

GOLDMAN SACHS GROUP INC
Form 10-Q
May 10, 2012
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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, 2012

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 27, 2012, there were 491,877,148 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, 2012

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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>	2012	2011
Revenues		
Investment banking	\$1,160	\$ 1,269
Investment management	1,105	1,174
Commissions and fees	860	1,019
Market making	3,905	4,462
Other principal transactions	1,938	2,612
Total non-interest revenues	8,968	10,536
Interest income	2,833	3,107
Interest expense	1,852	1,749
Net interest income	981	1,358
Net revenues, including net interest income	9,949	11,894
Operating expenses		
Compensation and benefits	4,378	5,233
Brokerage, clearing, exchange and distribution fees	567	620
Market development	117	179
Communications and technology	196	198
Depreciation and amortization	433	590
Occupancy	212	267
Professional fees	234	233
Insurance reserves	157	88
Other expenses	474	446
Total non-compensation expenses	2,390	2,621
Total operating expenses	6,768	7,854
Pre-tax earnings	3,181	4,040
Provision for taxes	1,072	1,305
Net earnings	2,109	2,735
Preferred stock dividends	35	1,827
Net earnings applicable to common shareholders	\$2,074	\$ 908
Earnings per common share		
Basic	\$ 4.05	\$ 1.66
Diluted	3.92	1.56
Dividends declared per common share	\$ 0.35	\$ 0.35
Average common shares outstanding		
Basic	510.8	540.6
Diluted	529.2	583.0

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)**

<i>in millions</i>	Three Months Ended March	
	2012	2011
Net earnings	\$2,109	\$2,735
Other comprehensive income/(loss), net of tax:		
Currency translation adjustment, net of tax	(28)	(22)
Pension and postretirement liability adjustments, net of tax	7	1
Net unrealized gains/(losses) on available-for-sale securities, net of tax	30	(23)
Other comprehensive income/(loss)	9	(44)
Comprehensive income	\$2,118	\$2,691

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
	2012	2011
<i>in millions, except share and per share amounts</i>		
Assets		
Cash and cash equivalents	\$ 57,138	\$ 56,008
Cash and securities segregated for regulatory and other purposes (includes \$33,679 and \$42,014 at fair value as of March 2012 and December 2011, respectively)	53,099	64,264
Collateralized agreements:		
Securities purchased under agreements to resell and federal funds sold (includes \$181,050 and \$187,789 at fair value as of March 2012 and December 2011, respectively)	181,050	187,789
Securities borrowed (includes \$57,062 and \$47,621 at fair value as of March 2012 and December 2011, respectively)	169,092	153,341
Receivables from brokers, dealers and clearing organizations	16,886	14,204
Receivables from customers and counterparties (includes \$8,328 and \$9,682 at fair value as of March 2012 and December 2011, respectively)	65,211	60,261
Financial instruments owned, at fair value (includes \$67,404 and \$53,989 pledged as collateral as of March 2012 and December 2011, respectively)	385,506	364,206
Other assets	22,950	23,152
Total assets	\$ 950,932	\$923,225
Liabilities and shareholders' equity		
Deposits (includes \$5,524 and \$4,526 at fair value as of March 2012 and December 2011, respectively)	\$ 50,874	\$ 46,109
Collateralized financings:		
Securities sold under agreements to repurchase, at fair value	173,092	164,502
Securities loaned (includes \$550 and \$107 at fair value as of March 2012 and December 2011, respectively)	8,121	7,182
Other secured financings (includes \$28,367 and \$30,019 at fair value as of March 2012 and December 2011, respectively)	33,139	37,364
Payables to brokers, dealers and clearing organizations	3,678	3,667
Payables to customers and counterparties	206,627	194,625
Financial instruments sold, but not yet purchased, at fair value	151,251	145,013
Unsecured short-term borrowings, including the current portion of unsecured long-term borrowings (includes \$17,772 and \$17,854 at fair value as of March 2012 and December 2011, respectively)	48,721	49,038
Unsecured long-term borrowings (includes \$17,509 and \$17,162 at fair value as of March 2012 and December 2011, respectively)	171,592	173,545
Other liabilities and accrued expenses (includes \$9,451 and \$9,486 at fair value as of March 2012 and December 2011, respectively)	32,181	31,801
Total liabilities	879,276	852,846
Commitments, contingencies and guarantees		
Shareholders' equity		
Preferred stock, par value \$0.01 per share; aggregate liquidation preference of \$3,100 as of both March 2012 and December 2011	3,100	3,100
Common stock, par value \$0.01 per share; 4,000,000,000 shares authorized, 808,213,029 and 795,555,310 shares issued as of March 2012 and December 2011, respectively, and 495,210,854 and 485,467,565 shares outstanding as of March 2012 and December 2011, respectively	8	8
Restricted stock units and employee stock options	3,889	5,681
Nonvoting common stock, par value \$0.01 per share; 200,000,000 shares authorized, no shares issued and outstanding		
Additional paid-in capital	47,035	45,553
Retained earnings	60,723	58,834
Accumulated other comprehensive loss	(507)	(516)
Stock held in treasury, at cost, par value \$0.01 per share; 313,002,177 and 310,087,747 shares as of March 2012 and December 2011, respectively	(42,592)	(42,281)
Total shareholders' equity	71,656	70,379
Total liabilities and shareholders' equity	\$ 950,932	\$923,225

