

GOLDMAN SACHS GROUP INC
Form 10-Q
May 09, 2013
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

X **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2013

or

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from

to

Commission File Number: 001-14965

The Goldman Sachs Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)
200 West Street, New York, N.Y.
(Address of principal executive offices)

13-4019460
(I.R.S. Employer

Identification No.)

10282
(Zip Code)

(212) 902-1000

(Registrant's telephone number, including area code)

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS

As of April 26, 2013, there were 458,505,280 shares of the registrant's common stock outstanding.

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THE GOLDMAN SACHS GROUP, INC.

QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2013

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Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements (Unaudited)**

THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Earnings**(Unaudited)**

	Three Months	
	Ended March	
<i>in millions, except per share amounts</i>	2013	2012
Revenues		
Investment banking	\$ 1,568	\$1,160
Investment management	1,250	1,105
Commissions and fees	829	860
Market making	3,437	3,905
Other principal transactions	2,081	1,938
Total non-interest revenues	9,165	8,968
Interest income	2,608	2,833
Interest expense	1,683	1,852
Net interest income	925	981
Net revenues, including net interest income	10,090	9,949
Operating expenses		
Compensation and benefits	4,339	4,378
Brokerage, clearing, exchange and distribution fees	561	567
Market development	141	117
Communications and technology	188	196
Depreciation and amortization	302	433
Occupancy	218	212
Professional fees	246	234

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Insurance reserves	127	157
Other expenses	595	474
Total non-compensation expenses	2,378	2,390
Total operating expenses	6,717	6,768
Pre-tax earnings	3,373	3,181
Provision for taxes	1,113	1,072
Net earnings	2,260	2,109
Preferred stock dividends	72	35
Net earnings applicable to common shareholders	\$ 2,188	\$2,074
Earnings per common share		
Basic	\$ 4.53	\$ 4.05
Diluted	4.29	3.92
Dividends declared per common share	\$ 0.50	\$ 0.35
Average common shares outstanding		
Basic	482.1	510.8
Diluted	509.8	529.2

The accompanying notes are an integral part of these condensed consolidated financial statements.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income**(Unaudited)**

	Three Months	
	Ended March	
<i>in millions</i>	2013	2012
Net earnings	\$2,260	\$2,109
Other comprehensive income/(loss), net of tax:		
Currency translation adjustment, net of tax	(26)	(28)
Pension and postretirement liability adjustments, net of tax	(4)	7
Net unrealized gains on available-for-sale securities, net of tax	15	30
Other comprehensive income/(loss)	(15)	9
Comprehensive income	\$2,245	\$2,118

The accompanying notes are an integral part of these condensed consolidated financial statements.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Financial Condition**(Unaudited)**

	As of	
	March	December
<i>in millions, except share and per share amounts</i>	2013	2012
Assets		
Cash and cash equivalents	\$ 63,333	\$ 72,669
Cash and securities segregated for regulatory and other purposes (includes \$22,676 and \$30,484 at fair value as of March 2013 and December 2012, respectively)	41,044	49,671
Collateralized agreements:		
Securities purchased under agreements to resell and federal funds sold (includes \$158,283 and \$141,331 at fair value as of March 2013 and December 2012, respectively)	158,506	141,334
Securities borrowed (includes \$54,879 and \$38,395 at fair value as of March 2013 and December 2012, respectively)	172,041	136,893
Receivables from brokers, dealers and clearing organizations	20,501	18,480
Receivables from customers and counterparties (includes \$7,154 and \$7,866 at fair value as of March 2013 and December 2012, respectively)	77,917	72,874
Financial instruments owned, at fair value (includes \$67,891 and \$67,177 pledged as collateral as of March 2013 and December 2012, respectively)	387,393	407,011
Other assets (includes \$13,448 and \$13,426 at fair value as of March 2013 and December 2012, respectively)	38,488	39,623
Total assets	\$959,223	\$938,555
Liabilities and shareholders' equity		
Deposits (includes \$7,070 and \$5,100 at fair value as of March 2013 and December 2012, respectively)	\$ 72,685	\$ 70,124
Collateralized financings:		
Securities sold under agreements to repurchase, at fair value	155,356	171,807
Securities loaned (includes \$2,423 and \$1,558 at fair value as of March 2013 and December 2012, respectively)	20,669	13,765
Other secured financings (includes \$28,482 and \$30,337 at fair value as of March 2013 and December 2012, respectively)	29,468	32,010
Payables to brokers, dealers and clearing organizations	6,949	5,283
Payables to customers and counterparties	196,578	189,202
Financial instruments sold, but not yet purchased, at fair value	153,749	126,644
Unsecured short-term borrowings, including the current portion of unsecured long-term borrowings (includes \$18,298 and \$17,595 at fair value as of March 2013 and December 2012, respectively)	40,980	44,304

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Unsecured long-term borrowings (includes \$12,248 and \$12,593 at fair value as of March 2013 and December 2012, respectively)	167,008	167,305
Other liabilities and accrued expenses (includes \$11,842 and \$12,043 at fair value as of March 2013 and December 2012, respectively)	38,553	42,395
Total liabilities	881,995	862,839

Commitments, contingencies and guarantees

Shareholders' equity

Preferred stock, par value \$0.01 per share; aggregate liquidation preference of \$6,200 as of both March 2013 and December 2012	6,200	6,200
Common stock, par value \$0.01 per share; 4,000,000,000 shares authorized, 822,358,425 and 816,807,400 shares issued as of March 2013 and December 2012, respectively, and 460,782,218 and 465,148,387 shares outstanding as of March 2013 and December 2012, respectively	8	8
Restricted stock units and employee stock options	3,679	3,298
Nonvoting common stock, par value \$0.01 per share; 200,000,000 shares authorized, no shares issued and outstanding		
Additional paid-in capital	48,732	48,030
Retained earnings	67,164	65,223
Accumulated other comprehensive loss	(208)	(193)
Stock held in treasury, at cost, par value \$0.01 per share; 361,576,209 and 351,659,015 shares as of March 2013 and December 2012, respectively	(48,347)	(46,850)
Total shareholders' equity	77,228	75,716
Total liabilities and shareholders' equity	\$959,223	\$938,555

The accompanying notes are an integral part of these condensed consolidated financial statements.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Changes in Shareholders' Equity**(Unaudited)**

	Three Months Ended March	Year Ended December
<i>in millions</i>	2013	2012
Preferred stock		
Balance, beginning of year	\$ 6,200	\$ 3,100
Issued		3,100
Balance, end of period	6,200	6,200
Common stock		
Balance, beginning of year	8	8
Issued		
Balance, end of period	8	8
Restricted stock units and employee stock options		
Balance, beginning of year	3,298	5,681
Issuance and amortization of restricted stock units and employee stock options	1,502	1,368
Delivery of common stock underlying restricted stock units	(1,099)	(3,659)
Forfeiture of restricted stock units and employee stock options	(18)	(90)
Exercise of employee stock options	(4)	(2)
Balance, end of period	3,679	3,298
Additional paid-in capital		
Balance, beginning of year	48,030	45,553
Delivery of common stock underlying share-based awards	1,102	3,939
Cancellation of restricted stock units in satisfaction of withholding tax requirements	(458)	(1,437)
Preferred stock issuance costs		(13)
Excess net tax benefit/(provision) related to share-based awards	58	(11)
Cash settlement of share-based compensation		(1)
Balance, end of period	48,732	48,030
Retained earnings		
Balance, beginning of year	65,223	58,834
Net earnings	2,260	7,475
Dividends and dividend equivalents declared on common stock and restricted stock units	(247)	(903)

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Dividends declared on preferred stock	(72)	(183)
Balance, end of period	67,164	65,223
Accumulated other comprehensive loss		
Balance, beginning of year	(193)	(516)
Other comprehensive income/(loss)	(15)	323
Balance, end of period	(208)	(193)
Stock held in treasury, at cost		
Balance, beginning of year	(46,850)	(42,281)
Repurchased	(1,525)	(4,637)
Reissued	38	77
Other	(10)	(9)
Balance, end of period	(48,347)	(46,850)
Total shareholders' equity	\$ 77,228	\$ 75,716

The accompanying notes are an integral part of these condensed consolidated financial statements.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows**(Unaudited)**

	Three Months	
<i>in millions</i>	Ended March	
	2013	2012
Cash flows from operating activities		
Net earnings	\$ 2,260	\$ 2,109
Adjustments to reconcile net earnings to net cash provided by/(used for) operating activities		
Depreciation and amortization	302	433
Share-based compensation	1,509	643
Changes in operating assets and liabilities		
Cash and securities segregated for regulatory and other purposes	8,527	11,165
Net receivables from brokers, dealers and clearing organizations	(339)	(2,671)
Net payables to customers and counterparties	3,356	7,290
Securities borrowed, net of securities loaned	(28,245)	(14,813)
Securities sold under agreements to repurchase, net of securities purchased under agreements to resell and federal funds sold	(33,576)	15,328
Financial instruments owned, at fair value	20,028	(22,023)
Financial instruments sold, but not yet purchased, at fair value	27,227	6,304
Other, net	(6,747)	11
Net cash provided by/(used for) operating activities	(5,698)	3,776
Cash flows from investing activities		
Purchase of property, leasehold improvements and equipment	(171)	(390)
Proceeds from sales of property, leasehold improvements and equipment	17	13
Business acquisitions, net of cash acquired	(160)	(39)
Proceeds from sales of investments	526	130
Purchase of available-for-sale securities	(501)	(653)
Proceeds from sales of available-for-sale securities	709	699
Loans held for investment, net	(1,373)	(238)
Net cash used for investing activities	(953)	(478)
Cash flows from financing activities		
Unsecured short-term borrowings, net	(435)	(869)

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Other secured financings (short-term), net	(4,824)	(483)
Proceeds from issuance of other secured financings (long-term)	1,829	798
Repayment of other secured financings (long-term), including the current portion	(969)	(4,334)
Proceeds from issuance of unsecured long-term borrowings	13,069	9,358
Repayment of unsecured long-term borrowings, including the current portion	(12,530)	(11,134)
Derivative contracts with a financing element, net	380	208
Deposits, net	2,562	4,765
Common stock repurchased	(1,525)	(365)
Dividends and dividend equivalents paid on common stock, preferred stock and restricted stock units	(319)	(220)
Proceeds from issuance of common stock, including stock option exercises	14	39
Excess tax benefit related to share-based compensation	63	70
Cash settlement of share-based compensation		(1)
Net cash used for financing activities	(2,685)	(2,168)
Net increase/(decrease) in cash and cash equivalents	(9,336)	1,130
Cash and cash equivalents, beginning of year	72,669	56,008
Cash and cash equivalents, end of period	\$ 63,333	\$ 57,138

SUPPLEMENTAL DISCLOSURES:

Cash payments for interest, net of capitalized interest, were \$1.96 billion and \$4.04 billion during the three months ended March 2013 and March 2012, respectively.

Cash payments for income taxes, net of refunds were \$464 million during the three months ended March 2013. Income tax refunds, net of cash payments were \$29 million during the three months ended March 2012.

The accompanying notes are an integral part of these condensed consolidated financial statements.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Note 1. Description of Business

Note 1.

Description of Business

The Goldman Sachs Group, Inc. (Group Inc.), a Delaware corporation, together with its consolidated subsidiaries (collectively, the firm), 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. Founded in 1869, the firm is headquartered in New York and maintains offices in all major financial centers around the world.

The firm reports its activities in the following four business segments:

Investment Banking

The firm provides a broad range of investment banking services to a diverse group of corporations, financial institutions, investment funds and governments. Services include strategic advisory assignments with respect to mergers and acquisitions, divestitures, corporate defense activities, risk management, restructurings and spin-offs, and debt and equity underwriting of public offerings and private placements, including domestic and cross-border transactions, as well as derivative transactions directly related to these activities.

Institutional Client Services

The firm facilitates client transactions and makes markets in fixed income, equity, currency and commodity products, primarily with institutional clients such as corporations, financial institutions, investment funds and governments. The firm also makes markets in and clears client transactions on major stock, options and futures exchanges worldwide and provides financing, securities lending and other prime brokerage services to institutional clients.

Investing & Lending

The firm invests in and originates loans to provide financing to clients. These investments and loans are typically longer-term in nature. The firm makes investments, directly and indirectly through funds that the firm manages, in debt securities and loans, public and private equity securities, real estate, consolidated investment entities and power generation facilities.

Investment Management

The firm provides investment management services and offers investment products (primarily through separately managed accounts and commingled vehicles, such as mutual funds and private investment funds) across all major asset classes to a diverse set of institutional and individual clients. The firm also offers wealth advisory services, including portfolio management and financial counseling, and brokerage and other transaction services to high-net-worth individuals and families.

Note 2. Basis of Presentation

Note 2.

Basis of Presentation

These condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP) and include the accounts of Group Inc. and all other entities in which the firm has a controlling financial interest. Intercompany transactions and balances have been eliminated.

These condensed consolidated financial statements are unaudited and should be read in conjunction with the audited consolidated financial statements included in the firm's Annual Report on Form 10-K for the year ended December 31, 2012. References to the firm's Annual Report on Form 10-K are to the firm's Annual Report on Form 10-K for the year ended December 31, 2012. The condensed consolidated financial information as of December 31, 2012 has been derived from audited consolidated financial statements not included herein.

These unaudited condensed consolidated financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair statement of the results for the interim periods presented. These adjustments are of a normal, recurring nature. Interim period operating results may not be indicative of the operating results for a full year.

All references to March 2013 and March 2012 refer to the firm's periods ended, or the dates, as the context requires, March 31, 2013 and March 31, 2012, respectively. All references to December 2012 refer to the date December 31, 2012. Any reference to a future year refers to a year ending on December 31 of that year. Certain reclassifications have been made to previously reported amounts to conform to the current presentation.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)**

Note 3. Significant Accounting Policies

Note 3.**Significant Accounting Policies**

The firm's significant accounting policies include when and how to measure the fair value of assets and liabilities, accounting for goodwill and identifiable intangible assets, and when to consolidate an entity. See Notes 5 through 8 for policies on fair value measurements, Note 13 for policies on goodwill and identifiable intangible assets, and below and Note 11 for policies on consolidation accounting. All other significant accounting policies are either discussed below or included in the following footnotes:

Financial Instruments Owned, at Fair Value	
and Financial Instruments Sold, But Not Yet	
Purchased, at Fair Value	Note 4
Fair Value Measurements	Note 5
Cash Instruments	Note 6
Derivatives and Hedging Activities	Note 7
Fair Value Option	Note 8
Collateralized Agreements and Financings	Note 9
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Transactions with Affiliated Funds	Note 22
Interest Income and Interest Expense	Note 23
Income Taxes	Note 24
Business Segments	Note 25
Credit Concentrations	Note 26
Legal Proceedings	Note 27
Consolidation	

The firm consolidates entities in which the firm has a controlling financial interest. The firm determines whether it has a controlling financial interest in an entity by first evaluating whether the entity is a voting interest entity or a variable interest entity (VIE).

Voting Interest Entities. Voting interest entities are entities in which (i) the total equity investment at risk is sufficient to enable the entity to finance its activities independently and (ii) the equity holders have the power to direct the activities of the entity that most significantly impact its economic performance, the obligation to absorb the losses of the entity and the right to receive the residual returns of the entity. The usual condition for a controlling financial interest in a voting interest entity is ownership of a majority voting interest. If the firm has a majority voting interest in a voting interest entity, the entity is consolidated.

Variable Interest Entities. A VIE is an entity that lacks one or more of the characteristics of a voting interest entity. The firm has a controlling financial interest in a VIE when the firm has a variable interest or interests that provide it with (i) the power to direct the activities of the VIE that most significantly impact the VIE's economic performance and (ii) the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. See Note 11 for further information about VIEs.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Equity-Method Investments. When the firm does not have a controlling financial interest in an entity but can exert significant influence over the entity's operating and financial policies, the investment is accounted for either (i) under the equity method of accounting or (ii) at fair value by electing the fair value option available under U.S. GAAP. Significant influence generally exists when the firm owns 20% to 50% of the entity's common stock or in-substance common stock.

In general, the firm accounts for investments acquired after the fair value option became available, at fair value. In certain cases, the firm applies the equity method of accounting to new investments that are strategic in nature or closely related to the firm's principal business activities, when the firm has a significant degree of involvement in the cash flows or operations of the investee or when cost-benefit considerations are less significant. See Note 12 for further information about equity-method investments.

Investment Funds. The firm has formed numerous investment funds with third-party investors. These funds are typically organized as limited partnerships or limited liability companies for which the firm acts as general partner or manager. Generally, the firm does not hold a majority of the economic interests in these funds. These funds are usually voting interest entities and generally are not consolidated because third-party investors typically have rights to terminate the funds or to remove the firm as general partner or manager. Investments in these funds are included in Financial instruments owned, at fair value. See Notes 6, 18 and 22 for further information about investments in funds.

Use of Estimates

Preparation of these condensed consolidated financial statements requires management to make certain estimates and assumptions, the most important of which relate to fair value measurements, accounting for goodwill and identifiable intangible assets, discretionary compensation accruals and the provision for losses that may arise from litigation, regulatory proceedings and tax audits. These estimates and assumptions are based on the best available information but actual results could be materially different.

Revenue Recognition

Financial Assets and Financial Liabilities at Fair Value. Financial instruments owned, at fair value and Financial instruments sold, but not yet purchased, at fair value are recorded at fair value either under the fair value option or in accordance with other U.S. GAAP. In addition, the firm has elected to account for certain of its other financial assets and financial liabilities at fair value by electing the fair value option. 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. Financial assets are marked to bid prices and financial liabilities are marked to offer prices. Fair value measurements do not include transaction costs. Fair value gains or losses are generally included in Market making for positions in Institutional Client Services and Other principal transactions for positions in Investing & Lending. See Notes 5 through 8 for further information about fair value measurements.

Investment Banking. Fees from financial advisory assignments and underwriting revenues are recognized in earnings when the services related to the underlying transaction are completed under the terms of the assignment. Expenses associated with such transactions are deferred until the related revenue is recognized or the assignment is otherwise concluded. Expenses associated with financial advisory assignments are recorded as non-compensation expenses, net of client reimbursements. Underwriting revenues are presented net of related expenses.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Investment Management. The firm earns management fees and incentive fees for investment management services. Management fees are calculated as a percentage of net asset value, invested capital or commitments, and are recognized over the period that the related service is provided. Incentive fees are calculated as a percentage of a fund's or separately managed account's return, or excess return above a specified benchmark or other performance target. Incentive fees are generally based on investment performance over a 12-month period or over the life of a fund. Fees that are based on performance over a 12-month period are subject to adjustment prior to the end of the measurement period. For fees that are based on investment performance over the life of the fund, future investment underperformance may require fees previously distributed to the firm to be returned to the fund. Incentive fees are recognized only when all material contingencies have been resolved. Management and incentive fee revenues are included in Investment management revenues.

Commissions and Fees. The firm earns Commissions and fees from executing and clearing client transactions on stock, options and futures markets. Commissions and fees are recognized on the day the trade is executed.

Transfers of Assets

Transfers of assets are accounted for as sales when the firm has relinquished control over the assets transferred. For transfers of assets accounted for as sales, any related gains or losses are recognized in net revenues. Assets or liabilities that arise from the firm's continuing involvement with transferred assets are measured at fair value. For transfers of assets that are not accounted for as sales, the assets remain in Financial instruments owned, at fair value and the transfer is accounted for as a collateralized financing, with the related interest expense recognized over the life of the transaction. See Note 9 for further information about transfers of assets accounted for as collateralized financings and Note 10 for further information about transfers of assets accounted for as sales.

