduction of a cap on the ratio of fixed to variable remuneration in the Remuneration Code).

Variable Remuneration

For employees with total remuneration above a specific threshold, variable remuneration is generally paid in a combination of cash and equity-based remuneration. In general, the portion paid in the form of an equity-based award increases as variable remuneration increases and, for Remuneration Code Staff, is set to ensure compliance with Principles 12(f) and 12(g) of the Remuneration Code.

The variable remuneration programme is flexible to allow the firm to respond to changes in market conditions and to maintain its pay-for-performance approach. Variable remuneration is discretionary (even if paid consistently over a period of years).

Pillar 3 Disclosures*Equity Remuneration*

The firm believes that remuneration should encourage a long-term, firmwide approach to performance and discourage imprudent risk-taking. Paying a significant portion of variable remuneration in the form of equity-based remuneration that delivers over time, changes in value according to the price of shares of common stock ("shares") of GS Group, and is subject to forfeiture or recapture encourages a long-term, firmwide focus because its value is realised through long-term responsible behaviour and the financial performance of the firm.

The firm imposes transfer restrictions, retention requirements and anti-hedging policies to further align the interests of the firm's employees with those of the firm's shareholders. The firm's retention policies, coupled with the practice of paying senior employees a significant portion of variable remuneration in the form of equity-based awards, leads to a considerable investment in shares of GS Group over time.

In addition, from time to time, the firm may make awards consisting of unfunded, unsecured promises to deliver other instruments on terms and conditions that are substantially similar to those applicable to Restricted Stock Units ("RSUs") described below.

- **Deferral Policy:** The deferred portion of fiscal year 2013 annual remuneration was generally awarded in the form of RSUs. An RSU is an unfunded, unsecured promise to deliver a share on a predetermined date. RSUs awarded in respect of fiscal year 2013 deliver in three equal instalments on or about each of the first, second and third anniversaries of the grant date, assuming the employee has satisfied the terms and conditions of the award at each such date.
- **Transfer Restrictions:** In addition, the firm requires all individuals to hold, until the expiration of a period of up to five years from grant, a material portion of the shares they receive in respect of RSUs granted as part of their variable remuneration according to the firm's global deferral table. These transfer restrictions apply to the lower of 50% of the shares delivered before reduction for tax withholding, or the number of shares received after reduction for tax withholding. Because combined tax and social security rates in the United Kingdom are close to or exceed 50%, transfer restrictions apply to all, or substantially all, net shares delivered to employees resident in the United Kingdom.

An employee generally cannot sell, exchange, transfer, assign, pledge, hedge or otherwise dispose of any RSUs or shares that are subject to transfer restrictions.

- **Retention Requirement:** All shares delivered to employees designated as Remuneration Code Staff are subject to retention in accordance with Principle 12(f) of the Remuneration Code. In addition, for 2013, the firm required each of the CEO, CFO, COO and Vice Chairmen of GS Group, for so long as each holds such position, to retain sole beneficial ownership (including, in certain cases, ownership through their spouse or estate planning entities established by them) of a number of shares equal to at least 75% of the shares received (net of payment of any option exercise price and taxes) as remuneration since becoming a senior executive. The firm imposes a similar retention requirement, equal to 25%, on other PMDs. These shares are referred to as "retention shares".

Forfeiture and Recapture Provisions:

The RSUs and shares delivered thereunder are subject to forfeiture or recapture if the Compensation Committee determines that during 2013 the employee participated (which could include, depending on the circumstances, participation in a supervisory role) in the structuring or marketing of any product or service, or participated on behalf of the firm or any of its clients in the purchase or sale of any security or other property, in any case without appropriate consideration of the risk to the firm or the broader financial system as a whole (for example, if the employee were to improperly analyse risk or fail sufficiently to raise concerns about such risk) and, as a result of such action or omission, the Compensation Committee determines there has been, or reasonably could be expected to be, a material adverse impact on the firm, the employee's business unit or the broader financial system.

This provision is not limited to financial risks and is designed to encourage the consideration of the full range of risks associated with the activities (for example, legal, compliance or reputational). The provision also does not require that a material adverse impact actually occur, but rather may be triggered if the firm determines that there is a reasonable expectation of such an impact.

The Compensation Committee previously adopted guidelines that set forth a formal process regarding determinations to forfeit or recapture awards for improper risk analysis upon the occurrence of certain pre-determined events (for example, in the event of annual firmwide, divisional, business unit or individual losses). The review of whether forfeiture or recapture is appropriate includes input from the CRO, as well as representatives from Finance, Legal and Compliance. Determinations are made by the Compensation Committee or its delegates, with any determinations made by delegates reported to the Compensation Committee.

Pillar 3 Disclosures

RSUs granted to all Remuneration Code Staff are subject to forfeiture until delivery of the underlying shares if GS Group is determined by U.S. bank regulators to be "in default" or "in danger of default" as defined under the US Dodd-Frank Wall Street Reform and Consumer Protection Act 2010, or fails to maintain for 90 consecutive business days, the required "minimum tier 1 capital ratio" (as defined under Federal Reserve Board regulations). RSUs are also subject to forfeiture if the firm or the relevant business unit suffers a material downturn in financial performance or if there is a material failure of risk management.

An employee's RSUs may also be forfeited, and shares delivered thereunder recaptured if the employee engages in conduct constituting "cause" at any time before the RSUs are delivered and any applicable transfer restrictions lapse. Cause includes, among other things, any material violation of any firm policy, any act or statement that negatively reflects on the firm's name, reputation or business interests and any conduct detrimental to the firm.