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>	2012	2011
Preferred stock		
Balance, beginning of year	\$ 3,100	\$ 6,957
Repurchased		(3,857)
Balance, end of period	3,100	3,100
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	5,681	7,706
Issuance and amortization of restricted stock units and employee stock options	640	2,863
Delivery of common stock underlying restricted stock units	(2,415)	(4,791)
Forfeiture of restricted stock units and employee stock options	(16)	(93)
Exercise of employee stock options	(1)	(4)
Balance, end of period	3,889	5,681
Additional paid-in capital		
Balance, beginning of year	45,553	42,103
Issuance of common stock		103
Delivery of common stock underlying share-based awards	2,419	5,160
Cancellation of restricted stock units in satisfaction of withholding tax requirements	(872)	(1,911)
Excess net tax benefit/(provision) related to share-based awards	(64)	138
Cash settlement of share-based compensation	(1)	(40)
Balance, end of period	47,035	45,553
Retained earnings		
Balance, beginning of year	58,834	57,163
Net earnings	2,109	4,442
Dividends and dividend equivalents declared on common stock and restricted stock units	(185)	(769)
Dividends on preferred stock	(35)	(2,002)
Balance, end of period	60,723	58,834
Accumulated other comprehensive income/(loss)		
Balance, beginning of year	(516)	(286)
Other comprehensive income/(loss)	9	(230)
Balance, end of period	(507)	(516)
Stock held in treasury, at cost		
Balance, beginning of year	(42,281)	(36,295)
Repurchased	(368)	(6,051)
Reissued	57	65
Balance, end of period	(42,592)	(42,281)
Total shareholders' equity	\$ 71,656	\$ 70,379

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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)**

<i>in millions</i>	2012	Three Months Ended March 2011
Cash flows from operating activities		
Net earnings	\$ 2,109	\$ 2,735
Non-cash items included in net earnings		
Depreciation and amortization	433	594
Share-based compensation	643	1,512
Changes in operating assets and liabilities		
Cash and securities segregated for regulatory and other purposes	11,165	219
Net receivables from brokers, dealers and clearing organizations	(2,671)	568
Net payables to customers and counterparties	7,052	(9,671)
Securities borrowed, net of securities loaned	(14,813)	(16,901)
Securities sold under agreements to repurchase, net of securities purchased under agreements to resell and federal funds sold	15,328	29,391
Financial instruments owned, at fair value	(22,023)	(14,701)
Financial instruments sold, but not yet purchased, at fair value	6,304	10,278
Other, net	11	(2,124)
Net cash provided by operating activities	3,538	1,900
Cash flows from investing activities		
Purchase of property, leasehold improvements and equipment	(390)	(277)
Proceeds from sales of property, leasehold improvements and equipment	13	9
Business acquisitions, net of cash acquired	(39)	(5)
Proceeds from sales of investments	130	216
Purchase of available-for-sale securities	(653)	(761)
Proceeds from sales of available-for-sale securities	699	930
Net cash provided by/(used for) investing activities	(240)	112
Cash flows from financing activities		
Unsecured short-term borrowings, net	(869)	1,501
Other secured financings (short-term), net	(483)	1,340
Proceeds from issuance of other secured financings (long-term)	798	1,291
Repayment of other secured financings (long-term), including the current portion	(4,334)	(3,580)
Proceeds from issuance of unsecured long-term borrowings	9,358	8,805
Repayment of unsecured long-term borrowings, including the current portion	(11,134)	(7,364)
Derivative contracts with a financing element, net	208	210
Deposits, net	4,765	158
Common stock repurchased	(365)	(1,481)
Dividends and dividend equivalents paid on common stock, preferred stock and restricted stock units	(220)	(358)
Proceeds from issuance of common stock, including stock option exercises	39	63
Excess tax benefit related to share-based compensation	70	333
Cash settlement of share-based compensation	(1)	(35)
Net cash provided by/(used for) financing activities	(2,168)	883
Net increase in cash and cash equivalents	1,130	2,895
Cash and cash equivalents, beginning of year	56,008	39,788
Cash and cash equivalents, end of period	\$ 57,138	\$ 42,683
SUPPLEMENTAL DISCLOSURES:		