Receivables from Customers and Counterparties

Receivables from customers and counterparties generally relate to collateralized transactions. Such receivables are primarily comprised of customer margin loans, certain transfers of assets accounted for as secured loans rather than purchases at fair value, collateral posted in connection with certain derivative transactions, and loans held for investment. Certain of the firm's receivables from customers and counterparties are accounted for at fair value under the fair value option, with changes in fair value generally included in Market making revenues. Receivables from customers and counterparties not accounted for at fair value are accounted for at amortized cost net of estimated uncollectible amounts. Interest on receivables from customers and counterparties is recognized over the life of the transaction and included in Interest income. See Note 8 for further information about receivables from customers and counterparties.

Payables to Customers and Counterparties

Payables to customers and counterparties primarily consist of customer credit balances related to the firm's prime brokerage activities. Payables to customers and counterparties are accounted for at cost plus accrued interest, which generally approximates fair value. While these payables are carried at amounts that approximate fair value, they are not accounted for at fair value under the fair value option or at fair value in accordance with other U.S. GAAP and therefore are not included in the firm's fair value hierarchy in Notes 6, 7 and 8. Had these payables been included in the firm's fair value hierarchy, substantially all would have been classified in level 2 as of March 2013 and December 2012.

Receivables from and Payables to Brokers, Dealers and Clearing Organizations

Receivables from and payables to brokers, dealers and clearing organizations are accounted for at cost plus accrued interest, which generally approximates fair value. While these receivables and payables are carried at amounts that approximate fair value, they are not accounted for at fair value under the fair value option or at fair value in accordance with other U.S. GAAP and therefore are not included in the firm's fair value hierarchy in Notes 6, 7 and 8. Had these receivables and payables been included in the firm's fair value hierarchy, substantially all would have been classified in level 2 as of March 2013 and December 2012.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Offsetting Assets and Liabilities

To reduce credit exposures on derivatives and securities financing transactions, the firm may enter into netting agreements with counterparties that permit it to offset receivables and payables with such counterparties. Derivatives are reported on a net-by-counterparty basis (i.e., the net payable or receivable for derivative assets and liabilities for a given counterparty) in the condensed consolidated statements of financial condition when a legal right of setoff exists under an enforceable netting arrangement or similar agreement. Resale and repurchase agreements and securities borrowed and loaned transactions with the same term and currency may be presented on a net-by-counterparty basis in the condensed consolidated statements of financial condition when such transactions meet certain settlement criteria and are subject to agreements that provide for rights of setoff upon a termination event.

The firm receives and posts cash and securities collateral with respect to its derivatives, resale and repurchase agreements, and securities borrowed and loaned transactions. Such collateral is subject to the terms of the related credit support agreements. In the condensed consolidated statements of financial condition, derivatives are reported net of cash collateral received and posted under enforceable credit support agreements, when transacted under an enforceable netting agreement. In the condensed consolidated statements of financial condition, resale and repurchase agreements, and securities borrowed and loaned are not reported net of the related cash and securities received or posted as collateral. See Note 9 for further information about collateral received and pledged, including rights to deliver or repledge collateral.

In order to assess enforceability of the firm's right of setoff under netting and credit support agreements, the firm evaluates various factors including applicable bankruptcy laws, local statutes and regulatory provisions in the jurisdiction of the parties to the agreement. See Notes 7 and 9 for further information about offsetting.

Insurance Activities

Certain of the firm's insurance and reinsurance contracts are accounted for at fair value under the fair value option, with changes in fair value included in Market making revenues. See Note 8 for further information about the fair values of these insurance and reinsurance contracts. See Note 12 for further information about the firm's reinsurance business classified as held for sale as of March 2013 and December 2012.

Revenues from variable annuity and life insurance and reinsurance contracts not accounted for at fair value generally consist of fees assessed on contract holder account balances for mortality charges, policy administration fees and surrender charges. These revenues are recognized in earnings over the period that services are provided and are included in Market making revenues. Changes in reserves, including interest credited to policyholder account balances, are recognized in Insurance reserves.

Premiums earned for underwriting property catastrophe reinsurance are recognized in earnings over the coverage period, net of premiums ceded for the cost of reinsurance, and are included in Market making revenues. Expenses for liabilities related to property catastrophe reinsurance claims, including estimates of losses that have been incurred but not reported, are included in Insurance reserves.

Share-based Compensation

The cost of employee services received in exchange for a share-based award is generally measured based on the grant-date fair value of the award. Share-based awards that do not require future service (i.e., vested awards, including awards granted to retirement-eligible employees) are expensed immediately. Share-based awards that require future service are amortized over the relevant service period. Expected forfeitures are included in determining share-based employee compensation expense.

The firm pays cash dividend equivalents on outstanding restricted stock units (RSUs). Dividend equivalents paid on RSUs are generally charged to retained earnings. Dividend equivalents paid on RSUs expected to be forfeited are included in compensation expense. The firm accounts for the tax benefit related to dividend equivalents paid on RSUs as an increase to additional paid-in capital.

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In certain cases, primarily related to conflicted employment (as outlined in the applicable award agreements), the firm may cash settle share-based compensation awards accounted for as equity instruments. For these awards, whose terms allow for cash settlement, additional paid-in capital is adjusted to the extent of the difference between the value of the award at the time of cash settlement and the grant-date value of the award.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Foreign Currency Translation

Assets and liabilities denominated in non-U.S. currencies are translated at rates of exchange prevailing on the date of the condensed consolidated statements of financial condition and revenues and expenses are translated at average rates of exchange for the period. Foreign currency remeasurement gains or losses on transactions in nonfunctional currencies are recognized in earnings. Gains or losses on translation of the financial statements of a non-U.S. operation, when the functional currency is other than the U.S. dollar, are included, net of hedges and taxes, in the condensed consolidated statements of comprehensive income.

Cash and Cash Equivalents

The firm defines cash equivalents as highly liquid overnight deposits held in the ordinary course of business. As of March 2013 and December 2012, Cash and cash equivalents included \$5.95 billion and \$6.75 billion, respectively, of cash and due from banks, and \$57.38 billion and \$65.92 billion, respectively, of interest-bearing deposits with banks.

Recent Accounting Developments

Derecognition of in Substance Real Estate (ASC 360). In December 2011, the FASB issued ASU No. 2011-10, Property, Plant, and Equipment (Topic 360) Derecognition of in Substance Real Estate a Scope Clarification. ASU No. 2011-10 clarifies that in order to deconsolidate a subsidiary (that is in substance real estate) as a result of a parent no longer controlling the subsidiary due to a default on the subsidiary's nonrecourse debt, the parent also must satisfy the sale criteria in ASC 360-20, Property, Plant, and Equipment Real Estate Sales. The ASU was effective for fiscal years beginning on or after June 15, 2012. The firm applied the provisions of the ASU to such events occurring on or after January 1, 2013. Adoption of ASU No. 2011-10 did not materially affect the firm's financial condition, results of operations or cash flows.

Disclosures about Offsetting Assets and Liabilities (ASC 210). In December 2011, the FASB issued ASU No. 2011-11, Balance Sheet (Topic 210) Disclosures about Offsetting Assets and Liabilities. ASU No. 2011-11, as amended by ASU 2013-01, Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities, requires disclosure of the effect or potential effect of offsetting arrangements on the firm's financial position as well as enhanced disclosure of the rights of setoff associated with the firm's recognized derivative instruments, resale and repurchase agreements, and securities borrowing and lending transactions. ASU No. 2011-11 was effective for periods beginning on or after January 1, 2013. Since these amended principles require only additional disclosures concerning offsetting and related arrangements, adoption did not affect the firm's financial condition, results of operations or cash flows. See Notes 7 and 9 for further information about the firm's offsetting and related arrangements.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)**

Note 4. Financial Instruments Owned, at Fair Value and Financial Instruments Sold, But Not Yet Purchased, at Fair Value

Note 4.**Financial Instruments Owned, at Fair Value and Financial Instruments Sold, But Not Yet Purchased, at Fair Value**

Financial instruments owned, at fair value and financial instruments sold, but not yet purchased, at fair value are accounted for at fair value either under the fair value option or in accordance with other U.S. GAAP. See Note 8 for further information about the fair value option. The table below presents the firm's financial instruments owned, at fair value, including those pledged as collateral, and financial instruments sold, but not yet purchased, at fair

value. The firm held \$8.90 billion and \$9.07 billion as of March 2013 and December 2012, respectively, of securities accounted for as available-for-sale related to the firm's reinsurance business. As of March 2013 and December 2012, such assets were classified as held for sale and were included in Other assets. See Note 12 for further information about assets held for sale.

	As of March 2013		As of December 2012	
	Financial Instruments Owned	Financial Instruments Sold, But Not Yet Purchased	Financial Instruments Owned	Financial Instruments Sold, But Not Yet Purchased
<i>in millions</i>				
Commercial paper, certificates of deposit, time deposits and other money market instruments	\$ 5,705	\$	\$ 6,057	\$
U.S. government and federal agency obligations	96,930	25,894	93,241	15,905
Non-U.S. government and agency obligations	57,657	42,754	62,250	32,361
Mortgage and other asset-backed loans and securities:				
Loans and securities backed by commercial real estate	6,909	11	9,805	

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Loans and securities backed by residential real estate	7,570	2	8,216	4
Bank loans and bridge loans	22,467	1,479³	22,407	1,779 ³
Corporate debt securities	20,442	6,874	20,981	5,761
State and municipal obligations	2,219	7	2,477	1
Other debt obligations	2,481		2,251	
Equities and convertible debentures	89,278	24,381	96,454	20,406
Commodities ¹	7,695		11,696	
Derivatives²	68,040	52,347	71,176	50,427
Total	\$387,393	\$153,749	\$407,011	\$126,644

1. Includes commodities that have been transferred to third parties, which were accounted for as collateralized financings rather than sales, of \$2.77 billion and \$4.29 billion as of March 2013 and December 2012, respectively.

2. Reported on a net-by-counterparty basis when a legal right of setoff exists under an enforceable netting agreement and reported net of cash collateral received or posted under enforceable credit support agreements.

3. Primarily relates to the fair value of unfunded lending commitments for which the fair value option was elected.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)****Gains and Losses from Market Making and Other Principal Transactions**

The table below presents, by major product type, the firm's Market making and Other principal transactions revenues. These gains/(losses) are primarily related to the firm's financial instruments owned, at fair value and financial instruments sold, but not yet purchased, at fair value, including both derivative and non-derivative financial instruments. These gains/(losses) exclude related interest income and interest expense. See Note 23 for further information about interest income and interest expense.

The gains/(losses) in the table are not representative of the manner in which the firm manages its business activities because many of the firm's market-making, client facilitation, and investing and lending strategies utilize financial instruments across various product types. Accordingly, gains or losses in one product type frequently offset gains or losses in other product types. For example, most of the firm's longer-term derivatives are sensitive to changes in interest rates and may be economically hedged with interest rate swaps. Similarly, a significant portion of the firm's cash instruments and derivatives has exposure to foreign currencies and may be economically hedged with foreign currency contracts.

<i>in millions</i>	Three Months	
	Ended March	
	2013	2012
Interest rates	\$(1,141)	\$1,889
Credit	1,828	1,710
Currencies	2,460	(724)
Equities	1,908	1,973
Commodities	493	471
Other	(30)	524
Total	\$ 5,518	\$5,843

Note 5. Fair Value Measurements

Note 5.**Fair Value Measurements**

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. Financial assets are marked to bid prices and financial liabilities are marked to offer prices. Fair value measurements do not include transaction costs. The firm measures certain financial assets and financial liabilities as a portfolio (i.e., based on its net exposure to market and/or credit risks).

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The best evidence of fair value is a quoted price in an active market. If quoted prices in active markets are not available, fair value is determined by reference to prices for similar instruments, quoted prices or recent transactions in less active markets, or internally developed models that primarily use market-based or independently sourced parameters as inputs including, but not limited to, interest rates, volatilities, equity or debt prices, foreign exchange rates, commodity prices, credit spreads and funding spreads (i.e., the spread, or difference, between the interest rate at which a borrower could finance a given financial instrument relative to a benchmark interest rate).

U.S. GAAP has a three-level fair value hierarchy for disclosure of fair value measurements. The fair value hierarchy prioritizes inputs to the valuation techniques used to measure fair value, giving the highest priority to level 1 inputs and the lowest priority to level 3 inputs. A financial instrument's level in the fair value hierarchy is based on the lowest level of input that is significant to its fair value measurement.

The fair value hierarchy is as follows:

Level 1. Inputs are unadjusted quoted prices in active markets to which the firm had access at the measurement date for identical, unrestricted assets or liabilities.

Level 2. Inputs to valuation techniques are observable, either directly or indirectly.

Level 3. One or more inputs to valuation techniques are significant and unobservable.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)**

The fair values for substantially all of the firm's financial assets and financial liabilities are based on observable prices and inputs and are classified in levels 1 and 2 of the fair value hierarchy. Certain level 2 and level 3 financial assets and financial liabilities may require appropriate valuation adjustments that a market participant would require to arrive at fair value for factors such as counterparty and the firm's credit quality, funding risk, transfer restrictions, liquidity and bid/offer spreads. Valuation adjustments are generally based on market evidence.

See Notes 6 and 7 for further information about fair value measurements of cash instruments and derivatives, respectively, included in Financial instruments owned, at fair value and Financial instruments sold, but not yet purchased, at fair value, and Note 8 for further information about fair value measurements of other financial assets and financial liabilities accounted for at fair value under the fair value option.

Financial assets and financial liabilities accounted for at fair value under the fair value option or in accordance with other U.S. GAAP are summarized below.

	As of	
	March	December
<i>\$ in millions</i>	2013	2012
Total level 1 financial assets	\$175,729	\$ 190,737
Total level 2 financial assets	512,909	502,293
Total level 3 financial assets	46,023	47,095
Cash collateral and counterparty netting ¹	(90,828)	(101,612)
Total financial assets at fair value	\$643,833	\$ 638,513
Total assets	\$959,223	\$ 938,555
Total level 3 financial assets as a percentage of Total assets	4.8%	5.0%
Total level 3 financial assets as a percentage of Total financial assets at fair value	7.1%	7.4%
Total level 1 financial liabilities	\$ 90,186	\$ 65,994
Total level 2 financial liabilities	304,217	318,764
Total level 3 financial liabilities	24,759	25,679
Cash collateral and counterparty netting ¹	(29,694)	(32,760)
Total financial liabilities at fair value	\$389,468	\$ 377,677

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Total level 3 financial liabilities as a percentage of Total financial liabilities at fair value	6.4%	6.8%
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1. Represents the impact on derivatives of cash collateral, and counterparty netting across levels of the fair value hierarchy. Netting among positions classified in the same level is included in that level.

Level 3 financial assets as of March 2013 decreased compared with December 2012, primarily reflecting a decrease in level 3 derivative assets, principally due to unrealized losses on currency derivative assets and settlements of credit derivative assets.

See Notes 6, 7 and 8 for further information about level 3 cash instruments, derivatives and other financial assets and financial liabilities accounted for at fair value under the fair value option, respectively, including information about significant unrealized gains and losses, and transfers in and out of level 3.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Note 6. Cash Instruments

Note 6.

Cash Instruments

Cash instruments include U.S. government and federal agency obligations, non-U.S. government and agency obligations, bank loans and bridge loans, corporate debt securities, equities and convertible debentures, and other non-derivative financial instruments owned and financial instruments sold, but not yet purchased. See below for the types of cash instruments included in each level of the fair value hierarchy and the valuation techniques and significant inputs used to determine their fair values. See Note 5 for an overview of the firm's fair value measurement policies.

Level 1 Cash Instruments

Level 1 cash instruments include U.S. government obligations and most non-U.S. government obligations, actively traded listed equities, certain government agency obligations and money market instruments. These instruments are valued using quoted prices for identical unrestricted instruments in active markets.

The firm defines active markets for equity instruments based on the average daily trading volume both in absolute terms and relative to the market capitalization for the instrument. The firm defines active markets for debt instruments based on both the average daily trading volume and the number of days with trading activity.

Level 2 Cash Instruments

Level 2 cash instruments include commercial paper, certificates of deposit, time deposits, most government agency obligations, certain non-U.S. government obligations, most corporate debt securities, commodities, certain mortgage-backed loans and securities, certain bank loans and bridge loans, restricted or less liquid listed equities, most state and municipal obligations and certain lending commitments.

Valuations of level 2 cash instruments can be verified to quoted prices, recent trading activity for identical or similar instruments, broker or dealer quotations or alternative pricing sources with reasonable levels of price transparency. Consideration is given to the nature of the quotations (e.g., indicative or firm) and the relationship of recent market activity to the prices provided from alternative pricing sources.

Valuation adjustments are typically made to level 2 cash instruments (i) if the cash instrument is subject to transfer restrictions and/or (ii) for other premiums and liquidity discounts that a market participant would require to arrive at fair value. Valuation adjustments are generally based on market evidence.

Level 3 Cash Instruments

Level 3 cash instruments have one or more significant valuation inputs that are not observable. Absent evidence to the contrary, level 3 cash instruments are initially valued at transaction price, which is considered to be the best initial estimate of fair value. Subsequently, the firm uses other methodologies to determine fair value, which vary based on the type of instrument. Valuation inputs and assumptions are changed when

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corroborated by substantive observable evidence, including values realized on sales of financial assets.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Valuation Techniques and Significant Inputs

The table below presents the valuation techniques and the nature of significant inputs generally used to determine the fair values of each type of level 3 cash instrument.

Level 3 Cash Instruments	Valuation Techniques and Significant Inputs
<p>Loans and securities backed by commercial real estate</p> <p>Collateralized by a single commercial real estate property or a portfolio of properties</p> <p>May include tranches of varying levels of subordination</p>	<p>Valuation techniques vary by instrument, but are generally based on discounted cash flow techniques.</p> <p>Significant inputs are generally determined based on relative value analyses and include:</p> <p>Transaction prices in both the underlying collateral and instruments with the same or similar underlying collateral and the basis, or price difference, to such prices</p> <p>Market yields implied by transactions of similar or related assets and/or current levels and changes in market indices such as the CMBX (an index that tracks the performance of commercial mortgage bonds)</p> <p>Recovery rates implied by the value of the underlying collateral, which is mainly driven by current performance of the underlying collateral, capitalization rates and multiples</p> <p>Timing of expected future cash flows (duration)</p>
<p>Loans and securities backed by residential real estate</p> <p>Collateralized by portfolios of residential real estate</p>	<p>Valuation techniques vary by instrument, but are generally based on discounted cash flow techniques.</p> <p>Significant inputs are generally determined based on relative value analyses, which incorporate comparisons to instruments with similar collateral and risk profiles, including relevant indices such as the ABX (an index that tracks the performance of subprime residential mortgage bonds). Significant inputs include:</p> <p>Transaction prices in both the underlying collateral and instruments with the same or similar underlying collateral</p>

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May include tranches of varying levels of subordination

Market yields implied by transactions of similar or related assets

Cumulative loss expectations, driven by default rates, home price projections, residential property liquidation timelines and related costs

Duration, driven by underlying loan prepayment speeds and residential property liquidation timelines

Bank loans and bridge loans

Valuation techniques vary by instrument, but are generally based on discounted cash flow techniques.

Significant inputs are generally determined based on relative value analyses, which incorporate comparisons both to prices of credit default swaps that reference the same or similar underlying instrument or entity and to other debt instruments for the same issuer for which observable prices or broker quotations are available. Significant inputs include:

Market yields implied by transactions of similar or related assets and/or current levels and trends of market indices such as CDX and LCDX (indices that track the performance of corporate credit and loans, respectively)

Current performance and recovery assumptions and, where the firm uses credit default swaps to value the related cash instrument, the cost of borrowing the underlying reference obligation

Duration

Non-U.S. government and agency obligations

Valuation techniques vary by instrument, but are generally based on discounted cash flow techniques.