With respect to all of the forfeiture conditions, if the firm determines after delivery or release of transfer restrictions that an RSU or share delivered thereunder should have been forfeited or recaptured, the firm can require return of any shares delivered or repayment to the firm of the fair market value of the shares when delivered (including those withheld to pay taxes) or any other amounts paid or delivered in respect thereof.

- **Hedging:** The firm's anti-hedging policy ensures employees maintain the intended exposure to the firm's stock performance. In particular, all employees are prohibited from hedging RSUs and shares that are subject to transfer restrictions and, in the case of PMDs, retention shares. In addition, executive officers of GS Group are prohibited from hedging any shares that they can freely sell. Employees, other than executive officers, may hedge only shares that they can otherwise sell. However, no employee may enter into uncovered hedging transactions or sell short any shares. Employees may only enter into transactions or otherwise make investment decisions with respect to shares during applicable "window periods."

- **Treatment upon Termination or Change-in-Control:**

As a general matter, delivery schedules are not accelerated, and transfer restrictions are not removed, when an employee leaves the firm. The limited exceptions include death and "conflicted employment". In addition, a change in control alone is not sufficient to trigger acceleration of any deliveries or removal of transfer restrictions; only if the change in control is followed within 18 months by a termination of employment by the firm without "cause" or by the employee for "good reason" will delivery and release of transfer restrictions be accelerated.

Long-Term Performance Incentive Plan ("LTIP")

The Compensation Committee approved a limited number of awards under the LTIP, which allows the Compensation Committee to award remuneration based on specific performance metrics. The LTIP is intended to incentivise long-term performance in a manner that does not encourage imprudent risk-taking. Awards are not considered part of annual remuneration.

Both the performance metrics and thresholds of awards made under this plan are meant to provide an appropriate focus on long-term shareholder returns. Subject to Compensation Committee discretion, under the terms of the awards, recipients will be rewarded for generating strong shareholder returns over a forward-looking period.

The following tables show aggregate quantitative remuneration information for 121 employees, categorised as Remuneration Code Staff for the purposes of the Remuneration Code in respect of their duties for the UK Companies. The PRA was consulted on these awards as part of their normal assessment of remuneration.

Remuneration Code Staff are also eligible to receive certain general non-discretionary ancillary payments and benefits on a similar basis to other employees. These payments and benefits are not included in the disclosures below.

Pillar 3 Disclosures*Aggregate remuneration by business area*

The amounts below include fixed and variable remuneration paid or awarded for the financial year ended 31 December 2013:

	Investment Bank	Investment Manager	Control Function	Total
Non-equity remuneration (\$ in millions)	129.1	34.9	29.6	193.6
Restricted Stock Units (number of RSUs in 000s)	1,621	287	221	2,129

Aggregate remuneration: split between fixed and variable remuneration and forms of variable remuneration

Remuneration paid or awarded for the financial year ended 31 December 2013 comprised fixed remuneration (salaries and director fees) and variable remuneration. The figures in the table below are split into "Senior Management" and "Other Remuneration Code Staff" according to the following definitions:

- **Senior Management:** members of the Board of Directors of Goldman Sachs International, members of the Management Committee for the Europe, Middle East and Africa ("EMEA") region, the head of each revenue-producing division in the EMEA region and heads of significant business lines in the EMEA region who perform a significant management function corresponding to PRA controlled function CF29.
- **Other Remuneration Code Staff:** other employees whose activities have a material impact on the risk profile of the firm, including individuals performing an PRA Significant Influence Function, and heads of certain divisions in EMEA that perform a control function.

As required by the PRA Pillar 3 Disclosure Rules, quantitative information has been disclosed separately for the senior personnel who effectively direct the business of Goldman Sachs International. Amounts disclosed in respect of senior personnel are also included in the amounts for senior management.

Form of Remuneration	Senior Management	Other Remuneration Code Staff	Total	Senior Personnel
Fixed (\$ in millions)	37.1	50.2	87.3	6.4
Variable, of which:				
• Non-equity remuneration (\$ in millions)	59.4	46.9	106.3	9.9
• Restricted Stock Units (number of RSUs in 000s)	1,298	831	2,129	223

Deferred Remuneration

The table below includes remuneration subject to the deferral requirements in Principle 12 of the Remuneration Code. The amounts relate only to those employees who were Remuneration Code Staff at the end of the fiscal year, 31 December 2013.

Restricted Stock Units (number of RSUs in 000s)	Senior Management	Other Remuneration Code Staff	Total	Senior Personnel
Outstanding unvested as at 1 January 2013	1,368	350	1,718	226
Awarded during 2013 ¹	1,073	721	1,794	168
Paid out during 2013	(868)	(171)	(1,039)	(154)
Reduced through performance adjustments during 2013	0	0	0	0
Outstanding unvested as at 31 December 2013 ¹	1,572	900	2,472	240

Sign-on and Severance Payments

No sign-on payments were made or awarded to Remuneration Code Staff during the year. Two Remuneration Code Staff were awarded severance payments during the year.

Severance Payments	Senior Management	Other Remuneration Code Staff	Total	Highest Individual Award
Cash awards (\$ in millions)	0	0.52	0.52	0.33

¹ Amounts disclosed above do not include awards made under the Long-Term Performance Incentive Plan described on page 8 because the forward-looking period for calculating the metrics against which any payouts are assessed is ongoing.