Cash payments for interest, net of capitalized interest, were \$4.04 billion and \$2.71 billion during the three months ended March 2012 and March 2011, respectively.

Income tax refunds, net of cash payments, were \$29 million during the three months ended March 2012. Cash payments for income taxes, net of refunds, were \$296 million during the three months ended March 2011.

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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 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, 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 and clears client transactions on major stock, options and futures exchanges worldwide and provides financing, securities lending and 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, 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, 2011. 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, 2011. The condensed consolidated financial information as of December 31, 2011 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 2012 and March 2011 refer to the firm's periods ended, or the dates, as the context requires, March 31, 2012 and March 31, 2011, respectively. All references to December 2011 refer to the date December 31, 2011. 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
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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.

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.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

In general, the firm accounts for investments acquired subsequent to November 24, 2006, when 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.

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.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

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, transfers of assets accounted for as secured loans rather than purchases and collateral posted in connection with certain derivative transactions. 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. See Note 8 for further information about the fair values of these receivables. 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.

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.

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.

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

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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 2012 and December 2011, Cash and cash equivalents included \$7.22 billion and \$7.95 billion, respectively, of cash and due from banks, and \$49.92 billion and \$48.05 billion, respectively, of interest-bearing deposits with banks.

Recent Accounting Developments

Reconsideration of Effective Control for Repurchase Agreements (ASC 860). In April 2011, the FASB issued ASU No. 2011-03, *Transfers and Servicing (Topic 860) Reconsideration of Effective Control for Repurchase Agreements*. ASU No. 2011-03 changes the assessment of effective control by removing (i) the criterion that requires the transferor to have the ability to repurchase or redeem financial assets on substantially the agreed terms, even in the event of default by the transferee, and (ii) the collateral maintenance implementation guidance related to that criterion. ASU No. 2011-03 is effective for periods beginning after December 15, 2011. The firm adopted the standard on January 1, 2012. Adoption of ASU No. 2011-03 did not affect the firm's financial condition, results of operations or cash flows.

Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (ASC 820). In May 2011, the FASB issued ASU No. 2011-04, *Fair Value Measurements and Disclosures (Topic 820) Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. ASU No. 2011-04 clarifies the application of existing fair value measurement and disclosure requirements, changes certain principles related to measuring fair value, and requires additional disclosures about fair value measurements. ASU No. 2011-04 is effective for periods beginning after December 15, 2011. The firm adopted the standard on January 1, 2012. Adoption of ASU No. 2011-04 did not materially affect the firm's financial condition, results of operations or cash flows.

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 is effective for fiscal years beginning on or after June 15, 2012. The firm will apply the provisions of the ASU to such events occurring on or after January 1, 2013. Adoption is not expected to 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 will require 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 assets and recognized liabilities. ASU No. 2011-11 is effective for periods beginning on or after January 1, 2013. Since these amended principles require only additional disclosures concerning offsetting and related arrangements, adoption will not affect the firm's financial condition, results of operations or cash flows.

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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. Financial instruments owned, at fair value included \$4.69 billion and \$4.86 billion as of March 2012 and December 2011, respectively, of securities accounted for as available-for-sale, substantially all of which are held in the firm's insurance subsidiaries.