Significant inputs are generally determined based on relative value analyses, which incorporate comparisons both to prices of credit default swaps that reference the same or similar underlying instrument or entity and to other debt instruments for the same issuer for which observable prices or broker quotations are available. Significant inputs include:

Corporate debt securities

Market yields implied by transactions of similar or related assets and/or current levels and trends of market indices such as CDX, LCDX and MCDX (an index that tracks the performance of municipal obligations)

State and municipal obligations

Current performance and recovery assumptions and, where the firm uses credit default swaps to value the related cash instrument, the cost of borrowing the underlying reference obligation

Other debt obligations

Duration

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Equities and convertible debentures (including private equity investments and investments in real estate entities)

Recent third-party completed or pending transactions (e.g., merger proposals, tender offers, debt restructurings) are considered to be the best evidence for any change in fair value. When these are not available, the following valuation methodologies are used, as appropriate:

Industry multiples (primarily EBITDA multiples) and public comparables

Transactions in similar instruments

Discounted cash flow techniques

Third-party appraisals

The firm also considers changes in the outlook for the relevant industry and financial performance of the issuer as compared to projected performance. Significant inputs include:

Market and transaction multiples

Discount rates, long-term growth rates, earnings compound annual growth rates and capitalization rates

For equity instruments with debt-like features: market yields implied by transactions of similar or related assets, current performance and recovery assumptions, and duration

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)****Significant Unobservable Inputs**

The tables below present the ranges of significant unobservable inputs used to value the firm's level 3 cash instruments. These ranges represent the significant unobservable inputs that were used in the valuation of each type of cash instrument. The ranges and weighted averages of these inputs are not representative of the appropriate inputs to use when calculating the fair value of any one cash instrument.

For example, the highest multiple presented in the tables below for private equity investments is appropriate for valuing a specific private equity investment but may not be appropriate for valuing any other private equity investment. Accordingly, the ranges of inputs presented below do not represent uncertainty in, or possible ranges of, fair value measurements of the firm's level 3 cash instruments.

Level 3 Cash Instruments	Level 3 Assets as of March 2013 <i>(in millions)</i>	Significant Unobservable Inputs by Valuation Technique	Range of Significant Unobservable Inputs (Weighted Average ¹) as of March 2013
Loans and securities backed by commercial real estate	\$3,164	Discounted cash flows:	
		Yield	3.6% to 27.9% (8.6%)
Collateralized by a single commercial real estate property or a portfolio of properties		Recovery rate ²	36.0% to 98.3% (71.4%)
		Duration (years) ³	0.6 to 7.0 (2.9)
May include tranches of varying levels of subordination		Basis	(19) points to 16 points (3 points)
Loans and securities backed by residential real estate	\$1,683	Discounted cash flows:	
		Yield	3.6% to 16.9% (9.1%)
Collateralized by portfolios of residential real estate			

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Cumulative loss rate 0.0% to 61.8% (29.6%)

May include tranches of varying levels of subordination

Duration (years)^f 1.4 to 8.7 (3.5)

Bank loans and bridge loans

\$11,688

Discounted cash flows:

Yield 0.4% to 36.5% (8.6%)

Recovery rate^e 28.1% to 85.0% (59.5%)

Duration (years)^f 0.4 to 4.6 (2.2)

Non-U.S. government and agency obligations

\$3,678

Discounted cash flows:

Yield 0.5% to 35.3% (7.8%)

Corporate debt securities

Recovery rate^e 0.0% to 70.0% (64.9%)

State and municipal obligations

Duration (years)^f 0.4 to 14.6 (4.0)

Other debt obligations

Equities and convertible debentures (including private equity investments and investments in real estate entities)

\$15,224²

Comparable multiples:

Multiples 0.7x to 25.7x (7.0x)

Discounted cash flows:

Discount rate 10.0% to 25.0% (13.9%)

Long-term growth rate/compound annual growth rate 0.7% to 25.0% (9.0%)

Capitalization rate 3.3% to 11.4% (6.9%)

1. Weighted averages are calculated by weighting each input by the relative fair value of the respective financial instruments.
2. The fair value of any one instrument may be determined using multiple valuation techniques. For example, market comparables and discounted cash flows may be used together to determine fair value. Therefore, the level 3 balance encompasses both of these techniques.
3. Recovery rate is a measure of expected future cash flows in a default scenario, expressed as a percentage of notional or face value of the instrument, and reflects the benefit of credit enhancement on certain instruments.
4. Duration is an estimate of the timing of future cash flows and, in certain cases, may incorporate the impact of other unobservable inputs (e.g., prepayment speeds).

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)**

Level 3 Cash Instruments	Level 3 Assets as of December 2012 <i>(in millions)</i>	Significant Unobservable Inputs by Valuation Technique	Range of Significant Unobservable Inputs (Weighted Average ¹) as of December 2012
Loans and securities backed by commercial real estate Collateralized by a single commercial real estate property or a portfolio of properties May include tranches of varying levels of subordination	\$3,389	Discounted cash flows: Yield Recovery rate ² Duration (years) ³ Basis	4.0% to 43.3% (9.8%) 37.0% to 96.2% (81.7%) 0.1 to 7.0 (2.6) (13) points to 18 points (2 points)
Loans and securities backed by residential real estate Collateralized by portfolios of residential real estate May include tranches of varying levels of subordination	\$1,619	Discounted cash flows: Yield Cumulative loss rate Duration (years) ³	3.1% to 17.0% (9.7%) 0.0% to 61.6% (31.6%) 1.3 to 5.9 (3.7)
Bank loans and bridge loans	\$11,235	Discounted cash flows: Yield	0.3% to 34.5% (8.3%)

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	Recovery rate [§]	16.5% to 85.0% (56.0%)
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	Duration (years) [§]	0.2 to 4.4 (1.9)
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Non-U.S. government and agency obligations	\$4,651	Discounted cash flows:
--	---------	------------------------

	Yield	0.6% to 33.7% (8.6%)
--	-------	----------------------

Corporate debt securities		
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	Recovery rate [§]	0.0% to 70.0% (53.4%)
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State and municipal obligations		
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	Duration (years) [§]	0.5 to 15.5 (4.0)
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Other debt obligations

Equities and convertible debentures (including private equity investments and investments in real estate entities)	\$14,855 ²	Comparable multiples:
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	Multiples	0.7x to 21.0x (7.2x)
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	Discounted cash flows:
--	------------------------

	Discount rate	10.0% to 25.0% (14.3%)
--	---------------	------------------------

	Long-term growth rate/ compound annual growth rate	0.7% to 25.0% (9.3%)
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	Capitalization rate	3.9% to 11.4% (7.3%)
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1. Weighted averages are calculated by weighting each input by the relative fair value of the respective financial instruments.

2. The fair value of any one instrument may be determined using multiple valuation techniques. For example, market comparables and discounted cash flows may be used together to determine fair value. Therefore, the level 3 balance encompasses both of these techniques.

3. Recovery rate is a measure of expected future cash flows in a default scenario, expressed as a percentage of notional or face value of the instrument, and reflects the benefit of credit enhancement on certain instruments.

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4. Duration is an estimate of the timing of future cash flows and, in certain cases, may incorporate the impact of other unobservable inputs (e.g., prepayment speeds).

Increases in yield, discount rate, capitalization rate, duration or cumulative loss rate used in the valuation of the firm's level 3 cash instruments would result in a lower fair value measurement, while increases in recovery rate, basis, multiples, long-term growth rate or compound annual

growth rate would result in a higher fair value measurement. Due to the distinctive nature of each of the firm's level 3 cash instruments, the interrelationship of inputs is not necessarily uniform within each product type.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)****Fair Value of Cash Instruments by Level**

The tables below present, by level within the fair value hierarchy, cash instrument assets and liabilities, at fair value. Cash instrument assets and liabilities are included in

Financial instruments owned, at fair value and Financial instruments sold, but not yet purchased, at fair value, respectively.

<i>in millions</i>	Cash Instrument Assets at Fair Value as of March 2013			
	Level 1	Level 2	Level 3	Total
Commercial paper, certificates of deposit, time deposits and other money market instruments	\$ 1,294	\$ 4,411	\$	\$ 5,705
U.S. government and federal agency obligations	46,973	49,957		96,930
Non-U.S. government and agency obligations	40,379	17,231	47	57,657
Mortgage and other asset-backed loans and securities ¹ :				
Loans and securities backed by commercial real estate		3,745	3,164	6,909
Loans and securities backed by residential real estate		5,887	1,683	7,570
Bank loans and bridge loans		10,779	11,688	22,467
Corporate debt securities ²	132	17,868	2,442	20,442
State and municipal obligations		1,885	334	2,219
Other debt obligations ²		1,626	855	2,481
Equities and convertible debentures	64,850	9,204	15,224 ³	89,278
Commodities		7,695		7,695
Total	\$153,628	\$130,288	\$35,437	\$319,353

<i>in millions</i>	Cash Instrument Liabilities at Fair Value as of March 2013			
	Level 1	Level 2	Level 3	Total
U.S. government and federal agency obligations	\$ 25,665	\$ 229	\$	\$ 25,894
Non-U.S. government and agency obligations	41,389	1,365		42,754
Mortgage and other asset-backed loans and securities:				

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Loans and securities backed by commercial real estate		11		11
Loans and securities backed by residential real estate		2		2
Bank loans and bridge loans		1,044	435	1,479
Corporate debt securities	10	6,862	2	6,874
State and municipal obligations		7		7
Equities and convertible debentures	22,974	1,403	4	24,381
Total	\$ 90,038	\$ 10,923	\$ 441	\$101,402

1. Includes \$609 million and \$452 million of collateralized debt obligations (CDOs) backed by real estate in level 2 and level 3, respectively.

2. Includes \$583 million and \$1.46 billion of CDOs and collateralized loan obligations (CLOs) backed by corporate obligations in level 2 and level 3, respectively.

3. Includes \$13.27 billion of private equity investments, \$1.45 billion of investments in real estate entities and \$508 million of convertible debentures.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)**

<i>in millions</i>	Cash Instrument Assets at Fair Value as of December 2012			
	Level 1	Level 2	Level 3	Total
Commercial paper, certificates of deposit, time deposits and other money market instruments	\$ 2,155	\$ 3,902	\$	\$ 6,057
U.S. government and federal agency obligations	42,856	50,385		93,241
Non-U.S. government and agency obligations	46,715	15,509	26	62,250
Mortgage and other asset-backed loans and securities ¹ :				
Loans and securities backed by commercial real estate		6,416	3,389	9,805
Loans and securities backed by residential real estate		6,597	1,619	8,216
Bank loans and bridge loans		11,172	11,235	22,407
Corporate debt securities ²	111	18,049	2,821	20,981
State and municipal obligations		1,858	619	2,477
Other debt obligations ²		1,066	1,185	2,251
Equities and convertible debentures	72,875	8,724	14,855 ³	96,454
Commodities		11,696		11,696
Total	\$164,712	\$135,374	\$35,749	\$335,835

<i>in millions</i>	Cash Instrument Liabilities at Fair Value as of December 2012			
	Level 1	Level 2	Level 3	Total
U.S. government and federal agency obligations	\$ 15,475	\$ 430	\$	\$ 15,905
Non-U.S. government and agency obligations	31,011	1,350		32,361
Mortgage and other asset-backed loans and securities:				
Loans and securities backed by residential real estate		4		4
Bank loans and bridge loans		1,143	636	1,779
Corporate debt securities	28	5,731	2	5,761
State and municipal obligations		1		1
Equities and convertible debentures	19,416	986	4	20,406
Total	\$ 65,930	\$ 9,645	\$ 642	\$ 76,217

1. Includes \$489 million and \$446 million of CDOs backed by real estate in level 2 and level 3, respectively.

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2. Includes \$284 million and \$1.76 billion of CDOs and CLOs backed by corporate obligations in level 2 and level 3, respectively.

3. Includes \$12.67 billion of private equity investments, \$1.58 billion of investments in real estate entities and \$600 million of convertible debentures.

Transfers Between Levels of the Fair Value Hierarchy

Transfers between levels of the fair value hierarchy are reported at the beginning of the reporting period in which they occur. During the three months ended March 2013, transfers into level 2 from level 1 of cash instruments were \$43 million, reflecting transfers of public equity securities due to less market activity in these securities.

During the three months ended March 2012, transfers into level 2 from level 1 of cash instruments were \$728 million, consisting of transfers of public equity investments, primarily reflecting the impact of transfer restrictions. See level 3 rollforwards below for further information about transfers between level 2 and level 3.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)****Level 3 Rollforward**

If a cash instrument asset or liability was transferred to level 3 during a reporting period, its entire gain or loss for the period is included in level 3.

Level 3 cash instruments are frequently economically hedged with level 1 and level 2 cash instruments and/or level 1, level 2 or level 3 derivatives. Accordingly, gains or losses that are reported in level 3 can be partially offset by gains or losses attributable to level 1 or level 2 cash

instruments and/or level 1, level 2 or level 3 derivatives. As a result, gains or losses included in the level 3 rollforward below do not necessarily represent the overall impact on the firm's results of operations, liquidity or capital resources.

The tables below present changes in fair value for all cash instrument assets and liabilities categorized as level 3 as of the end of the period.

Level 3 Cash Instrument Assets at Fair Value for the Three Months Ended March 2013									
<i>in millions</i>	Balance, beginning of period	Net realized gains/ (losses)	Net unrealized gains/(losses) relating to instruments still held at period-end	Purchases¹	Sales	Settlements	Transfers into level 3	Transfers out of level 3	Balance, end of period
Non-U.S. government and agency obligations	\$ 26	\$ 3	\$ 2	\$ 28	\$ (9)	\$ (1)	\$ 1	\$ (3)	\$ 47
Mortgage and other asset-backed loans and securities:									
Loans and securities backed by commercial real estate	3,389	36	91	50	(249)	(277)	318	(194)	3,164
Loans and securities backed by residential real estate	1,619	38	25	268	(172)	(56)	104	(143)	1,683
Bank loans and bridge loans	11,235	153	97	1,460	(543)	(1,361)	1,688	(1,041)	11,688
Corporate debt securities	2,821	116	157	301	(728)	(141)	116	(200)	2,442
State and municipal obligations	619	2	1	19	(269)	(1)		(37)	334

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Other debt obligations	1,185	19	21	192	(210)	(201)	61	(212)	855
Equities and convertible debentures	14,855	70	481	185	(378)	(543)	1,000	(446)	15,224
Total	\$35,749	\$437²	\$875²	\$2,503	\$(2,558)	\$(2,581)	\$3,288	\$(2,276)	\$35,437

Level 3 Cash Instrument Liabilities at Fair Value for the Three Months Ended March 2013

<i>in millions</i>	Balance, beginning of period	Net realized (gains)/losses	Net unrealized (gains)/losses relating to instruments still held at period-end	Purchases ¹	Sales	Settlements	Transfers into level 3	Transfers out of level 3	Balance, end of period
Total	\$ 642	\$ (4)	\$ (11)	\$ (147)	\$ 97	\$ 3	\$ 22	\$ (161)	\$ 441

1. Includes both originations and secondary market purchases.

2. The aggregate amounts include approximately \$317 million, \$687 million and \$308 million reported in Market making, Other principal transactions and Interest income, respectively.

The net unrealized gain on level 3 cash instruments of \$886 million (reflecting \$875 million on cash instrument assets and \$11 million on cash instrument liabilities) for the three months ended March 2013 primarily consisted of gains on private equity investments, corporate debt securities and mortgage and other asset-backed loans and securities. Unrealized gains during the three months ended March 2013 primarily reflected the impact of an increase in equity prices and generally tighter credit spreads.

Transfers into level 3 during the three months ended March 2013 primarily reflected transfers of certain bank loans and bridge loans and private equity investments from level 2, principally due to a lack of market transactions in these instruments.

Transfers out of level 3 during the three months ended March 2013 primarily reflected transfers of certain bank loans and bridge loans and private equity investments to level 2. Transfers of bank loans and bridge loans to level 2 were principally due to market transactions in certain loans and unobservable inputs no longer being significant to the valuation of other loans. Transfers of private equity investments to level 2 were principally due to market transactions in these instruments.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)**

Level 3 Cash Instrument Assets at Fair Value for the Three Months Ended March 2012									
<i>in millions</i>	Balance, beginning of period	Net realized gains/ (losses)	Net unrealized gains/(losses) relating to instruments still held at period-end	Purchases ¹	Sales	Settlements	Transfers into level 3	Transfers out of level 3	Balance, end of period
Commercial paper, certificates of deposit, time deposits and other money market instruments	\$	\$	\$	\$ 8	\$	\$	\$	\$	\$ 8
Non-U.S. government and agency obligations	148	(1)	(59)	7	(8)		20	(2)	105
Mortgage and other asset-backed loans and securities:									
Loans and securities backed by commercial real estate	3,346	39	96	295	(276)	(289)	486	(541)	3,156
Loans and securities backed by residential real estate	1,709	43	23	254	(181)	(101)	14	(151)	1,610
Bank loans and bridge loans	11,285	150	206	1,188	(1,246)	(792)	960	(700)	11,051
Corporate debt securities	2,480	92	158	295	(422)	(128)	260	(223)	2,512
State and municipal obligations	599	2	8	20	(39)	(2)	25	(1)	612
Other debt obligations	1,451	44	24	99	(120)	(56)	123	(16)	1,549
Equities and convertible debentures	13,667	39	332	558	(150)	(194)	779	(157)	14,874
Total	\$34,685	\$408 ²	\$788 ²	\$2,724	\$(2,442)	\$(1,562)	\$2,667	\$(1,791)	\$35,477

Level 3 Cash Instrument Liabilities at Fair Value for the Three Months Ended March 2012									
<i>in millions</i>	Balance, beginning of period	Net realized (gains)/ losses	Net unrealized (gains)/losses relating to instruments still held at period-end	Purchases ¹	Sales	Settlements	Transfers into level 3	Transfers out of level 3	Balance, end of period
Total	\$ 905	\$(34)	\$(68)	\$ (326)	\$ 87	\$ 195	\$ 102	\$(114)	\$ 747

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1. Includes both originations and secondary market purchases.

2. The aggregate amounts include approximately \$167 million, \$654 million and \$375 million reported in Market making, Other principal transactions and Interest income, respectively.

The net unrealized gain on level 3 cash instruments of \$856 million (reflecting \$788 million on cash instrument assets and \$68 million on cash instrument liabilities) for the three months ended March 2012 primarily consisted of gains on private equity investments, bank loans and bridge loans, and corporate debt securities, primarily reflecting an increase in global equity prices and tighter credit spreads.

Transfers into level 3 during the three months ended March 2012 primarily reflected transfers from level 2 of certain bank loans and bridge loans, private equity investments, and loans and securities backed by commercial real estate, principally due to reduced transparency of market prices as a result of less market activity in these instruments.

Transfers out of level 3 during the three months ended March 2012 primarily reflected transfers to level 2 of certain bank and bridge loans, and loans and securities backed by commercial real estate, principally due to improved transparency of market prices as a result of market activity in these instruments.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)****Investments in Funds That Calculate Net Asset Value Per Share**

Cash instruments at fair value include investments in funds that are valued based on the net asset value per share (NAV) of the investment fund. The firm uses NAV as its measure of fair value for fund investments when (i) the fund investment does not have a readily determinable fair value and (ii) the NAV of the investment fund is calculated in a manner consistent with the measurement principles of investment company accounting, including measurement of the underlying investments at fair value.