	As of March 2012		As of December 2011	
	Financial	Financial	Financial	Financial
	Instruments	Instruments	Instruments	Instruments
	Owned	Sold, But	Owned	Sold, But
		Not Yet		Not Yet
		Purchased		Purchased
<i>in millions</i>				
Commercial paper, certificates of deposit, time deposits and other money market instruments	\$ 10,553	\$	\$ 13,440	\$
U.S. government and federal agency obligations	90,488	27,489	87,040	21,006
Non-U.S. government obligations	60,812	43,791	49,205	34,886
Mortgage and other asset-backed loans and securities:				
Loans and securities backed by commercial real estate	6,724	1	6,699	27
Loans and securities backed by residential real estate	8,815	7	7,592	3
Bank loans and bridge loans	18,988	2,242 ²	19,745	2,756 ²
Corporate debt securities	24,370	6,841	22,131	6,553
State and municipal obligations	3,407	47	3,089	3
Other debt obligations	4,702		4,362	
Equities and convertible debentures	75,927	19,483	65,113	21,326

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Commodities	9,462		5,762	
Derivatives ¹	71,258	51,350	80,028	58,453
Total	\$385,506	\$151,251	\$364,206	\$145,013

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

2. Includes 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	
	2012	2011
Interest rates	\$1,889	\$ 2,406
Credit	1,710	2,051
Currencies	(724)	(1,606)
Equities	1,973	2,850
Commodities	471	957
Other	524	416
Total	\$5,843	\$ 7,074

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).

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, commodities prices, credit spreads and funding spreads.

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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 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	
	December	
	March	2011
<i>\$ in millions</i>	2012	
Total level 1 financial assets	\$ 159,906	\$ 136,780
Total level 2 financial assets	566,165	587,416
Total level 3 financial assets	48,015	47,937
Netting and collateral ¹	(108,461)	(120,821)
Total financial assets at fair value	\$ 665,625	\$ 651,312
Total assets	\$ 950,932	\$ 923,225
Total level 3 financial assets as a percentage of Total assets	5.0%	5.2%
Total level 3 financial assets as a percentage of Total financial assets at fair value	7.2%	7.4%
Total level 3 financial liabilities at fair value	\$ 23,941	\$ 25,498
Total financial liabilities at fair value	\$ 403,516	\$ 388,669
Total level 3 financial liabilities as a percentage of Total financial liabilities at fair value	5.9%	6.6%

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 2012 were essentially unchanged compared with December 2011, primarily reflecting an increase in private equity investments, principally due to transfers to level 3 and purchases, offset by a decrease in derivative assets. The decrease in derivative assets primarily reflected settlements and net unrealized losses on credit and currency derivatives, partially offset by the impact of decreased counterparty netting and transfers to level 3 of certain credit derivatives.

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 or losses and transfers in or 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 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 and 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 corroborated by substantive observable evidence, including values realized on sales of level 3 financial assets.

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Notes to Condensed Consolidated Financial Statements

(Unaudited)

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 Instrument	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 for these valuations, which may be determined based on relative value analyses, include:</p> <p>Transaction prices in both the underlying collateral and instruments with the same or similar underlying collateral</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 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>

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May include tranches of varying levels of subordination

Transaction prices in both the underlying collateral and instruments with the same or similar underlying collateral

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

Corporate debt securities

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

State and municipal obligations

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:

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Non-U.S. government obligations

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)

Other debt 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

Duration

Equities and convertible debentures

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 and available:

Private equity investments (including investments in real estate entities)

Industry 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 table below presents 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. These inputs are not representative of the inputs that could have been used in the valuation of any one cash instrument. For example, the highest multiple

presented in the table 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 Instrument	Significant Unobservable Inputs by Valuation Technique	Range of Significant Unobservable Inputs as of March 2012	
Loans and securities backed by commercial real estate	Discounted cash flows:		
		3.3% to 27.7%	
	Collateralized by a single commercial real estate property or a portfolio of properties	Yield	20.0% to 100.0%
	May include tranches of varying levels of subordination	Recovery rate	0.6 to 7.4
	Duration (years)		
Loans and securities backed by residential real estate	Discounted cash flows:		
		3.2% to 30.0%	
	Collateralized by portfolios of residential real estate	Yield	0.0% to 79.0%
May include tranches of varying levels of subordination	Cumulative loss rate	0.1 to 9.7	

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	Duration (years) ³	
Bank loans and bridge loans	Discounted cash flows:	0.7% to 28.1%
	Yield	15.0% to 100.0%
	Recovery rate ⁴	0.5 to 7.9
	Duration (years) ³	
Corporate debt securities	Discounted cash flows:	1.5% to 35.3%
State and municipal obligations	Yield	0.0% to 100.0%
Non-U.S. government obligations	Recovery rate ⁴	0.4 to 18.0
Other debt obligations	Duration (years) ³	
Equities and convertible debentures	Comparable multiples:	0.8x to 20.0x
Private equity investments (including investments in real estate entities)	Multiples	
	Discounted cash flows:	10.0% to 30.0%
	Yield/discount rate	(0.7)% to 55.9%
	Long-term growth rate/compound annual growth rate	