The firm's investments in funds that calculate NAV primarily consist of investments in firm-sponsored funds where the firm co-invests with third-party investors. The private equity, credit and real estate funds are primarily closed-end funds in which the firm's investments are not eligible for redemption. Distributions will be received from these funds as the underlying assets are liquidated and it is estimated that substantially all of the underlying assets of existing funds will be liquidated over the next seven years. The firm continues to manage its existing funds taking into

account the transition periods under the Volcker Rule of the U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), although the rules have not yet been finalized.

The firm's investments in hedge funds are generally redeemable on a quarterly basis with 91 days' notice, subject to a maximum redemption level of 25% of the firm's initial investments at any quarter-end. The firm currently plans to comply with the Volcker Rule by redeeming certain of its interests in hedge funds. Since March 2012, the firm has redeemed approximately \$1.32 billion of these interests in hedge funds, including approximately \$260 million during the three months ended March 2013.

The table below presents the fair value of the firm's investments in, and unfunded commitments to, funds that calculate NAV.

<i>in millions</i>	As of March 2013		As of December 2012	
	Fair Value of Investments	Unfunded Commitments	Fair Value of Investments	Unfunded Commitments
Private equity funds ¹	\$ 7,183	\$2,453	\$ 7,680	\$2,778
Credit funds ²	3,976	2,884	3,927	2,843
Hedge funds ³	2,339		2,167	
Real estate funds ⁴	2,058	868	2,006	870
Total	\$15,556	\$6,205	\$15,780	\$6,491

1. These funds primarily invest in a broad range of industries worldwide in a variety of situations, including leveraged buyouts, recapitalizations, growth investments and distressed investments.

2. These funds generally invest in loans and other fixed income instruments and are focused on providing private high-yield capital for mid- to large-sized leveraged and management buyout transactions, recapitalizations, financings, refinancings, acquisitions and restructurings for private equity firms, private family companies and corporate issuers.

3. These funds are primarily multi-disciplinary hedge funds that employ a fundamental bottom-up investment approach across various asset classes and strategies including long/short equity, credit, convertibles, risk arbitrage, special situations and capital structure arbitrage.

4. These funds invest globally, primarily in real estate companies, loan portfolios, debt recapitalizations and direct property.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Note 7. Derivatives and Hedging Activities

Note 7.

Derivatives and Hedging Activities

Derivative Activities

Derivatives are instruments that derive their value from underlying asset prices, indices, reference rates and other inputs, or a combination of these factors. Derivatives may be traded on an exchange (exchange-traded) or they may be privately negotiated contracts, which are usually referred to as over-the-counter (OTC) derivatives. Certain of the firm's OTC derivatives are cleared and settled through central clearing counterparties (OTC-cleared), while others are bilateral contracts between two counterparties (bilateral OTC).

Market-Making. As a market maker, the firm enters into derivative transactions to provide liquidity and to facilitate the transfer and hedging of risk. In this capacity, the firm typically acts as principal and is consequently required to commit capital to provide execution. As a market maker, it is essential to maintain an inventory of financial instruments sufficient to meet expected client and market demands.

Risk Management. The firm also enters into derivatives to actively manage risk exposures that arise from market-making and investing and lending activities in derivative and cash instruments. The firm's holdings and exposures are hedged, in many cases, on either a portfolio or risk-specific basis, as opposed to an instrument-by-instrument basis. The offsetting impact of this economic hedging is reflected in the same business segment as the related revenues. In addition, the firm may enter into derivatives designated as hedges under U.S. GAAP. These derivatives are used to manage foreign currency exposure on the net investment in certain non-U.S. operations and to manage interest rate exposure in certain fixed-rate unsecured long-term and short-term borrowings, and deposits.

The firm enters into various types of derivatives, including:

Futures and Forwards. Contracts that commit counterparties to purchase or sell financial instruments, commodities or currencies in the future.

Swaps. Contracts that require counterparties to exchange cash flows such as currency or interest payment streams. The amounts exchanged are based on the specific terms of the contract with reference to specified rates, financial instruments, commodities, currencies or indices.

Options. Contracts in which the option purchaser has the right, but not the obligation, to purchase from or sell to the option writer financial instruments, commodities or currencies within a defined time period for a specified price.

Derivatives are accounted for at fair value, net of cash collateral received or posted under enforceable credit support agreements. Derivatives are reported on a net-by-counterparty basis (i.e., the net payable or receivable for derivative assets and liabilities for a given counterparty) when a legal right of setoff exists under an enforceable netting agreement. Derivative assets and liabilities are included in Financial instruments owned, at fair value and Financial instruments sold, but not yet purchased, at fair value, respectively. Substantially all gains and losses on derivatives not designated as hedges under ASC 815 are included in Market making and Other principal transactions.

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The table below presents the fair value of derivatives on a net-by-counterparty basis.

<i>in millions</i>	As of March 2013		As of December 2012	
	Derivative Assets	Derivative Liabilities	Derivative Assets	Derivative Liabilities
Exchange-traded	\$ 4,455	\$ 3,581	\$ 3,772	\$ 2,937
OTC	63,585	48,766	67,404	47,490
Total	\$68,040	\$52,347	\$71,176	\$50,427

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)**

The table below presents the fair value and the notional amount of derivative contracts by major product type on a gross basis. Gross fair values exclude the effects of both counterparty netting and collateral, and therefore are not representative of the firm's exposure. OTC derivatives that are cleared with certain clearing organizations are reflected as settled each day. The table below also presents the amounts of counterparty netting and cash collateral that have been offset in the condensed consolidated statements of financial condition, as well as cash and securities collateral

posted and received under enforceable credit support agreements that do not meet the criteria for netting under U.S. GAAP. Where the firm has received or posted collateral under credit support agreements, but has not yet determined such agreements are enforceable, the related collateral has not been netted in the table below. Notional amounts, which represent the sum of gross long and short derivative contracts, provide an indication of the volume of the firm's derivative activity, and do not represent anticipated losses.

	As of March 2013			As of December 2012		
	Derivative Assets	Derivative Liabilities	Notional Amount	Derivative Assets	Derivative Liabilities	Notional Amount
<i>in millions</i>						
Derivatives not accounted for as hedges						
Interest rates	\$ 518,022	\$ 482,433	\$36,083,019	\$ 584,584	\$ 545,605	\$34,891,763
Exchange-traded	86	70	2,621,038	47	26	2,502,867
OTC-cleared	14,700	15,837	16,298,152	8,847	11,011	14,678,349
Bilateral OTC	503,236	466,526	17,163,829	575,690	534,568	17,710,547
Credit	81,669	72,495	3,632,242	85,816	74,927	3,615,757
OTC-cleared	3,595	3,348	323,457	3,359	2,638	304,100
Bilateral OTC	78,074	69,147	3,308,785	82,457	72,289	3,311,657
Currencies	69,534	62,197	4,053,493	72,128	60,808	3,833,114
Exchange-traded	45	68	13,815	31	82	12,341
OTC-cleared	31	20	8,723	14	14	5,487
Bilateral OTC	69,458	62,109	4,030,955	72,083	60,712	3,815,286
Commodities	22,246	21,752	819,726	23,320	24,350	774,115
Exchange-traded	5,491	4,640	396,230	5,360	5,040	344,823

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OTC-cleared	31	40	874	26	23	327
Bilateral OTC	16,724	17,072	422,622	17,934	19,287	428,965
Equities	51,672	48,082	1,339,285	49,483	43,681	1,202,181
Exchange-traded	9,636	9,606	495,994	9,409	8,864	441,494
Bilateral OTC	42,036	38,476	843,291	40,074	34,817	760,687
Subtotal	743,143	686,959	45,927,765	815,331	749,371	44,316,930
Derivatives accounted for as hedges						
Interest rates	20,825	180	132,886	23,772	66	128,302
OTC-cleared	9		66			
Bilateral OTC	20,816	180	132,820	23,772	66	128,302
Currencies	37	39	8,427	21	86	8,452
OTC-cleared			84			3
Bilateral OTC	37	39	8,343	21	86	8,449
Subtotal	20,862	219	141,313	23,793	152	136,754
Gross fair value/notional amount of derivatives	\$ 764,005¹	\$ 687,178¹	\$46,069,078	\$ 839,124¹	\$ 749,523¹	\$44,453,684
Amounts that have been offset in the condensed consolidated statements of financial condition						
Counterparty netting	(607,096)	(607,096)		(668,460)	(668,460)	
Exchange-traded	(10,803)	(10,803)		(11,075)	(11,075)	
OTC-cleared	(17,146)	(17,146)		(11,507)	(11,507)	
Bilateral OTC	(579,147)	(579,147)		(645,878)	(645,878)	
Cash collateral	(88,869)	(27,735)		(99,488)	(30,636)	
OTC-cleared	(335)	(2,028)		(468)	(2,160)	
Bilateral OTC	(88,534)	(25,707)		(99,020)	(28,476)	
Fair value included in financial instruments owned/financial instruments sold, but not yet purchased						
	\$ 68,040	\$ 52,347		\$ 71,176	\$ 50,427	
Amounts that have not been offset in the condensed consolidated statements of financial condition						
Cash collateral received/posted	(937)	(3,706)		(812)	(2,994)	
Securities collateral received/posted	(16,172)	(14,384)		(17,225)	(14,262)	
Total	\$ 50,931	\$ 34,257		\$ 53,139	\$ 33,171	

1. Includes derivative assets and derivative liabilities of \$25.43 billion and \$27.30 billion, respectively, as of March 2013, and derivative assets and derivative liabilities of \$24.62 billion and \$25.73 billion, respectively, as of December 2012, which are not subject to an enforceable netting agreement or are subject to a netting agreement that the firm has not yet determined to be enforceable.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Valuation Techniques for Derivatives

The firm's level 2 and level 3 derivatives are valued using derivative pricing models (e.g., models that incorporate option pricing methodologies, Monte Carlo simulations and discounted cash flows). Price transparency of derivatives can generally be characterized by product type.

Interest Rate. In general, the prices and other inputs used to value interest rate derivatives are transparent, even for long-dated contracts. Interest rate swaps and options denominated in the currencies of leading industrialized nations are characterized by high trading volumes and tight bid/offer spreads. Interest rate derivatives that reference indices, such as an inflation index, or the shape of the yield curve (e.g., 10-year swap rate vs. 2-year swap rate) are more complex, but the prices and other inputs are generally observable.

Credit. Price transparency for credit default swaps, including both single names and baskets of credits, varies by market and underlying reference entity or obligation. Credit default swaps that reference indices, large corporates and major sovereigns generally exhibit the most price transparency. For credit default swaps with other underliers, price transparency varies based on credit rating, the cost of borrowing the underlying reference obligations, and the availability of the underlying reference obligations for delivery upon the default of the issuer. Credit default swaps that reference loans, asset-backed securities and emerging market debt instruments tend to have less price transparency than those that reference corporate bonds. In addition, more complex credit derivatives, such as those sensitive to the correlation between two or more underlying reference obligations, generally have less price transparency.

Currency. Prices for currency derivatives based on the exchange rates of leading industrialized nations, including those with longer tenors, are generally transparent. The primary difference between the price transparency of developed and emerging market currency derivatives is that emerging markets tend to be observable for contracts with shorter tenors.

Commodity. Commodity derivatives include transactions referenced to energy (e.g., oil and natural gas), metals (e.g., precious and base) and soft commodities (e.g., agricultural). Price transparency varies based on the underlying commodity, delivery location, tenor and product quality (e.g., diesel fuel compared to unleaded gasoline). In general, price transparency for commodity derivatives is greater for contracts with shorter tenors and contracts that are more closely aligned with major and/or benchmark commodity indices.

Equity. Price transparency for equity derivatives varies by market and underlier. Options on indices and the common stock of corporates included in major equity indices exhibit the most price transparency. Equity derivatives generally have observable market prices, except for contracts with long tenors or reference prices that differ significantly from current market prices. More complex equity derivatives, such as those sensitive to the correlation between two or more individual stocks, generally have less price transparency.

Liquidity is essential to observability of all product types. If transaction volumes decline, previously transparent prices and other inputs may become unobservable. Conversely, even highly structured products may at times have trading volumes large enough to provide observability of prices and other inputs. See Note 5 for an overview of the firm's fair value measurement policies.

Level 1 Derivatives

Level 1 derivatives include short-term contracts for future delivery of securities when the underlying security is a level 1 instrument, and exchange-traded derivatives if they are actively traded and are valued at their quoted market price.

Level 2 Derivatives

Level 2 derivatives include OTC derivatives for which all significant valuation inputs are corroborated by market evidence and exchange-traded derivatives that are not actively traded and/or that are valued using models that calibrate to market-clearing levels of OTC derivatives.

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The selection of a particular model to value a derivative depends on the contractual terms of and specific risks inherent in the instrument, as well as the availability of pricing information in the market. For derivatives that trade in liquid markets, model selection does not involve significant management judgment because outputs of models can be calibrated to market-clearing levels.

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Valuation models require a variety of inputs, such as contractual terms, market prices, yield curves, discount rates (including those derived from interest rates on collateral received and posted as specified in credit support agreements for collateralized derivatives), credit curves, measures of volatility, prepayment rates, loss severity rates and correlations of such inputs. Inputs to the valuations of level 2 derivatives can be verified to market transactions, broker or dealer quotations or other alternative pricing sources with reasonable levels of price transparency. Consideration is given to the nature of the quotations (e.g., indicative or firm) and the relationship of recent market activity to the prices provided from alternative pricing sources.

Level 3 Derivatives

Level 3 derivatives are valued using models which utilize observable level 1 and/or level 2 inputs, as well as unobservable level 3 inputs.

For the majority of the firm's interest rate and currency derivatives classified within level 3, significant unobservable inputs include correlations of certain currencies and interest rates (e.g., the correlation between Euro inflation and Euro interest rates) and specific interest rate volatilities.

For level 3 credit derivatives, significant unobservable inputs include illiquid credit spreads, which are unique to specific reference obligations and reference entities, recovery rates and certain correlations required to value credit and mortgage derivatives (e.g., the likelihood of default of the underlying reference obligation relative to one another).

For level 3 equity derivatives, significant unobservable inputs generally include equity volatility inputs for options that are very long-dated and/or have strike prices that differ significantly from current market prices. In addition, the valuation of certain structured trades requires the use of level 3 correlation inputs, such as the correlation of the price performance of two or more individual stocks or the correlation of the price performance for a basket of stocks to another asset class such as commodities.

For level 3 commodity derivatives, significant unobservable inputs include volatilities for options with strike prices that differ significantly from current market prices and prices or spreads for certain products for which the product quality or physical location of the commodity is not aligned with benchmark indices.

Subsequent to the initial valuation of a level 3 derivative, the firm updates the level 1 and level 2 inputs to reflect observable market changes and any resulting gains and losses are recorded in level 3. Level 3 inputs are changed when corroborated by evidence such as similar market transactions, third-party pricing services and/or broker or dealer quotations or other empirical market data. In circumstances where the firm cannot verify the model value by reference to market transactions, it is possible that a different valuation model could produce a materially different estimate of fair value. See below for further information about significant unobservable inputs used in the valuation of level 3 derivatives.

Valuation Adjustments

Valuation adjustments are integral to determining the fair value of derivative portfolios and are used to adjust the mid-market valuations produced by derivative pricing models to the appropriate exit price valuation. These adjustments incorporate bid/offer spreads, the cost of liquidity, credit valuation adjustments (CVA) and funding valuation adjustments, which account for the credit and funding risk inherent in the uncollateralized portion of derivative portfolios. Market-based inputs are generally used when calibrating valuation adjustments to market-clearing levels.

In addition, for derivatives that include significant unobservable inputs, the firm makes model or exit price adjustments to account for the valuation uncertainty present in the transaction.

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Significant Unobservable Inputs

The tables below present the ranges of significant unobservable inputs used to value the firm's level 3 derivatives. These ranges represent the significant unobservable inputs that were used in the valuation of each type of derivative. The ranges, averages and medians of these inputs are not representative of the appropriate inputs to use when calculating the fair value of any one derivative.

For example, the highest correlation presented in the tables below for interest rate derivatives is appropriate for valuing a specific interest rate derivative but may not be appropriate for valuing any other interest rate derivative. Accordingly, the ranges of inputs presented below do not represent uncertainty in, or possible ranges of, fair value measurements of the firm's level 3 derivatives.

Level 3 Derivative Product Type	Net Level 3 Assets/(Liabilities)		Range of Significant Unobservable
	as of March 2013 <i>(in millions)</i>	Significant Unobservable Inputs of Derivative Pricing Models	Inputs (Average / Median) ¹ as of March 2013
Interest rates	\$ (305)	Correlation ²	22% to 84% (64% / 65%)
		Volatility	37 basis points per annum (bpa) to 59 bpa (48 bpa / 47 bpa)
Credit	\$5,882	Correlation ²	5% to 96% (52% / 50%)
		Credit spreads	3 bps to 6,149 bps (319 bps / 136 bps) ³

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Recovery rates

20% to 88% (53% / 50%)

Currencies	\$(289)	Correlation ²	65% to 84% (75% / 77%)
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Commodities	\$(27)	Volatility	9% to 56% (23% / 23%)
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		Spread per million British Thermal units (MMBTU) of natural gas	\$(0.71) to \$3.80 (\$0.02) / \$(0.01))
--	--	---	---

		Price per megawatt hour of power	\$17.26 to \$60.18 (\$36.21 / \$35.82)
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		Price per barrel of oil	\$88.68 to \$103.73 (\$94.06 / \$94.31)
--	--	-------------------------	---

Equities	\$(1,135)	Correlation ²	29% to 98% (55% / 53%)
----------	------------------	--------------------------	------------------------

		Volatility	9% to 67% (27% / 25%)
--	--	------------	-----------------------

1. Averages represent the arithmetic average of the inputs and are not weighted by the relative fair value or notional of the respective financial instruments. An average greater than the median indicates that the majority of inputs are below the average.

2. The range of unobservable inputs for correlation across derivative product types (i.e., cross-asset correlation) was (58)% to 82% (Average: 24% / Median: 33%) as of March 2013.

3. The difference between the average and the median for the credit spreads input indicates that the majority of the inputs fall in the lower end of the range.

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Level 3 Derivative Product Type	Net Level 3 Assets/(Liabilities)		Range of Significant Unobservable
	as of December 2012 <i>(in millions)</i>	Significant Unobservable Inputs of Derivative Pricing Models	Inputs (Average / Median) ¹ as of December 2012
Interest rates	\$ (355)	Correlation ²	22% to 97% (67% / 68%)
		Volatility	37 bpa to 59 bpa (48 bpa / 47 bpa)
Credit	\$ 6,228	Correlation ²	5% to 95% (50% / 50%)
		Credit spreads	9 bps to 2,341 bps (225 bps / 140 bps) ³
		Recovery rates	15% to 85% (54% / 53%)
Currencies	\$ 35	Correlation ²	65% to 87% (76% / 79%)
Commodities	\$ (304)	Volatility	13% to 53% (30% / 29%)

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Spread per MMBTU of natural gas	\$(0.61) to \$6.07 (\$0.02 / \$0.00)
Price per megawatt hour of power	\$17.30 to \$57.39 (\$33.17 / \$32.80)
Price per barrel of oil	\$86.64 to \$98.43 (\$92.76 / \$93.62)

Equities	\$(1,248)	Correlation ²	48% to 98% (68% / 67%)
		Volatility	15% to 73% (31% / 30%)

1. Averages represent the arithmetic average of the inputs and are not weighted by the relative fair value or notional of the respective financial instruments. An average greater than the median indicates that the majority of inputs are below the average.

2. The range of unobservable inputs for correlation across derivative product types (i.e., cross-asset correlation) was (51)% to 66% (Average: 30% / Median: 35%) as of December 2012.

3. The difference between the average and the median for the credit spreads input indicates that the majority of the inputs fall in the lower end of the range.

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Range of Significant Unobservable Inputs

The following provides further information about the ranges of significant unobservable inputs used to value the firm's level 3 derivative instruments.

Correlation: Ranges for correlation cover a variety of underliers both within one market (e.g., equity index and equity single stock names) and across markets (e.g., correlation of a commodity price and a foreign exchange rate), as well as across regions. Generally, cross-asset correlation inputs are used to value more complex instruments and are lower than correlation inputs on assets within the same derivative product type.

Volatility: Ranges for volatility cover numerous underliers across a variety of markets, maturities and strike prices. For example, volatility of equity indices is generally lower than volatility of single stocks.

Credit spreads and recovery rates: The ranges for credit spreads and recovery rates cover a variety of underliers (index and single names), regions, sectors, maturities and credit qualities (high-yield and investment-grade). The broad range of this population gives rise to the width of the ranges of significant unobservable inputs.

Commodity prices and spreads: The ranges for commodity prices and spreads cover variability in products, maturities and locations, as well as peak and off-peak prices.

Sensitivity of Fair Value Measurement to Changes in Significant Unobservable Inputs

The following provides a description of the directional sensitivity of the firm's level 3 fair value measurements to changes in significant unobservable inputs, in isolation. Due to the distinctive nature of each of the firm's level 3 derivatives, the interrelationship of inputs is not necessarily uniform within each product type.

Correlation: In general, for contracts where the holder benefits from the convergence of the underlying asset or index prices (e.g., interest rates, credit spreads, foreign exchange rates, inflation rates and equity prices), an increase in correlation results in a higher fair value measurement.

Volatility: In general, for purchased options an increase in volatility results in a higher fair value measurement.

Credit spreads and recovery rates: In general, the fair value of purchased credit protection increases as credit spreads increase or recovery rates decrease. Credit spreads and recovery rates are strongly related to distinctive risk factors of the underlying reference obligations, which include reference entity-specific factors such as leverage, volatility and industry, market-based risk factors, such as borrowing costs or liquidity of the underlying reference obligation, and macro-economic conditions.

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Commodity prices and spreads: In general, for contracts where the holder is receiving a commodity, an increase in the spread (price difference from a benchmark index due to differences in quality or delivery location) or price results in a higher fair value measurement.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)****Fair Value of Derivatives by Level**

The tables below present the fair value of derivatives on a gross basis by level and major product type. Gross fair values exclude the effects of both counterparty

netting and collateral, and therefore are not representative of the firm's exposure.

<i>in millions</i>	Derivative Assets at Fair Value as of March 2013				
	Level 1	Level 2	Level 3	Cross-Level Netting	Total
Interest rates	\$ 26	\$ 538,655	\$ 166	\$	\$ 538,847
Credit		71,039	10,630		81,669
Currencies		68,953	618		69,571
Commodities		21,765	481		22,246
Equities	28	51,062	582		51,672
Gross fair value of derivative assets	54	751,474	12,477		764,005
Counterparty netting ¹		(601,944)	(3,193)	(1,959) ³	(607,096)
Subtotal	\$ 54	\$ 149,530	\$ 9,284	\$ (1,959)	\$ 156,909
Cash collateral ²					(88,869)
Fair value included in financial instruments owned					\$ 68,040

<i>in millions</i>	Derivative Liabilities at Fair Value as of March 2013				
	Level 1	Level 2	Level 3	Cross-Level Netting	Total
Interest rates	\$ 29	\$ 482,113	\$ 471	\$	\$ 482,613
Credit		67,747	4,748		72,495
Currencies		61,329	907		62,236
Commodities		21,244	508		21,752
Equities	119	46,246	1,717		48,082
Gross fair value of derivative liabilities	148	678,679	8,351		687,178

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Counterparty netting ¹		(601,944)	(3,193)	(1,959) ³	(607,096)
Subtotal	\$148	\$ 76,735	\$ 5,158	\$(1,959)	\$ 80,082
Cash collateral ²					(27,735)
Fair value included in financial instruments sold, but not yet purchased					\$ 52,347

1. Represents the netting of receivable balances with payable balances for the same counterparty under enforceable netting agreements.

2. Represents the netting of cash collateral received and posted on a counterparty basis under enforceable credit support agreements.

3. Represents the netting of receivable balances with payable balances for the same counterparty across levels of the fair value hierarchy under enforceable netting agreements.

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Notes to Condensed Consolidated Financial Statements**(Unaudited)**

<i>in millions</i>	Derivative Assets at Fair Value as of December 2012				Total
	Level 1	Level 2	Level 3	Cross-Level Netting	
Interest rates	\$13	\$ 608,151	\$ 192	\$	\$ 608,356
Credit		74,907	10,909		85,816
Currencies		71,157	992		72,149
Commodities		22,697	623		23,320
Equities	43	48,698	742		49,483
Gross fair value of derivative assets	56	825,610	13,458		839,124
Counterparty netting ¹		(662,798)	(3,538)	(2,124) ³	(668,460)
Subtotal	\$56	\$ 162,812	\$ 9,920	\$(2,124)	\$ 170,664
Cash collateral ²					(99,488)
Fair value included in financial instruments owned					\$ 71,176

<i>in millions</i>	Derivative Liabilities at Fair Value as of December 2012				Total
	Level 1	Level 2	Level 3	Netting	
Interest rates	\$14	\$ 545,110	\$ 547	\$	\$ 545,671
Credit		70,246	4,681		74,927
Currencies		59,937	957		60,894
Commodities		23,423	927		24,350
Equities	50	41,641	1,990		43,681
Gross fair value of derivative liabilities	64	740,357	9,102		749,523
Counterparty netting ¹		(662,798)	(3,538)	(2,124) ³	(668,460)
Subtotal	\$64	\$ 77,559	\$ 5,564	\$(2,124)	\$ 81,063
Cash collateral ²					(30,636)
Fair value included in financial instruments sold, but not yet purchased					\$ 50,427

1. Represents the netting of receivable balances with payable balances for the same counterparty under enforceable netting agreements.

2. Represents the netting of cash collateral received and posted on a counterparty basis under enforceable credit support agreements.

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3. Represents the netting of receivable balances with payable balances for the same counterparty across levels of the fair value hierarchy under enforceable netting agreements.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)****Level 3 Rollforward**

If a derivative was transferred to level 3 during a reporting period, its entire gain or loss for the period is included in level 3. Transfers between levels are reported at the beginning of the reporting period in which they occur. In the tables below, negative amounts for transfers into level 3 and positive amounts for transfers out of level 3 represent net transfers of derivative liabilities.

Gains and losses on level 3 derivatives should be considered in the context of the following:

A derivative with level 1 and/or level 2 inputs is classified in level 3 in its entirety if it has at least one significant level 3 input.

If there is one significant level 3 input, the entire gain or loss from adjusting only observable inputs (i.e., level 1 and level 2 inputs) is classified as level 3.

Gains or losses that have been reported in level 3 resulting from changes in level 1 or level 2 inputs are frequently offset by gains or losses attributable to level 1 or level 2 derivatives and/or level 1, level 2 and level 3 cash instruments. As a result, gains/(losses) included in the level 3 rollforward below do not necessarily represent the overall impact on the firm's results of operations, liquidity or capital resources. The tables below present changes in fair value for all derivatives categorized as level 3 as of the end of the period.

Level 3 Derivative Assets and Liabilities at Fair Value for the Three Months Ended March 2013

<i>in millions</i>		Asset/	Net	Net unrealized	Purchases	Sales	Settlements	Transfers	Transfers	Asset/
		(liability)	realized	gains/(losses)				into	out of	(liability)
		balance,	gains/	relating to				level 3	level 3	balance,
		beginning	(losses)	instruments						end of
		of period		still held at						period
				period-end						
Interest rates	net	\$ (355)	\$ (6)	\$ 30	\$ 5	\$	\$ 51	\$ (14)	\$ (16)	\$ (305)
Credit	net	6,228	(3)	18	75	(46)	(527)	230	(93)	5,882
Currencies	net	35	(8)	(329)	2	(3)	26	40	(52)	(289)
Commodities	net	(304)	22	167	38	(21)	(22)	19	74	(27)
Equities	net	(1,248)	(32)	(170)	39	(488)	141	(51)	674	(1,135)
Total derivatives	net	\$ 4,356	\$ (27)¹	\$ (284)^{1,2}	\$ 159	\$ (558)	\$ (331)	\$ 224	\$ 587	\$ 4,126

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1. The aggregate amounts include approximately \$(193) million and \$(118) million reported in Market making and Other principal transactions, respectively.

2. Principally resulted from changes in level 2 inputs.

The net unrealized loss on level 3 derivatives of \$284 million for the three months ended March 2013 was primarily attributable to changes in foreign exchange rates on certain currency derivatives and increases in equity prices on certain equity derivatives, partially offset by the impact of a decline in volatility on certain commodity derivatives.

Transfers into level 3 derivatives during the three months ended March 2013 primarily reflected transfers of certain credit derivative assets from level 2, principally due to reduced transparency of credit spread inputs used to value these derivatives.

Transfers out of level 3 derivatives during the three months ended March 2013 primarily reflected transfers of certain equity derivative liabilities to level 2, principally due to unobservable inputs no longer being significant to the valuation of these derivatives.

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Notes to Condensed Consolidated Financial Statements**(Unaudited)**

Level 3 Derivative Assets and Liabilities at Fair Value for the Three Months Ended March 2012

<i>in millions</i>	Asset/ (liability) balance, beginning of period	Net realized gains/ (losses)	Net unrealized gains/(losses) relating to instruments still held at period-end	Purchases	Sales	Settlements	Transfers		Asset/ (liability) balance, end of period
							Transfers into level 3	Transfers out of level 3	
Interest rates net	\$ (371)	\$(63)	\$ 32	\$ 3	\$ (1)	\$ 164	\$ 8	\$ (12)	\$ (240)
Credit net	6,300	10	(308)	75	(73)	(553)	1,332	(281)	6,502
Currencies net	842	(6)	(266)	1	(7)	(234)	2	58	390
Commodities net	(605)	40	206	99	(99)	41	100	119	(99)
Equities net	(432)	(25)	(277)	73	(100)	306	15	(80)	(520)
Total derivatives net	\$5,734	\$(44) ¹	\$(613) ^{1,2}	\$251	\$(280)	\$(276)	\$1,457	\$(196)	\$6,033

1. The aggregate amounts include approximately \$(444) million and \$(213) million reported in Market making and Other principal transactions, respectively.

2. Principally resulted from changes in level 2 inputs.

The net unrealized loss on level 3 derivatives of \$613 million for the three months ended March 2012 was primarily attributable to the impact of tighter credit spreads, increases in equity prices and changes in foreign exchange rates on the underlying derivatives, partially offset by the impact of changes in commodity prices.

Transfers into level 3 derivatives during the three months ended March 2012 primarily reflected transfers of certain credit derivative assets from level 2, primarily due to unobservable inputs becoming significant to the valuation of these derivatives.

Transfers out of level 3 derivatives during the three months ended March 2012 primarily reflected transfers to level 2 of certain credit derivative assets, principally due to unobservable inputs no longer being significant to the valuation of these derivatives.

Impact of Credit Spreads on Derivatives

On an ongoing basis, the firm realizes gains or losses relating to changes in credit risk through the unwind of derivative contracts and changes in credit mitigants.

The net loss, including hedges, attributable to the impact of changes in credit exposure and credit spreads (counterparty and the firm's) on derivatives was \$83 million and \$179 million for the three months ended March 2013 and March 2012, respectively.

Bifurcated Embedded Derivatives

The table below presents the fair value and the notional amount of derivatives that have been bifurcated from their related borrowings. These derivatives, which are recorded at fair value, primarily consist of interest rate, equity and commodity products and are included in Unsecured short-term borrowings and Unsecured long-term borrowings with the related borrowings. See Note 8 for further information.

	As of	
	March	December
<i>in millions</i>	2013	2012
Fair value of assets	\$ 275	\$ 320
Fair value of liabilities	367	398
Net asset/(liability)	\$ (92)	\$ (78)
Notional amount	\$10,188	\$10,567

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)****OTC Derivatives**

The tables below present the fair values of OTC derivative assets and liabilities by tenor and by product type. Tenor is based on expected duration for mortgage-related credit

derivatives and generally on remaining contractual maturity for other derivatives.

<i>in millions</i>	OTC Derivatives as of March 2013			
	0 - 12	1 - 5	5 Years or	
Assets				
Product Type	Months	Years	Greater	Total
Interest rates	\$ 8,817	\$27,020	\$72,111	\$107,948
Credit	2,025	11,105	7,804	20,934
Currencies	11,086	7,780	8,561	27,427
Commodities	4,037	3,666	398	8,101
Equities	5,326	7,626	6,235	19,187
Netting across product types ¹	(2,279)	(5,857)	(4,380)	(12,516)
Subtotal	\$29,012	\$51,340	\$90,729	\$171,081
Cross maturity netting ²				(18,627)
Cash collateral ³				(88,869)
Total				\$ 63,585
Liabilities	0 - 12	1 - 5	5 Years or	
Product Type	Months	Years	Greater	Total
Interest rates	\$ 4,126	\$17,437	\$30,165	\$ 51,728
Credit	764	7,645	3,352	11,761
Currencies	9,732	5,161	5,176	20,069
Commodities	3,815	2,597	2,046	8,458

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Equities	6,189	5,487	3,952	15,628
Netting across product types ¹	(2,279)	(5,857)	(4,380)	(12,516)
Subtotal	\$22,347	\$32,470	\$40,311	\$ 95,128
Cross maturity netting ²				(18,627)
Cash collateral ³				(27,735)
Total				\$ 48,766

1. Represents the netting of receivable balances with payable balances for the same counterparty across product types within a tenor category under enforceable netting agreements. Receivable and payable balances with the same counterparty in the same product type and tenor category are netted within such product type and tenor category.

2. Represents the netting of receivable balances with payable balances for the same counterparty across tenor categories under enforceable netting agreements.

3. Represents the netting of cash collateral received and posted on a counterparty basis under enforceable credit support agreements.

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<i>in millions</i>	OTC Derivatives as of December 2012			
	0 - 12	1 - 5	5 Years or	Total
Assets				
Product Type	Months	Years	Greater	Total
Interest rates	\$10,318	\$28,445	\$ 80,449	\$119,212
Credit	2,190	12,244	7,970	22,404
Currencies	11,100	8,379	11,044	30,523
Commodities	3,840	3,862	304	8,006
Equities	3,757	7,730	6,957	18,444
Netting across product types ¹	(2,811)	(5,831)	(5,082)	(13,724)
Subtotal	\$28,394	\$54,829	\$101,642	\$184,865
Cross maturity netting ²				(17,973)
Cash collateral ³				(99,488)
Total				\$ 67,404
Liabilities	0 - 12	1 - 5	5 Years or	
Product Type	Months	Years	Greater	Total
Interest rates	\$ 6,266	\$17,860	\$ 32,422	\$ 56,548
Credit	809	7,537	3,168	11,514
Currencies	8,586	4,849	5,782	19,217
Commodities	3,970	3,119	2,267	9,356
Equities	3,775	5,476	3,937	13,188
Netting across product types ¹	(2,811)	(5,831)	(5,082)	(13,724)
Subtotal	\$20,595	\$33,010	\$ 42,494	\$ 96,099
Cross maturity netting ²				(17,973)
Cash collateral ³				(30,636)
Total				\$ 47,490

1. Represents the netting of receivable balances with payable balances for the same counterparty across product types within a tenor category under enforceable netting agreements. Receivable and payable balances with the same counterparty in the same product type and tenor category are netted within such product type and tenor category.

2. Represents the netting of receivable balances with payable balances for the same counterparty across tenor categories under enforceable netting agreements.

3. Represents the netting of cash collateral received and posted on a counterparty basis under enforceable credit support agreements.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)****Derivatives with Credit-Related Contingent Features**

Certain of the firm's derivatives have been transacted under bilateral agreements with counterparties who may require the firm to post collateral or terminate the transactions based on changes in the firm's credit ratings. The firm assesses the impact of these bilateral agreements by determining the collateral or termination payments that would occur assuming a downgrade by all rating agencies. A downgrade by any one rating agency, depending on the agency's relative ratings of the firm at the time of the downgrade, may have an impact which is comparable to the impact of a downgrade by all rating agencies. The table below presents the aggregate fair value of net derivative liabilities under such agreements (excluding application of collateral posted to reduce these liabilities), the related aggregate fair value of the assets posted as collateral, and the additional collateral or termination payments that could have been called at the reporting date by counterparties in the event of a one-notch and two-notch downgrade in the firm's credit ratings.

	March	As of December
<i>in millions</i>	2013	2012
Net derivative liabilities under bilateral agreements	\$27,925	\$27,885
Collateral posted	24,378	24,296
Additional collateral or termination payments for a one-notch downgrade	1,597	1,534
Additional collateral or termination payments for a two-notch downgrade	2,476	2,500

Credit Derivatives

The firm enters into a broad array of credit derivatives in locations around the world to facilitate client transactions and to manage the credit risk associated with market-making and investing and lending activities. Credit derivatives are actively managed based on the firm's net risk position.

Credit derivatives are individually negotiated contracts and can have various settlement and payment conventions. Credit events include failure to pay, bankruptcy, acceleration of indebtedness, restructuring, repudiation and dissolution of the reference entity.

Credit Default Swaps. Single-name credit default swaps protect the buyer against the loss of principal on one or more bonds, loans or mortgages (reference obligations) in the event the issuer (reference entity) of the reference obligations suffers a credit event. The buyer of protection pays an initial or periodic premium to the seller and receives

protection for the period of the contract. If there is no credit event, as defined in the contract, the seller of protection makes no payments to the buyer of protection. However, if a credit event occurs, the seller of protection is required to make a payment to the buyer of protection, which is calculated in accordance with the terms of the contract.

Credit Indices, Baskets and Tranches. Credit derivatives may reference a basket of single-name credit default swaps or a broad-based index. If a credit event occurs in one of the underlying reference obligations, the protection seller pays the protection buyer. The payment is typically a pro-rata portion of the transaction's total notional amount based on the underlying defaulted reference obligation. In certain transactions, the credit risk of a basket or index is separated into various portions (tranches), each having different levels of subordination. The most junior

tranches cover initial defaults and once losses exceed the notional amount of these junior tranches, any excess loss is covered by the next most senior tranche in the capital structure.

Total Return Swaps. A total return swap transfers the risks relating to economic performance of a reference obligation from the protection buyer to the protection seller. Typically, the protection buyer receives from the protection seller a floating rate of interest and protection against any reduction in fair value of the reference obligation, and in return the protection seller receives the cash flows associated with the reference obligation, plus any increase in the fair value of the reference obligation.

Credit Options. In a credit option, the option writer assumes the obligation to purchase or sell a reference obligation at a specified price or credit spread. The option purchaser buys the right, but does not assume the obligation, to sell the reference obligation to, or purchase it from, the option writer. The payments on credit options depend either on a particular credit spread or the price of the reference obligation.