	5.5% to 11.5%
Capitalization rate	
	45.0% to 100.0%
Recovery rate	
	1.0 to 9.0
Duration (years) ³	

1. A measure of expected future cash flows, expressed as a percentage of notional or face value of the instrument.

2. 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, 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 2012			
	Level 1	Level 2	Level 3	Total
Commercial paper, certificates of deposit, time deposits and other money market instruments	\$ 1,985	\$ 8,560	\$ 8	\$ 10,553
U.S. government and federal agency obligations	37,228	53,260		90,488
Non-U.S. government obligations	47,657	13,050	105	60,812
Mortgage and other asset-backed loans and securities ¹ :				
Loans and securities backed by commercial real estate		3,568	3,156	6,724
Loans and securities backed by residential real estate		7,205	1,610	8,815
Bank loans and bridge loans		7,937	11,051	18,988
Corporate debt securities ²	90	21,768	2,512	24,370
State and municipal obligations		2,795	612	3,407
Other debt obligations ²		3,153	1,549	4,702
Equities and convertible debentures	48,535 ³	12,518 ⁴	14,874 ⁵	75,927
Commodities		9,462		9,462
Total	\$135,495	\$143,276	\$35,477	\$314,248

<i>in millions</i>	Cash Instrument Liabilities at Fair Value as of March 2012			
	Level 1	Level 2	Level 3	Total
U.S. government and federal agency obligations	\$ 27,289	\$ 200	\$	\$ 27,489
Non-U.S. government obligations	43,255	536		43,791
Mortgage and other asset-backed loans and securities:				
Loans and securities backed by commercial real estate		1		1
Loans and securities backed by residential real estate		7		7
Bank loans and bridge loans		1,519	723	2,242
Corporate debt securities ⁶	9	6,816	16	6,841
State and municipal obligations		47		47
Equities and convertible debentures	18,489 ³	986 ⁴	8	19,483
Total	\$ 89,042	\$ 10,112	\$ 747	\$ 99,901

1. Includes \$437 million and \$590 million of collateralized debt obligations (CDOs) backed by real estate in level 2 and level 3, respectively.

2. Includes \$404 million and \$1.40 billion of CDOs and collateralized loan obligations (CLOs) backed by corporate obligations in level 2 and level 3, respectively.

3. Consists of listed equity securities.

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4. Principally consists of restricted or less liquid listed securities.

5. Includes \$13.05 billion of private equity investments, \$1.23 billion of real estate investments and \$592 million of convertible debentures.

6. Includes \$7 million of CDOs and CLOs backed by corporate obligations in level 3.

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

<i>in millions</i>	Cash Instrument Assets at Fair Value as of December 2011			
	Level 1	Level 2	Level 3	Total
Commercial paper, certificates of deposit, time deposits and other money market instruments	\$ 3,255	\$ 10,185	\$	\$ 13,440
U.S. government and federal agency obligations	29,263	57,777		87,040
Non-U.S. government obligations	42,854	6,203	148	49,205
Mortgage and other asset-backed loans and securities ¹ :				
Loans and securities backed by commercial real estate		3,353	3,346	6,699
Loans and securities backed by residential real estate		5,883	1,709	7,592
Bank loans and bridge loans		8,460	11,285	19,745
Corporate debt securities ²	133	19,518	2,480	22,131
State and municipal obligations		2,490	599	3,089
Other debt obligations ²		2,911	1,451	4,362
Equities and convertible debentures	39,955 ³	11,491 ⁴	13,667 ⁵	65,113
Commodities		5,762		5,762
Total	\$115,460	\$134,033	\$34,685	\$284,178

<i>in millions</i>	Cash Instrument Liabilities at Fair Value as of December 2011			
	Level 1	Level 2	Level 3	Total
U.S. government and federal agency obligations	\$ 20,940	\$ 66	\$	\$ 21,006
Non-U.S. government obligations	34,339	547		34,886
Mortgage and other asset-backed loans and securities:				
Loans and securities backed by commercial real estate		27		27
Loans and securities backed by residential real estate		3		3
Bank loans and bridge loans		1,891	865	2,756
Corporate debt securities ⁶		6,522	31	6,553
State and municipal obligations		3		3
Equities and convertible debentures	20,069 ³	1,248 ⁴	9	21,326
Total	\$ 75,348	\$ 10,307	\$ 905	\$ 86,560

1. Includes \$213 million and \$595 million of collateralized debt obligations (CDOs) backed by real estate in level 2 and level 3, respectively.