The firm economically hedges its exposure to written credit derivatives primarily by entering into offsetting purchased credit derivatives with identical underlyings. Substantially all of the firm's purchased credit derivative transactions are with financial institutions and are subject to stringent collateral thresholds. In addition, upon the occurrence of a specified trigger event, the firm may take possession of the reference obligations underlying a particular written credit derivative, and consequently may, upon liquidation of the reference obligations, recover amounts on the underlying reference obligations in the event of default.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)**

As of March 2013, written and purchased credit derivatives had total gross notional amounts of \$1.77 trillion and \$1.86 trillion, respectively, for total net notional purchased protection of \$88.75 billion. As of December 2012, written and purchased credit derivatives had total gross notional amounts of \$1.76 trillion and \$1.86 trillion, respectively, for total net notional purchased protection of \$98.33 billion.

The table below presents certain information about credit derivatives. In the table below:

fair values exclude the effects of both netting of receivable balances with payable balances under enforceable netting agreements, and netting of cash received or posted under enforceable credit support agreements, and therefore are not representative of the firm's credit exposure; tenor is based on expected duration for mortgage-related credit derivatives and on remaining contractual maturity for other credit derivatives; and

the credit spread on the underlying, together with the tenor of the contract, are indicators of payment/performance risk. The firm is less likely to pay or otherwise be required to perform where the credit spread and the tenor are lower.

	Maximum Payout/Notional Amount of Written Credit Derivatives by Tenor				Maximum Payout/Notional Amount of Purchased Credit Derivatives		Fair Value of Written Credit Derivatives		
	0 - 12 Months	1 - 5 Years	5 Years or Greater	Total	Offsetting Purchased Credit Derivatives ¹	Other Purchased Credit Derivatives ²	Asset	Liability	Net Asset/ (Liability)
<i>\$ in millions</i>									
As of March 2013									
Credit spread on underlying									
(basis points)									
0-250	\$364,116	\$ 990,658	\$118,650	\$1,473,424	\$1,353,367	\$203,517	\$29,211	\$ 7,923	\$21,288
251-500	12,780	143,576	37,314	193,670	174,983	19,548	4,290	8,350	(4,060)
501-1,000	5,061	42,215	5,520	52,796	50,663	5,137	440	3,326	(2,886)
Greater than 1,000	10,214	40,936	2,936	54,086	47,216	8,291	520	20,588	(20,068)
Total	\$392,171	\$1,217,385	\$164,420	\$1,773,976	\$1,626,229	\$236,493	\$34,461	\$40,187	\$(5,726)

As of December 2012**Credit spread on
underlying**

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(basis points)									
0-250	\$360,289	\$ 989,941	\$103,481	\$1,453,711	\$1,343,561	\$201,459	\$28,817	\$ 8,249	\$20,568
251-500	13,876	126,659	35,086	175,621	157,371	19,063	4,284	7,848	(3,564)
501-1,000	9,209	52,012	5,619	66,840	60,456	8,799	769	4,499	(3,730)
Greater than 1,000	11,453	49,721	3,622	64,796	57,774	10,812	568	21,970	(21,402)
Total	\$394,827	\$1,218,333	\$147,808	\$1,760,968	\$1,619,162	\$240,133	\$34,438	\$42,566	\$ (8,128)

1. Offsetting purchased credit derivatives represent the notional amount of purchased credit derivatives to the extent they economically hedge written credit derivatives with identical underlyings.

2. This purchased protection represents the notional amount of purchased credit derivatives in excess of the notional amount included in Offsetting Purchased Credit Derivatives.

Hedge Accounting

The firm applies hedge accounting for (i) certain interest rate swaps used to manage the interest rate exposure of certain fixed-rate unsecured long-term and short-term borrowings and certain fixed-rate certificates of deposit and (ii) certain foreign currency forward contracts and foreign currency-denominated debt used to manage foreign currency exposures on the firm's net investment in certain non-U.S. operations.

To qualify for hedge accounting, the derivative hedge must be highly effective at reducing the risk from the exposure being hedged. Additionally, the firm must formally document the hedging relationship at inception and test the hedging relationship at least on a quarterly basis to ensure the derivative hedge continues to be highly effective over the life of the hedging relationship.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)****Interest Rate Hedges**

The firm designates certain interest rate swaps as fair value hedges. These interest rate swaps hedge changes in fair value attributable to the relevant benchmark interest rate (e.g., London Interbank Offered Rate (LIBOR)), effectively converting a substantial portion of fixed-rate obligations into floating-rate obligations.

The firm applies a statistical method that utilizes regression analysis when assessing the effectiveness of its fair value hedging relationships in achieving offsetting changes in the fair values of the hedging instrument and the risk being hedged (i.e., interest rate risk). An interest rate swap is considered highly effective in offsetting changes in fair value attributable to changes in the hedged risk when the regression analysis results in a coefficient of determination of 80% or greater and a slope between 80% and 125%.

For qualifying fair value hedges, gains or losses on derivatives are included in Interest expense. The change in fair value of the hedged item attributable to the risk being hedged is reported as an adjustment to its carrying value and is subsequently amortized into interest expense over its remaining life. Gains or losses resulting from hedge ineffectiveness are included in Interest expense. When a derivative is no longer designated as a hedge, any remaining difference between the carrying value and par value of the hedged item is amortized to interest expense over the remaining life of the hedged item using the effective interest method. See Note 23 for further information about interest income and interest expense.

The table below presents the gains/(losses) from interest rate derivatives accounted for as hedges, the related hedged borrowings and bank deposits, and the hedge ineffectiveness on these derivatives.

<i>in millions</i>	Three Months	
	Ended March	
	2013	2012
Interest rate hedges	\$(1,843)	\$(2,238)
Hedged borrowings and bank deposits	1,393	1,778
Hedge ineffectiveness ¹	\$ (450)	\$ (460)

1. Primarily consisted of amortization of prepaid credit spreads resulting from the passage of time.

Net Investment Hedges

The firm seeks to reduce the impact of fluctuations in foreign exchange rates on its net investment in certain non-U.S. operations through the use of foreign currency forward contracts and foreign currency-denominated debt. For foreign currency forward contracts designated as hedges, the effectiveness of the hedge is assessed based on the overall changes in the fair value of the forward contracts (i.e., based on changes in forward rates). For foreign currency-denominated debt designated as a hedge, the effectiveness of the hedge is assessed based on changes in spot rates.

For qualifying net investment hedges, the gains or losses on the hedging instruments, to the extent effective, are included in Currency translation adjustment, net of tax within the condensed consolidated statements of comprehensive income.

The table below presents the gains/(losses) from net investment hedging.

	Three Months	
<i>in millions</i>	Ended March	2012
	2013	
Currency hedges	\$220	\$(212)
Foreign currency-denominated debt hedges	220	221

The gain/(loss) related to ineffectiveness and the gain/(loss) reclassified to earnings from accumulated other comprehensive income were not material for the three months ended March 2013 and March 2012.

As of March 2013 and December 2012, the firm had designated \$2.55 billion and \$2.77 billion, respectively, of foreign currency-denominated debt, included in Unsecured long-term borrowings and Unsecured short-term borrowings, as hedges of net investments in non-U.S. subsidiaries.

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Notes to Condensed Consolidated Financial Statements

(Unaudited)

Note 8. Fair Value Option

Note 8.

Fair Value Option

Other Financial Assets and Financial Liabilities at Fair Value

In addition to all cash and derivative instruments included in Financial instruments owned, at fair value and Financial instruments sold, but not yet purchased, at fair value, the firm has elected to account for certain of its other financial assets and financial liabilities at fair value under the fair value option.

The primary reasons for electing the fair value option are to:

reflect economic events in earnings on a timely basis;

mitigate volatility in earnings from using different measurement attributes (e.g., transfers of financial instruments owned accounted for as financings are recorded at fair value whereas the related secured financing would be recorded on an accrual basis absent electing the fair value option); and

address simplification and cost-benefit considerations (e.g., accounting for hybrid financial instruments at fair value in their entirety versus bifurcation of embedded derivatives and hedge accounting for debt hosts).

Hybrid financial instruments are instruments that contain bifurcable embedded derivatives and do not require settlement by physical delivery of non-financial assets (e.g., physical commodities). If the firm elects to bifurcate the embedded derivative from the associated debt, the derivative is accounted for at fair value and the host contract is accounted for at amortized cost, adjusted for the effective portion of any fair value hedges. If the firm does not elect to bifurcate, the entire hybrid financial instrument is accounted for at fair value under the fair value option.

Other financial assets and financial liabilities accounted for at fair value under the fair value option include:

repurchase agreements and substantially all resale agreements;

securities borrowed and loaned within Fixed Income, Currency and Commodities Client Execution;

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substantially all other secured financings, including transfers of assets accounted for as financings rather than sales;
certain unsecured short-term borrowings, consisting of all promissory notes and commercial paper and certain hybrid financial instruments;

certain unsecured long-term borrowings, including certain prepaid commodity transactions and certain hybrid financial instruments;

certain insurance and reinsurance contract assets and liabilities and certain guarantees;

certain receivables from customers and counterparties, including transfers of assets accounted for as secured loans rather than purchases and certain margin loans;

certain time deposits issued by the firm's bank subsidiaries (deposits with no stated maturity are not eligible for a fair value option election), including structured certificates of deposit, which are hybrid financial instruments; and

certain subordinated liabilities issued by consolidated VIEs.

These financial assets and financial liabilities at fair value are generally valued based on discounted cash flow techniques, which incorporate inputs with reasonable levels of price transparency, and are generally classified as level 2 because the inputs are observable. Valuation adjustments may be made for liquidity and for counterparty and the firm's credit quality.

See below for information about the significant inputs used to value other financial assets and financial liabilities at fair value, including the ranges of significant unobservable inputs used to value the level 3 instruments within these categories. These ranges represent the significant unobservable inputs that were used in the valuation of each type of other financial assets and financial liabilities at fair value. The ranges and weighted averages of these inputs are not representative of the appropriate inputs to use when calculating the fair value of any one instrument. For example, the highest yield presented below for resale and repurchase agreements is appropriate for valuing a specific agreement in that category but may not be appropriate for valuing any other agreements in that category. Accordingly, the ranges of inputs presented below do not represent uncertainty in, or possible ranges of, fair value measurements of the firm's level 3 other financial assets and financial liabilities.

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Notes to Condensed Consolidated Financial Statements

(Unaudited)

Resale and Repurchase Agreements and Securities Borrowed and Loaned. The significant inputs to the valuation of resale and repurchase agreements and securities borrowed and loaned are collateral funding spreads, the amount and timing of expected future cash flows and interest rates. The ranges of significant unobservable inputs used to value level 3 resale and repurchase agreements are as follows:

As of March 2013:

Yield: 1.8% to 5.2% (weighted average: 1.9%)

Duration: 1.1 to 4.4 years (weighted average: 4.2 years)

As of December 2012:

Yield: 1.7% to 5.4% (weighted average: 1.9%)

Duration: 0.4 to 4.5 years (weighted average: 4.1 years)

Generally, increases in yield or duration, in isolation, would result in a lower fair value measurement. Due to the distinctive nature of each of the firm's level 3 resale and repurchase agreements, the interrelationship of inputs is not necessarily uniform across such agreements.

See Note 9 for further information about collateralized agreements.

Other Secured Financings. The significant inputs to the valuation of other secured financings at fair value are the amount and timing of expected future cash flows, interest rates, collateral funding spreads, the fair value of the collateral delivered by the firm (which is determined using the amount and timing of expected future cash flows, market prices, market yields and recovery assumptions) and the frequency of additional collateral calls. The ranges of significant unobservable inputs used to value level 3 other secured financings are as follows:

As of March 2013:

Funding spreads: 42 bps to 210 bps (weighted average: 111 bps)

Yield: 2.7% to 15.9% (weighted average: 10.0%)

Duration: 0.6 to 10.5 years (weighted average: 3.8 years)

As of December 2012:

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Yield: 0.3% to 20.0% (weighted average: 4.2%)

Duration: 0.3 to 10.8 years (weighted average: 2.4 years)

Generally, increases in funding spreads, yield or duration, in isolation, would result in a lower fair value measurement. Due to the distinctive nature of each of the

firm's level 3 other secured financings, the interrelationship of inputs is not necessarily uniform across such financings.

See Note 9 for further information about collateralized financings.

Unsecured Short-term and Long-term Borrowings. The significant inputs to the valuation of unsecured short-term and long-term borrowings at fair value are the amount and timing of expected future cash flows, interest rates, the credit spreads of the firm, as well as commodity prices in the case of prepaid commodity transactions. The inputs used to value the embedded derivative component of hybrid financial instruments are consistent with the inputs used to value the firm's other derivative instruments. See Note 7 for further information about derivatives. See Notes 15 and 16 for further information about unsecured short-term and long-term borrowings, respectively.

Certain of the firm's unsecured short-term and long-term instruments are included in level 3, substantially all of which are hybrid financial instruments. As the significant unobservable inputs used to value hybrid financial instruments primarily relate to the embedded derivative component of these borrowings, these inputs are incorporated in the firm's derivative disclosures related to unobservable inputs in Note 7.

Insurance and Reinsurance Contracts. Insurance and reinsurance contracts at fair value are primarily included in Receivables from customers and counterparties and Other liabilities and accrued expenses. In addition, assets related to the firm's reinsurance business that were classified as held for sale as of March 2013 and December 2012 are included in Other assets. The insurance and reinsurance contracts for which the firm has elected the fair value option are contracts that can be settled only in cash and that qualify for the fair value option because they are recognized financial instruments. These contracts are valued using market transactions and other market evidence where possible, including market-based inputs to models, calibration to market-clearing transactions or other alternative pricing sources with reasonable levels of price transparency. Significant inputs are interest rates, inflation rates, volatilities, funding spreads, yield and duration, which incorporates policy lapse and projected mortality assumptions. When unobservable inputs to a valuation model are significant to the fair value measurement of an instrument, the instrument is classified in level 3. The ranges of significant unobservable inputs used to value level 3 insurance and reinsurance contracts are as follows:

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

As of March 2013:

Funding spreads: 33 bps to 49 bps (weighted average: 40 bps)

Yield: 3.6% to 11.3% (weighted average: 6.2%)

Duration: 7.6 to 10.5 years (weighted average: 9.1 years)

As of December 2012:

Funding spreads: 39 bps to 61 bps (weighted average: 49 bps)

Yield: 4.4% to 15.1% (weighted average: 6.2%)

Duration: 5.3 to 8.8 years (weighted average: 7.6 years)

Generally, increases in funding spreads, yield or duration, in isolation, would result in a lower fair value measurement. Due to the distinctive nature of each of the firm's level 3 insurance and reinsurance contracts, the interrelationship of inputs is not necessarily uniform across such contracts.

Receivables from Customers and Counterparties. Receivables from customers and counterparties at fair value, excluding insurance and reinsurance contracts, are primarily comprised of transfers of assets accounted for as secured loans rather than purchases. The significant inputs to the valuation of such receivables are commodity prices, interest rates, the amount and timing of expected future cash flows and funding spreads. The ranges of significant unobservable inputs used to value level 3 receivables from customers and counterparties are as follows:

As of March 2013:

Funding spreads: 74 bps to 84 bps (weighted average: 81 bps)

As of December 2012:

Funding spreads: 85 bps to 99 bps (weighted average: 99 bps)

Generally, an increase in funding spreads would result in a lower fair value measurement.

Receivables from customers and counterparties not accounted for at fair value are accounted for at amortized cost net of estimated uncollectible amounts, which generally approximates fair value. Such receivables are primarily comprised of customer margin loans and collateral posted in connection with certain derivative transactions. While these items are carried at amounts that approximate fair value, they are not accounted for at fair value under the fair value option or at fair value in accordance with other U.S. GAAP and therefore are not included in the firm's fair value hierarchy in Notes 6, 7 and 8. Had these items been included in the firm's fair value hierarchy, substantially all would have been classified in level 2 as of March 2013. Receivables from customers and counterparties not accounted for at fair value also includes loans held for investment, which are primarily comprised of collateralized loans to private wealth management clients and corporate loans. As of March 2013 and December 2012, the carrying value of such loans was \$7.88 billion and \$6.50 billion, respectively, which generally approximated fair value. As of March 2013, had these loans been carried at fair value and included in the fair value hierarchy, \$2.77 billion and \$5.09 billion would have been classified in level 2 and level 3, respectively. As of December 2012, had these loans been carried at fair value and included in the fair value hierarchy, \$2.41 billion and \$4.06 billion would have been classified in level 2 and level 3, respectively.

Deposits. The significant inputs to the valuation of time deposits are interest rates and the amount and timing of future cash flows. The inputs used to value the embedded derivative component of hybrid financial instruments are consistent with the inputs used to value the firm's other derivative instruments. See Note 7 for further information about derivatives. See Note 14 for further information about deposits.

The firm's deposits that are included in level 3 are hybrid financial instruments. As the significant unobservable inputs used to value hybrid financial instruments primarily relate to the embedded derivative component of these deposits, these inputs are incorporated in the firm's derivative disclosures related to unobservable inputs in Note 7.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)****Fair Value of Other Financial Assets and Financial Liabilities
by Level**

The tables below present, by level within the fair value hierarchy, other financial assets and financial liabilities

accounted for at fair value primarily under the fair value option.

<i>in millions</i>	Other Financial Assets at Fair Value as of March 2013			
	Level 1	Level 2	Level 3	Total
Securities segregated for regulatory and other purposes ¹	\$17,670	\$ 5,006	\$	\$ 22,676
Securities purchased under agreements to resell		158,179	104	158,283
Securities borrowed		54,879		54,879
Receivables from customers and counterparties		6,521	633	7,154
Other assets ²	4,377	8,506	565 ³	13,448
Total	\$22,047	\$233,091	\$ 1,302	\$256,440

<i>in millions</i>	Other Financial Liabilities at Fair Value as of March 2013			
	Level 1	Level 2	Level 3	Total
Deposits	\$	\$ 6,672	\$ 398	\$ 7,070
Securities sold under agreements to repurchase		153,579	1,777	155,356
Securities loaned		2,423		2,423
Other secured financings		27,317	1,165	28,482
Unsecured short-term borrowings		15,563	2,735	18,298
Unsecured long-term borrowings		10,440	1,808	12,248
Other liabilities and accrued expenses		565	11,277 ⁴	11,842
Total	\$	\$216,559	\$19,160	\$235,719

1. Includes securities segregated for regulatory and other purposes accounted for at fair value under the fair value option, which consists of securities borrowed and resale agreements. The table above includes \$17.67 billion of level 1 securities segregated for regulatory and other purposes accounted for at fair value under other U.S. GAAP, consisting of U.S. Treasury securities and money market instruments.

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2. Consists of assets classified as held for sale related to the firm's reinsurance business, primarily consisting of securities accounted for as available-for-sale and insurance separate account assets which are accounted for at fair value under other U.S. GAAP.
3. Substantially all of the balance consists of insurance contracts and derivatives classified as held for sale. See Insurance and Reinsurance Contracts above and Note 7 for further information about valuation techniques and inputs related to insurance contracts and derivatives, respectively.
4. Includes \$873 million of liabilities classified as held for sale related to the firm's reinsurance business accounted for at fair value under the fair value option.