2. Includes \$403 million and \$1.19 billion of CDOs and collateralized loan obligations (CLOs) backed by corporate obligations in level 2 and level 3, respectively.

3. Consists of listed equity securities.

4. Principally consists of restricted or less liquid listed securities.

5. Includes \$12.07 billion of private equity investments, \$1.10 billion of real estate investments and \$497 million of convertible debentures.

6. Includes \$27 million of CDOs and CLOs backed by corporate obligations in level 3.

Transfers Between Levels of the Fair Value Hierarchy

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Transfers between levels of the fair value hierarchy are reported at the beginning of the reporting period in which they occur. Transfers of cash instruments between level 1 and level 2 were \$728 million for the three months ended March 2012, consisting of transfers to level 2 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 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
Non-U.S. government 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	\$408²	\$788²	\$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	Purchases	Sales	Settlements	Transfers into level 3	Transfers out of level 3	Balance, end of period

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			still held at period-end							
Total	\$ 905	\$ (34)	\$ (68)	\$ (326)	\$ 87	\$ 195	\$ 102	\$ (114)	\$ 747	

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)**

Level 3 Cash Instrument Assets at Fair Value for the Three Months Ended March 2011

<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	Net transfers in and/or (out) of level 3	Balance, end of period
Mortgage and other asset-backed loans and securities:								
Loans and securities backed by commercial real estate	\$ 3,976	\$ 58	\$ 162	\$ 389	\$ (527)	\$ (323)	\$ (22)	\$ 3,713
Loans and securities backed by residential real estate	2,501	50	50	575	(230)	(206)	16	2,756
Bank loans and bridge loans	9,905	169	568	491	(274)	(604)	(326)	9,929
Corporate debt securities	2,737	92	216	789	(459)	(104)	(133)	3,138
State and municipal obligations	754	1	13	7	(3)	(1)	(29)	742
Other debt obligations	1,274	24	20	297	(149)	(53)	70	1,483
Equities and convertible debentures	11,060	40	233	268	(302)	(121)	587	11,765
Total	\$32,207	\$434 ²	\$1,262 ²	\$2,816	\$(1,944)	\$(1,412)	\$ 163	\$33,526

Level 3 Cash Instrument Liabilities at Fair Value for the Three Months Ended March 2011

<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	Settlements	Net transfers in and/or (out) of level 3	Balance, end of period
Total	\$ 446	\$ (22)	\$ 41	\$ (59)	\$ 90	\$ 8	\$ (22)	\$ 482

1. Includes both originations and secondary market purchases.

2. The aggregate amounts include approximately \$608 million, \$656 million and \$432 million reported in Market making, Other principal transactions and Interest income, respectively.

The net unrealized gain/(loss) on level 3 cash instruments of \$1.22 billion (reflecting \$1.26 billion on cash instrument assets and \$(41) million on cash instrument liabilities) for the three months ended March 2011 primarily consisted of unrealized gains on bank loans and bridge loans, private equity investments and corporate debt securities, reflecting strengthening global credit markets and equity markets.

Significant transfers in or out of level 3 during the three months ended March 2011 included:

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Bank loans and bridge loans: net transfer out of level 3 of \$326 million, principally due to transfers to level 2 of certain loans due to improved transparency of market

prices as a result of market transactions in these financial instruments, partially offset by transfers to level 3 of certain loans due to reduced transparency of market prices as a result of less market activity in these financial instruments.

Equities and convertible debentures: net transfer into level 3 of \$587 million, principally due to transfers to level 3 of certain private equity investments due to reduced transparency of market prices as a result of less market activity in these financial instruments, partially offset by transfers to level 2 of certain equity investments due to improved transparency of market prices as a result of initial public offerings.

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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, private debt 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 10 years. The firm continues to manage its existing private equity 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. The firm redeemed approximately \$250 million of these interests in hedge funds during the quarter ended March 2012.