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Notes to Condensed Consolidated Financial Statements**(Unaudited)**

<i>in millions</i>	Other Financial Assets at Fair Value as of December 2012			
	Level 1	Level 2	Level 3	Total
Securities segregated for regulatory and other purposes ¹	\$21,549	\$ 8,935	\$	\$ 30,484
Securities purchased under agreements to resell		141,053	278	141,331
Securities borrowed		38,395		38,395
Receivables from customers and counterparties		7,225	641	7,866
Other assets ²	4,420	8,499	507 ³	13,426
Total	\$25,969	\$204,107	\$ 1,426	\$231,502

<i>in millions</i>	Other Financial Liabilities at Fair Value as of December 2012			
	Level 1	Level 2	Level 3	Total
Deposits	\$	\$ 4,741	\$ 359	\$ 5,100
Securities sold under agreements to repurchase		169,880	1,927	171,807
Securities loaned		1,558		1,558
Other secured financings		28,925	1,412	30,337
Unsecured short-term borrowings		15,011	2,584	17,595
Unsecured long-term borrowings		10,676	1,917	12,593
Other liabilities and accrued expenses		769	11,274 ⁴	12,043
Total	\$	\$231,560	\$19,473	\$251,033

1. Includes securities segregated for regulatory and other purposes accounted for at fair value under the fair value option, which consists of securities borrowed and resale agreements. The table above includes \$21.55 billion of level 1 securities segregated for regulatory and other purposes accounted for at fair value under other U.S. GAAP, consisting of U.S. Treasury securities and money market instruments.

2. Consists of assets classified as held for sale related to the firm's reinsurance business, primarily consisting of securities accounted for as available-for-sale and insurance separate account assets which are accounted for at fair value under other U.S. GAAP.

3. Consists of insurance contracts and derivatives classified as held for sale. See Insurance and Reinsurance Contracts above and Note 7 for further information about valuation techniques and inputs related to insurance contracts and derivatives, respectively.

4. Includes \$692 million of liabilities classified as held for sale related to the firm's reinsurance business accounted for at fair value under the fair value option.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)****Transfers Between Levels of the Fair Value Hierarchy**

Transfers between levels of the fair value hierarchy are reported at the beginning of the reporting period in which they occur. There were no transfers of other financial assets and financial liabilities between level 1 and level 2 during the three months ended March 2013 and March 2012. The tables below present information about transfers between level 2 and level 3.

Level 3 Rollforward

If a financial asset or financial liability was transferred to level 3 during a reporting period, its entire gain or loss for the period is included in level 3.

The tables below present changes in fair value for other financial assets and financial liabilities accounted for at fair value categorized as level 3 as of the end of the period. Level 3 other financial assets and liabilities are frequently economically hedged with cash instruments and derivatives. Accordingly, gains or losses that are reported in level 3 can be partially offset by gains or losses attributable to level 1, 2 or 3 cash instruments or derivatives. As a result, gains or losses included in the level 3 rollforward below do not necessarily represent the overall impact on the firm's results of operations, liquidity or capital resources.

Level 3 Other Financial Assets at Fair Value for the Three Months Ended March 2013										
<i>in millions</i>	Balance, beginning of period	Net realized gains/ (losses)	Net unrealized gains/(losses) relating to instruments still held at period-end	Purchases	Sales	Issuances	Settlements	Transfers into level 3	Transfers out of level 3	Balance, end of period
Securities purchased under agreements to resell	\$ 278	\$ 1	\$	\$	\$	\$	\$ (16)	\$	\$(159)	\$ 104
Receivables from customers and counterparties	641		(8)							633
Other assets	507		4	7				47		565
Total	\$ 1,426	\$ 1¹	\$ (4)¹	\$ 7	\$	\$	\$ (16)	\$ 47	\$(159)	\$ 1,302

1. The aggregate amounts include gains/(losses) of approximately \$(4) million and \$1 million reported in Market making and Interest income, respectively.

Level 3 Other Financial Liabilities at Fair Value for the Three Months Ended March 2013										
<i>in millions</i>	Balance, beginning of period	Net realized (gains)/ (losses)	Net unrealized (gains)/losses relating to instruments	Purchases	Sales	Issuances	Settlements	Transfers	Transfers out of level 3	Balance, end of period

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		losses	still held at				into		
			period-end				level 3		
Deposits	\$ 359	\$	\$ 4	\$	\$	\$ 36	\$ (1)	\$	\$ 398
Securities sold under agreements to repurchase, at fair value	1,927						(150)		1,777
Other secured financings	1,412	1	(19)			394	(750)	127	1,165
Unsecured short-term borrowings	2,584	3	(11)			453	(491)	290	(93) 2,735
Unsecured long-term borrowings	1,917	9	(42)	(3)		175	(214)	59	(93) 1,808
Other liabilities and accrued expenses	11,274	(13)	(191)	304			(97)		11,277
Total	\$19,473	\$ 1	\$(259) 1	\$301	\$	\$1,058	\$(1,703)	\$476	\$(186) \$19,160

1. The aggregate amounts include gains/(losses) of approximately \$337 million, \$(77) million and \$(1) million reported in Market making, Other principal transactions and Interest expense, respectively.

The net unrealized gain on level 3 other financial liabilities of \$259 million for the three months ended March 2013 primarily reflected a net gain on certain insurance liabilities, principally due to changes in foreign exchange rates, partially offset by the impact of changes in inflation and tighter funding spreads.

Transfers out of level 3 of other financial assets during the three months ended March 2013 reflected transfers of certain resale agreements to level 2, principally due to increased price transparency as a result of market transactions in similar instruments.

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Notes to Condensed Consolidated Financial Statements**(Unaudited)**

Transfers into level 3 of other financial liabilities during the three months ended March 2013 primarily reflected transfers of certain hybrid financial instruments from level 2, principally due to reduced transparency of certain correlation and volatility inputs used to value these instruments.

Transfers out of level 3 of other financial liabilities during the three months ended March 2013 primarily reflected transfers of certain hybrid financial instruments to level 2, principally due to increased transparency of certain correlation and volatility inputs used to value certain instruments, and unobservable inputs no longer being significant to the valuation of other instruments.

Level 3 Other Financial Assets at Fair Value for the Three Months Ended March 2012										
<i>in millions</i>	Balance, beginning of period	Net realized gains/ (losses)	Net unrealized gains/(losses) relating to instruments still held at period-end	Purchases	Sales	Issuances	Settlements	Transfers into level 3	Transfers out of level 3	Balance, end of period
Securities purchased under agreements to resell	\$ 557	\$ 1	\$ 30	\$535	\$	\$	\$(167)	\$	\$	\$ 956
Receivables from customers and counterparties	795		9						(373)	431
Total	\$ 1,352	\$ 1¹	\$ 39¹	\$535	\$	\$	\$(167)	\$	\$(373)	\$ 1,387

1. The aggregate amounts include gains of approximately \$37 million and \$3 million reported in Market making and Interest income, respectively.

Level 3 Other Financial Liabilities at Fair Value for the Three Months Ended March 2012										
<i>in millions</i>	Balance, beginning of period	Net realized (gains)/ losses	Net unrealized (gains)/losses relating to instruments still held at period-end	Purchases	Sales	Issuances	Settlements	Transfers into level 3	Transfers out of level 3	Balance, end of period
Deposits	\$ 13	\$	\$ (6)	\$	\$	\$ 89	\$	\$	\$	\$ 96
Securities sold under agreements to repurchase, at fair value	2,181						(133)			2,048
Other secured financings	1,752	1	(1)			24	(465)	14	(43)	1,282

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Unsecured short-term borrowings	3,294	(16)	152	(13)	129	(118)	167	(220)	3,375
Unsecured long-term borrowings	2,191	11	176		155	(116)	134	(241)	2,310
Other liabilities and accrued expenses	8,996	4	50			(85)			8,965
Total	\$18,427	\$ 1	\$371¹	\$(13)	\$ 397	\$(917)	\$315	\$(504)	\$18,076

1. The aggregate amounts include losses of approximately \$355 million, \$15 million and \$1 million reported in Market making, Other principal transactions and Interest expense, respectively.

The net unrealized gain/(loss) on level 3 other financial assets and liabilities at fair value of \$(332) million (reflecting \$39 million on other financial assets and \$(371) million on other financial liabilities) for the three months ended March 2012 primarily consisted of losses on unsecured short-term and long-term borrowings. These losses primarily reflected losses on certain equity-linked notes, principally due to an increase in global equity prices, which are level 2 inputs.

Transfers out of level 3 related to other financial assets during the three months ended March 2012 reflected transfers to level 2 of certain insurance receivables, primarily due to increased transparency of the mortality inputs used to value these receivables.

Transfers into level 3 related to other financial liabilities during the three months ended March 2012 primarily reflected transfers from level 2 of certain unsecured short-term and long-term borrowings, principally due to reduced transparency of the correlation and volatility inputs used to value certain hybrid financial instruments.

Transfers out of level 3 related to other financial liabilities during the three months ended March 2012 primarily reflected transfers to level 2 of certain unsecured short-term and long-term borrowings, principally due to increased transparency of the correlation and volatility inputs used to value certain hybrid financial instruments.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)****Gains and Losses on Financial Assets and Financial Liabilities
Accounted for at Fair Value Under the Fair Value Option**

The table below presents the gains and losses recognized as a result of the firm electing to apply the fair value option to certain financial assets and financial liabilities. These gains and losses are included in Market making and Other principal transactions. The table below also includes gains and losses on the embedded derivative component of hybrid financial instruments included in unsecured short-term borrowings, unsecured long-term borrowings and deposits. These gains and losses would have been recognized under

other U.S. GAAP even if the firm had not elected to account for the entire hybrid instrument at fair value.

The amounts in the table exclude contractual interest, which is included in Interest income and Interest expense, for all instruments other than hybrid financial instruments. See Note 23 for further information about interest income and interest expense.

<i>in millions</i>	Gains/(Losses) on Financial Assets and Financial Liabilities at Fair Value	
	Under the Fair Value Option	
	Three Months Ended March	
	2013	2012
Receivables from customers and counterparties ¹	\$ (12)	\$ 44
Other secured financings	(110)	(148)
Unsecured short-term borrowings ²	(148)	(895)
Unsecured long-term borrowings ³	198	(599)
Other liabilities and accrued expenses ⁴	192	(61)
Other ⁵	(15)	(12)
Total	\$ 105	\$(1,671)

1. Primarily consists of gains/(losses) on certain reinsurance contracts and certain transfers accounted for as receivables rather than purchases.

2. Includes losses on the embedded derivative component of hybrid financial instruments of \$130 million and \$853 million for the three months ended March 2013 and March 2012, respectively.

3. Includes gains/(losses) on the embedded derivative component of hybrid financial instruments of \$284 million and \$(368) million for the three months ended March 2013 and March 2012, respectively.

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4. Primarily consists of gains/(losses) on certain insurance contracts.

5. Primarily consists of gains/(losses) on resale and repurchase agreements, securities borrowed and loaned and deposits.

Excluding the gains and losses on the instruments accounted for under the fair value option described above, Market making and Other principal transactions

primarily represent gains and losses on Financial instruments owned, at fair value and Financial instruments sold, but not yet purchased, at fair value.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)****Loans and Lending Commitments**

The table below presents the difference between the aggregate fair value and the aggregate contractual principal amount for loans and long-term receivables for which the fair value option was elected.

	March	As of December
<i>in millions</i>	2013	2012
Aggregate contractual principal amount of performing loans and long-term receivables in excess of the related fair value	\$ 2,105	\$ 2,742
Aggregate contractual principal amount of loans on nonaccrual status and/or more than 90 days past due in excess of the related fair value	21,830	22,610
Total¹	\$23,935	\$25,352
Aggregate fair value of loans on nonaccrual status and/or more than 90 days past due	\$ 2,232	\$ 1,832

1. The aggregate contractual principal exceeds the related fair value primarily because the firm regularly purchases loans, such as distressed loans, at values significantly below contractual principal amounts.

As of March 2013 and December 2012, the fair value of unfunded lending commitments for which the fair value option was elected was a liability of \$1.43 billion and \$1.99 billion, respectively, and the related total contractual amount of these lending commitments was \$55.92 billion and \$59.29 billion, respectively. See Note 18 for further information about lending commitments.

Long-term Debt Instruments

The aggregate contractual principal amount of long-term other secured financings for which the fair value option was elected exceeded the related fair value by \$134 million and \$115 million as of March 2013 and December 2012, respectively. The fair value of unsecured long-term borrowings for which the fair value option was elected exceeded the related aggregate contractual principal amount by \$140 million and \$379 million as of March 2013 and December 2012, respectively. The amounts above include both principal and non-principal-protected long-term borrowings.

Impact of Credit Spreads on Loans and Lending Commitments

The estimated net gain attributable to changes in instrument-specific credit spreads on loans and lending commitments for which the fair value option was elected was \$794 million and \$973 million for the three months ended March 2013 and March 2012, respectively. Changes in the fair value of loans and lending commitments are primarily attributable to changes in instrument-specific credit spreads. Substantially all of the firm's performing loans and lending commitments are floating-rate.

Impact of Credit Spreads on Borrowings

The table below presents the net gains/(losses) attributable to the impact of changes in the firm's own credit spreads on borrowings for which the fair value option was elected. The firm calculates the fair value of borrowings by discounting future cash flows at a rate which incorporates the

firm's credit spreads.

	Three Months	
<i>in millions</i>	Ended March	2012
	2013	
Net gains/(losses) including hedges	\$ (77)	\$(224)
Net gains/(losses) excluding hedges	(109)	(289)

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)**

Note 9. Collateralized Agreements and Financings

Note 9.**Collateralized Agreements and Financings**

Collateralized agreements are securities purchased under agreements to resell (resale agreements) and securities borrowed. Collateralized financings are securities sold under agreements to repurchase (repurchase agreements), securities loaned and other secured financings. The firm enters into these transactions in order to, among other things, facilitate client activities, invest excess cash, acquire securities to cover short positions and finance certain firm activities.

Collateralized agreements and financings are presented on a net-by-counterparty basis when a legal right of setoff exists. Interest on collateralized agreements and collateralized financings is recognized over the life of the transaction and included in Interest income and Interest expense, respectively. See Note 23 for further information about interest income and interest expense.

The table below presents the carrying value of resale and repurchase agreements and securities borrowed and loaned transactions.

	As of	
	March	December
<i>in millions</i>	2013	2012
Securities purchased under agreements to resell ¹	\$158,506	\$141,334
Securities borrowed ²	172,041	136,893
Securities sold under agreements to repurchase ¹	155,356	171,807
Securities loaned ²	20,669	13,765

1. Substantially all resale and repurchase agreements are carried at fair value under the fair value option. See Note 8 for further information about the valuation techniques and significant inputs used to determine fair value.

2.

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As of March 2013 and December 2012, \$54.88 billion and \$38.40 billion of securities borrowed, and \$2.42 billion and \$1.56 billion of securities loaned were at fair value, respectively.

Resale and Repurchase Agreements

A resale agreement is a transaction in which the firm purchases financial instruments from a seller, typically in exchange for cash, and simultaneously enters into an agreement to resell the same or substantially the same financial instruments to the seller at a stated price plus accrued interest at a future date.

A repurchase agreement is a transaction in which the firm sells financial instruments to a buyer, typically in exchange for cash, and simultaneously enters into an agreement to repurchase the same or substantially the same financial instruments from the buyer at a stated price plus accrued interest at a future date.

The financial instruments purchased or sold in resale and repurchase agreements typically include U.S. government and federal agency, and investment-grade sovereign obligations.

The firm receives financial instruments purchased under resale agreements, makes delivery of financial instruments sold under repurchase agreements, monitors the market value of these financial instruments on a daily basis, and delivers or obtains additional collateral due to changes in the market value of the financial instruments, as appropriate. For resale agreements, the firm typically requires delivery of collateral with a fair value approximately equal to the carrying value of the relevant assets in the condensed consolidated statements of financial condition.

Even though repurchase and resale agreements involve the legal transfer of ownership of financial instruments, they are accounted for as financing arrangements because they require the financial instruments to be repurchased or resold at the maturity of the agreement. However, repos to maturity are accounted for as sales. A repo to maturity is a transaction in which the firm transfers a security under an agreement to repurchase the security where the maturity date of the repurchase agreement matches the maturity date of the underlying security. Therefore, the firm effectively no longer has a repurchase obligation and has relinquished control over the underlying security and, accordingly, accounts for the transaction as a sale. The firm had no repos to maturity outstanding as of March 2013 or December 2012.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Securities Borrowed and Loaned Transactions

In a securities borrowed transaction, the firm borrows securities from a counterparty in exchange for cash. When the firm returns the securities, the counterparty returns the cash. Interest is generally paid periodically over the life of the transaction.

In a securities loaned transaction, the firm lends securities to a counterparty typically in exchange for cash or securities, or a letter of credit. When the counterparty returns the securities, the firm returns the cash or securities posted as collateral. Interest is generally paid periodically over the life of the transaction.

The firm receives securities borrowed, makes delivery of securities loaned, monitors the market value of these securities on a daily basis, and delivers or obtains additional collateral due to changes in the market value of the securities, as appropriate. For securities borrowed transactions, the firm typically requires collateral with a fair value approximately equal to the carrying value of the securities borrowed transaction.

Securities borrowed and loaned within Fixed Income, Currency and Commodities Client Execution are recorded at fair value under the fair value option. See Note 8 for further information about securities borrowed and loaned accounted for at fair value.

Securities borrowed and loaned within Securities Services are recorded based on the amount of cash collateral advanced or received plus accrued interest. As these arrangements generally can be terminated on demand, they exhibit little, if any, sensitivity to changes in interest rates. Therefore, the carrying value of such arrangements approximates fair value. While these arrangements are carried at amounts that approximate fair value, they are not accounted for at fair value under the fair value option or at fair value in accordance with other U.S. GAAP and therefore are not included in the firm's fair value hierarchy in Notes 6, 7 and 8. Had these arrangements been included in the firm's fair value hierarchy, they would have been classified in level 2 as of March 2013 and December 2012.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)****Offsetting Arrangements**

The tables below present the gross and net resale and repurchase agreements and securities borrowed and loaned transactions, and the related amount of netting with the same counterparty under enforceable netting agreements (counterparty netting) included in the condensed consolidated statements of financial condition. Substantially all of the gross carrying values of these arrangements are subject to enforceable netting agreements. The tables below also present the amounts not offset in the

condensed consolidated statements of financial condition including counterparty netting that does not meet the criteria for netting under U.S. GAAP and the fair value of cash or securities collateral received or posted subject to enforceable credit support agreements. Where the firm has received or posted collateral under credit support agreements, but has not yet determined such agreements are enforceable, the related collateral has not been netted in the table below.

<i>in millions</i>	As of March 2013			
	Assets		Liabilities	
	Securities purchased under agreements		Securities sold under agreements	
	to resell	Securities borrowed	to repurchase	Securities loaned
Amounts included in the condensed consolidated statements of financial condition				
Gross carrying value	\$ 202,217	\$ 182,905	\$ 194,714	\$ 30,894
Counterparty netting	(39,162)	(10,225)	(39,162)	(10,225)
Total	163,055^{1, 2}	172,680¹	155,552²	20,669
Amounts that have not been offset in the condensed consolidated statements of financial condition				
Counterparty netting	(15,014)	(4,797)	(15,014)	(4,797)
Collateral	(134,711)	(143,812)	(105,163)	(14,077)
Total	\$ 13,330	\$ 24,071	\$ 35,375	\$ 1,795

<i>in millions</i>	As of December 2012			
	Assets		Liabilities	
	Securities purchased under agreements		Securities sold under agreements	
	to resell	Securities borrowed	to repurchase	Securities loaned
Amounts included in the condensed consolidated statements of financial condition				
Gross carrying value	\$ 175,656	\$ 151,162	\$ 201,688	\$ 23,509

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Counterparty netting	(29,766)	(9,744)	(29,766)	(9,744)
Total	145,890 ^{1, 2}	141,418 ¹	171,922 ²	13,765
Amounts that have not been offset in the condensed consolidated statements of financial condition				
Counterparty netting	(27,512)	(2,583)	(27,512)	(2,583)
Collateral	(104,344)	(117,552)	(106,638)	(10,990)
Total	\$ 14,034	\$ 21,283	\$ 37,772	\$ 192

1. As of March 2013 and December 2012, the firm had \$4.37 billion and \$4.41 billion, respectively, of securities received under resale agreements and \$639 million and \$4.53 billion, respectively, of securities borrowed transactions that were segregated to satisfy certain regulatory requirements. These securities are included in Cash and securities segregated for regulatory and other purposes.

2. As of March 2013 and December 2012, the firm classified \$183 million and \$148 million, respectively, of resale agreements and \$196 million and \$115 million, respectively, of repurchase agreements as held for sale. See Note 12 for further information.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Other Secured Financings

In addition to repurchase agreements and securities lending transactions, the firm funds certain assets through the use of other secured financings and pledges financial instruments and other assets as collateral in these transactions. These other secured financings consist of:

liabilities of consolidated VIEs;

transfers of assets accounted for as financings rather than sales (primarily collateralized central bank financings, pledged commodities, bank loans and mortgage whole loans); and

other structured financing arrangements.

Other secured financings include arrangements that are nonrecourse. As of March 2013 and December 2012, nonrecourse other secured financings were \$1.51 billion and \$1.76 billion, respectively.

The firm has elected to apply the fair value option to substantially all other secured financings because the use of fair value eliminates non-economic volatility in earnings that would arise from using different measurement attributes. See Note 8 for further information about other secured financings that are accounted for at fair value.

Other secured financings that are not recorded at fair value are recorded based on the amount of cash received plus accrued interest, which generally approximates fair value. While these financings are carried at amounts that approximate fair value, they are not accounted for at fair value under the fair value option or at fair value in accordance with other U.S. GAAP and therefore are not included in the firm's fair value hierarchy in Notes 6, 7 and 8. Had these financings been included in the firm's fair value hierarchy, they would have primarily been classified in level 3 as of March 2013 and December 2012.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)**

The table below presents information about other secured financings. In the table below:

short-term secured financings include financings maturing within one year of the financial statement date and financings that are redeemable within one year of the financial statement date at the option of the holder;
long-term secured financings that are repayable prior to maturity at the option of the firm are reflected at their contractual maturity dates; and

long-term secured financings that are redeemable prior to maturity at the option of the holders are reflected at the dates such options become exercisable.

<i>\$ in millions</i>	As of March 2013			As of December 2012		
	U.S. Dollar	Non-U.S. Dollar	Total	U.S. Dollar	Non-U.S. Dollar	Total
Other secured financings (short-term):						
At fair value	\$15,109	\$5,362	\$20,471	\$16,504	\$6,181	\$22,685
At amortized cost	26		26	34	326	360
<i>Interest rates</i> ¹	6.37%	%		6.18%	0.10%	
Other secured financings (long-term):						
At fair value	6,134	1,877	8,011	6,134	1,518	7,652
At amortized cost	247	713	960	577	736	1,313
<i>Interest rates</i> ¹	4.67%	2.54%		3.38%	2.55%	
Total ²	\$21,516	\$7,952	\$29,468	\$23,249	\$8,761	\$32,010
Amount of other secured financings collateralized by:						
Financial instruments ³	\$21,307	\$7,517	\$28,824	\$22,323	\$8,442	\$30,765
Other assets ⁴	209	435	644	926	319	1,245

1. The weighted average interest rates exclude secured financings at fair value and include the effect of hedging activities. See Note 7 for further information about hedging activities.

2. Includes \$9.23 billion and \$8.68 billion related to transfers of financial assets accounted for as financings rather than sales as of March 2013 and December 2012, respectively. Such financings were collateralized by financial assets included in Financial instruments owned, at fair value of \$9.74 billion and \$8.92 billion as of March 2013 and December 2012, respectively.

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3. Includes \$15.32 billion and \$17.24 billion of other secured financings collateralized by financial instruments owned, at fair value as of March 2013 and December 2012, respectively, and includes \$13.50 billion and \$13.53 billion of other secured financings collateralized by financial instruments received as collateral and repledged as of March 2013 and December 2012, respectively.

4. Primarily real estate and cash.

The table below presents other secured financings by maturity.

<i>in millions</i>	As of March 2013
Other secured financings (short-term)	\$20,497
Other secured financings (long-term):	
2014	4,766
2015	1,663
2016	954
2017	243
2018	652
2019-thereafter	693
Total other secured financings (long-term)	8,971
Total other secured financings	\$29,468

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)****Collateral Received and Pledged**

The firm receives cash and securities (e.g., U.S. government and federal agency, other sovereign and corporate obligations, as well as equities and convertible debentures) as collateral, primarily in connection with resale agreements, securities borrowed, derivative transactions and customer margin loans. The firm obtains cash and securities as collateral on an upfront or contingent basis for derivative instruments and collateralized agreements to reduce its credit exposure to individual counterparties.

In many cases, the firm is permitted to deliver or repledge financial instruments received as collateral when entering into repurchase agreements and securities lending agreements, primarily in connection with secured client financing activities. The firm is also permitted to deliver or repledge these financial instruments in connection with other secured financings, collateralizing derivative transactions and meeting firm or customer settlement requirements.

The firm also pledges certain financial instruments owned, at fair value in connection with repurchase agreements, securities lending agreements and other secured financings, and other assets (primarily real estate and cash) in connection with other secured financings to counterparties who may or may not have the right to deliver or repledge them.

The table below presents financial instruments at fair value received as collateral that were available to be delivered or repledged and were delivered or repledged by the firm.

	March	As of December
<i>in millions</i>	2013	2012
Collateral available to be delivered or repledged	\$614,337	\$540,949
Collateral that was delivered or repledged	459,267	397,652

The table below presents information about assets pledged by the firm.

	March	As of December
<i>in millions</i>	2013	2012
Financial instruments owned, at fair value pledged to counterparties that:		
Had the right to deliver or repledge	\$ 67,891	\$ 67,177
Did not have the right to deliver or repledge	114,701	120,980

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Other assets pledged to counterparties that:

Did not have the right to deliver
or repledge

1,148

2,031

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Note 10. Securitization Activities

Note 10.

Securitization Activities

The firm securitizes residential and commercial mortgages, corporate bonds, loans and other types of financial assets by selling these assets to securitization vehicles (e.g., trusts, corporate entities and limited liability companies) and acts as underwriter of the beneficial interests that are sold to investors. The firm's residential mortgage securitizations are substantially all in connection with government agency securitizations.

Beneficial interests issued by securitization entities are debt or equity securities that give the investors rights to receive all or portions of specified cash inflows to a securitization vehicle and include senior and subordinated shares of principal, interest and/or other cash inflows. The proceeds from the sale of beneficial interests are used to pay the transferor for the financial assets sold to the securitization vehicle or to purchase securities which serve as collateral.

The firm accounts for a securitization as a sale when it has relinquished control over the transferred assets. Prior to securitization, the firm accounts for assets pending transfer at fair value and therefore does not typically recognize significant gains or losses upon the transfer of assets. Net revenues from underwriting activities are recognized in connection with the sales of the underlying beneficial interests to investors.

For transfers of assets that are not accounted for as sales, the assets remain in Financial instruments owned, at fair value and the transfer is accounted for as a collateralized financing, with the related interest expense recognized over the life of the transaction. See Notes 9 and 23 for further information about collateralized financings and interest expense, respectively.

The firm generally receives cash in exchange for the transferred assets but may also have continuing involvement with transferred assets, including ownership of beneficial interests in securitized financial assets, primarily in the form of senior or subordinated securities. The firm may also purchase senior or subordinated securities issued by securitization vehicles (which are typically VIEs) in connection with secondary market-making activities.

The primary risks included in beneficial interests and other interests from the firm's continuing involvement with securitization vehicles are the performance of the underlying collateral, the position of the firm's investment in the capital structure of the securitization vehicle and the market yield for the security. These interests are accounted for at fair value and are included in Financial instruments owned, at fair value and are generally classified in level 2 of the fair value hierarchy. See Notes 5 through 8 for further information about fair value measurements.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)**

The table below presents the amount of financial assets securitized and the cash flows received on retained interests in securitization entities in which the firm had continuing involvement.

<i>in millions</i>	Three Months	
	2013	2012
Residential mortgages	\$7,387	\$10,989
Commercial mortgages	2,352	
Total	\$9,739	\$10,989
Cash flows on retained interests	\$ 165	\$ 147

The table below presents the firm's continuing involvement in nonconsolidated securitization entities to which the firm sold assets, as well as the total outstanding principal amount of transferred assets in which the firm has continuing involvement. In this table:

the outstanding principal amount is presented for the purpose of providing information about the size of the securitization entities in which the firm has continuing involvement and is not representative of the firm's risk of loss;

for retained or purchased interests, the firm's risk of loss is limited to the fair value of these interests; and

purchased interests represent senior and subordinated interests, purchased in connection with secondary market-making activities, in securitization entities in which the firm also holds retained interests.

<i>in millions</i>	As of March 2013			As of December 2012		
	Outstanding Principal Amount	Fair Value of Retained Interests	Fair Value of Purchased Interests	Outstanding Principal Amount	Fair Value of Retained Interests	Fair Value of Purchased Interests
U.S. government agency-issued collateralized mortgage obligations ¹	\$58,541	\$4,761	\$	\$57,685	\$4,654	\$
Other residential mortgage-backed ²	3,465	104		3,656	106	

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Other commercial mortgage-backed ³	2,874	214	82	1,253	1	56
CDOs, CLOs and other ⁴	8,592	72	331	8,866	51	331
Total ⁵	\$73,472	\$5,151	\$413	\$71,460	\$4,812	\$387

1. Outstanding principal amount and fair value of retained interests primarily relate to securitizations during 2013, 2012 and 2011 as of March 2013, and securitizations during 2012 and 2011 as of December 2012.

2. Outstanding principal amount and fair value of retained interests as of both March 2013 and December 2012 primarily relate to prime and Alt-A securitizations during 2007 and 2006.

3. Outstanding principal amount as of both March 2013 and December 2012 primarily relate to securitizations during 2012 and 2007. Fair value of retained interests as of both March 2013 and December 2012 primarily relate to securitizations during 2012.

4. Outstanding principal amount and fair value of retained interests as of both March 2013 and December 2012 primarily relate to CDO and CLO securitizations during 2007 and 2006.

5. Outstanding principal amount includes \$631 million and \$835 million as of March 2013 and December 2012, respectively, related to securitization entities in which the firm's only continuing involvement is retained servicing which is not a variable interest.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)**

In addition to the interests in the table above, the firm had other continuing involvement in the form of derivative transactions and guarantees with certain nonconsolidated VIEs. The carrying value of these derivatives and guarantees was a net asset of \$39 million and \$45 million as of March 2013 and December 2012, respectively. The notional amounts of these derivatives and guarantees are included in maximum exposure to loss in the nonconsolidated VIE tables in Note 11.

The table below presents the weighted average key economic assumptions used in measuring the fair value of retained interests and the sensitivity of this fair value to immediate adverse changes of 10% and 20% in those assumptions.

<i>\$ in millions</i>	As of March 2013		As of December 2012	
	Type of Retained Interests		Type of Retained Interests	
	Mortgage-Backed	Other ¹	Mortgage-Backed	Other ¹
Fair value of retained interests	\$5,079	\$ 72	\$4,761	\$ 51
Weighted average life (years)	8.3	1.9	8.2	2.0
Constant prepayment rate ²	8.6%	N.M.	10.9%	N.M.
Impact of 10% adverse change ²	\$ (39)	N.M.	\$ (57)	N.M.
Impact of 20% adverse change ²	(81)	N.M.	(110)	N.M.
Discount rate ³	3.8%	N.M.	4.6%	N.M.
Impact of 10% adverse change	\$ (86)	N.M.	\$ (96)	N.M.
Impact of 20% adverse change	(168)	N.M.	(180)	N.M.

1. Due to the nature and current fair value of certain of these retained interests, the weighted average assumptions for constant prepayment and discount rates and the related sensitivity to adverse changes are not meaningful as of March 2013 and December 2012. The firm's maximum exposure to adverse changes in the value of these interests is the carrying value of \$72 million and \$51 million as of March 2013 and December 2012, respectively.

2. Constant prepayment rate is included only for positions for which constant prepayment rate is a key assumption in the determination of fair value.

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3. The majority of mortgage-backed retained interests are U.S. government agency-issued collateralized mortgage obligations, for which there is no anticipated credit loss. For the remainder of retained interests, the expected credit loss assumptions are reflected in the discount rate.

The preceding table does not give effect to the offsetting benefit of other financial instruments that are held to mitigate risks inherent in these retained interests. Changes in fair value based on an adverse variation in assumptions generally cannot be extrapolated because the relationship of the change in assumptions to the change in fair value is

not usually linear. In addition, the impact of a change in a particular assumption in the preceding table is calculated independently of changes in any other assumption. In practice, simultaneous changes in assumptions might magnify or counteract the sensitivities disclosed above.

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Note 11. Variable Interest Entities

Note 11.

Variable Interest Entities

VIEs generally finance the purchase of assets by issuing debt and equity securities that are either collateralized by or indexed to the assets held by the VIE. The debt and equity securities issued by a VIE may include tranches of varying levels of subordination. The firm's involvement with VIEs includes securitization of financial assets, as described in Note 10, and investments in and loans to other types of VIEs, as described below. See Note 10 for additional information about securitization activities, including the definition of beneficial interests. See Note 3 for the firm's consolidation policies, including the definition of a VIE.

The firm is principally involved with VIEs through the following business activities:

Mortgage-Backed VIEs and Corporate CDO and CLO VIEs. The firm sells residential and commercial mortgage loans and securities to mortgage-backed VIEs and corporate bonds and loans to corporate CDO and CLO VIEs and may retain beneficial interests in the assets sold to these VIEs. The firm purchases and sells beneficial interests issued by mortgage-backed and corporate CDO and CLO VIEs in connection with market-making activities. In addition, the firm may enter into derivatives with certain of these VIEs, primarily interest rate swaps, which are typically not variable interests. The firm generally enters into derivatives with other counterparties to mitigate its risk from derivatives with these VIEs.

Certain mortgage-backed and corporate CDO and CLO VIEs, usually referred to as synthetic CDOs or credit-linked note VIEs, synthetically create the exposure for the beneficial interests they issue by entering into credit derivatives, rather than purchasing the underlying assets. These credit derivatives may reference a single asset, an index, or a portfolio/basket of assets or indices. See Note 7 for further information about credit derivatives. These VIEs use the funds from the sale of beneficial interests and the premiums received from credit derivative counterparties to purchase securities which serve to collateralize the beneficial interest holders and/or the credit derivative counterparty. These VIEs may enter into other derivatives, primarily interest rate swaps, which are typically not variable interests. The firm may be a counterparty to derivatives with these VIEs and generally enters into derivatives with other counterparties to mitigate its risk.

Real Estate, Credit-Related and Other Investing VIEs. The firm purchases equity and debt securities issued by and makes loans to VIEs that hold real estate, performing and nonperforming debt, distressed loans and equity securities. The firm typically does not sell assets to, or enter into derivatives with, these VIEs.

Other Asset-Backed VIEs. The firm structures VIEs that issue notes to clients and purchases and sells beneficial interests issued by other asset-backed VIEs in connection with market-making activities. In addition, the firm may enter into derivatives with certain other asset-backed VIEs, primarily total return swaps on the collateral assets held by these VIEs under which the firm pays the VIE the return due to the note holders and receives the return on the collateral assets owned by the VIE. The firm generally can be removed as the total return swap counterparty. The firm generally enters into derivatives with other counterparties to mitigate its risk from derivatives with these VIEs. The firm typically does not sell assets to the other asset-backed VIEs it structures.

Power-Related VIEs. The firm purchases debt and equity securities issued by, and may provide guarantees to, VIEs that hold power-related assets. The firm typically does not sell assets to, or enter into derivatives with, these VIEs.

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Investment Funds. The firm purchases equity securities issued by and may provide guarantees to certain of the investment funds it manages. The firm typically does not sell assets to, or enter into derivatives with, these VIEs.

Principal-Protected Note VIEs. The firm structures VIEs that issue principal-protected notes to clients. These VIEs own portfolios of assets, principally with exposure to hedge funds. Substantially all of the principal protection on the notes issued by these VIEs is provided by the asset portfolio rebalancing that is required under the terms of the notes. The firm enters into total return swaps with these VIEs under which the firm pays the VIE the return due to the principal-protected note holders and receives the return on the assets owned by the VIE. The firm may enter into derivatives with other counterparties to mitigate the risk it has from the derivatives it enters into with these VIEs. The firm also obtains funding through these VIEs.

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VIE Consolidation Analysis

A variable interest in a VIE is an investment (e.g., debt or equity securities) or other interest (e.g., derivatives or loans and lending commitments) in a VIE that will absorb portions of the VIE's expected losses and/or receive portions of the VIE's expected residual returns.

The firm's variable interests in VIEs include senior and subordinated debt in residential and commercial mortgage-backed and other asset-backed securitization entities, CDOs and CLOs; loans and lending commitments; limited and general partnership interests; preferred and common equity; derivatives that may include foreign currency, equity and/or credit risk; guarantees; and certain of the fees the firm receives from investment funds. Certain interest rate, foreign currency and credit derivatives the firm enters into with VIEs are not variable interests because they create rather than absorb risk.

The enterprise with a controlling financial interest in a VIE is known as the primary beneficiary and consolidates the VIE. The firm determines whether it is the primary beneficiary of a VIE by performing an analysis that principally considers:

which variable interest holder has the power to direct the activities of the VIE that most significantly impact the VIE's economic performance;

which variable interest holder has the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE;

the VIE's purpose and design, including the risks the VIE was designed to create and pass through to its variable interest holders;

the VIE's capital structure;

the terms between the VIE and its variable interest holders and other parties involved with the VIE; and

related-party relationships.

The firm reassesses its initial evaluation of whether an entity is a VIE when certain reconsideration events occur. The firm reassesses its determination of whether it is the primary beneficiary of a VIE on an ongoing basis based on current facts and circumstances.

Nonconsolidated VIEs

The firm's exposure to the obligations of VIEs is generally limited to its interests in these entities. In certain instances, the firm provides guarantees, including derivative guarantees, to VIEs or holders of variable interests in VIEs.

The tables below present information about nonconsolidated VIEs in which the firm holds variable interests. Nonconsolidated VIEs are aggregated based on principal business activity. The nature of the firm's variable interests can take different forms, as described in the rows under maximum exposure to loss. In the tables below:

The maximum exposure to loss excludes the benefit of offsetting financial instruments that are held to mitigate the risks associated with these variable interests.

For retained and purchased interests and loans and investments, the maximum exposure to loss is the carrying value of these interests.

For commitments and guarantees, and derivatives, the maximum exposure to loss is the notional amount, which does not represent anticipated losses and also has not been reduced by unrealized losses already recorded. As a result, the maximum exposure to loss exceeds liabilities recorded for commitments and guarantees, and derivatives provided to VIEs.

The carrying values of the firm's variable interests in nonconsolidated VIEs are included in the condensed consolidated statement of financial condition as follows:

Substantially all assets held by the firm related to mortgage-backed, corporate CDO and CLO, real estate, credit-related and other investing, and other asset-backed VIEs and investment funds are included in Financial instruments owned, at fair value. Substantially all liabilities held by the firm related to corporate CDO and CLO, real estate, credit-related and other investing, and other asset-backed VIEs are included in Financial instruments sold, but not yet purchased, at fair value.

Assets held by the firm related to power-related VIEs are primarily included in Financial instruments owned, at fair value and Other assets.

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	Nonconsolidated VIEs As of March 2013			Other asset-
	Mortgage-	Corporate	Real estate, credit-related and other	backed
	backed	CDOs and CLOs	investing	
<i>in millions</i>				