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 2012		As of December 2011	
	Fair Value of Investments	Unfunded Commitments	Fair Value of Investments	Unfunded Commitments
Private equity funds ¹	\$ 8,828	\$3,066	\$ 8,074	\$3,514
Private debt funds ²	3,744	3,244	3,596	3,568
Hedge funds ³	3,058		3,165	
Real estate funds ⁴	1,541	1,463	1,531	1,613
Total	\$17,171	\$7,773	\$16,366	\$8,695

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

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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 privately negotiated contracts, which are usually referred to as over-the-counter (OTC) derivatives, or they may be listed and traded on an exchange (exchange-traded).

Market-Making. As a market maker, the firm enters into derivative transactions with clients and other market participants 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 certificates of deposit.

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 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.

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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 GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

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

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

<i>in millions</i>	As of March 2012		As of December 2011	
	Derivative Assets	Derivative Liabilities	Derivative Assets	Derivative Liabilities
Exchange-traded	\$ 5,379	\$ 3,878	\$ 5,880	\$ 3,172
Over-the-counter	65,879	47,472	74,148	55,281
Total	\$71,258	\$51,350	\$80,028	\$58,453

The table below presents the fair value and the number of derivative contracts by major product type on a gross basis. Gross fair values in the table below exclude the effects of both netting under enforceable netting agreements and

netting of cash collateral received or posted under credit support agreements, and therefore are not representative of the firm's exposure.

<i>in millions, except number of contracts</i>	As of March 2012			As of December 2011		
	Derivative Assets	Derivative Liabilities	Number of Contracts	Derivative Assets	Derivative Liabilities	Number of Contracts
Derivatives not accounted for as hedges						
Interest rates	\$ 552,324	\$ 512,372	304,937	\$ 624,189	\$ 582,608	287,351
Credit	115,065	97,845	363,617	150,816	130,659	362,407
Currencies	74,699	61,091	242,500	88,654	71,736	203,205
Commodities	36,058	36,959	85,787	35,966	38,050	93,755
Equities	59,623	51,704	299,762	64,135	51,928	332,273
Subtotal	837,769	759,971	1,296,603	963,760	874,981	1,278,991
Derivatives accounted for as hedges						
Interest rates	22,238	68	1,308	21,981	13	1,125
Currencies	64	48	75	124	21	71
Subtotal	22,302	116	1,383	22,105	34	1,196
Gross fair value of derivatives	\$ 860,071	\$ 760,087	1,297,986	\$ 985,865	\$ 875,015	1,280,187
Counterparty netting ¹	(682,726)	(682,726)		(787,733)	(787,733)	
Cash collateral netting ²	(106,087)	(26,011)		(118,104)	(28,829)	
Fair value included in financial instruments owned	\$ 71,258			\$ 80,028		
Fair value included in financial instruments sold, but not yet purchased		\$ 51,350			\$ 58,453	

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 credit support agreements.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Valuation Techniques for Derivatives

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 and are therefore less transparent, 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 be less transparent 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 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 exchange-traded derivatives that are not actively traded and OTC derivatives for which all significant valuation inputs are corroborated by market evidence.

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Level 2 exchange-traded derivatives are valued using models that calibrate to market-clearing levels of OTC derivatives. Inputs to the valuations of level 2 OTC 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.

Where models are used, the selection of a particular model to value an OTC 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. Valuation models require a variety of inputs, including contractual terms, market prices, yield curves, credit curves, measures of volatility, prepayment rates, loss severity rates and correlations of such inputs. For OTC 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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(Unaudited)

Level 3 Derivatives

Level 3 OTC 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, the significant unobservable inputs are 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 level 3 inputs include illiquid credit spreads, which are unique to specific reference obligations and reference entities, certain correlations required to value credit and mortgage derivatives (e.g., the likelihood of default of the underlying reference obligation relative to one another) and the basis, or price difference, of certain reference obligations to benchmark indices.

For level 3 equity derivatives, significant level 3 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 inputs for 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 level 3 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 OTC 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 unobservable inputs used in the valuation of level 3 derivatives.

Valuation Adjustments

Valuation adjustments are integral to determining the fair value of derivatives 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 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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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

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

The table below presents 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. These inputs are not representative of the inputs that could have been used in the valuation of any one derivative. For example, the highest correlation presented

in the table 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.

Significant Unobservable Inputs	Derivative Product Type	Range of Significant Unobservable Inputs	
		as of March 2012	Sensitivity of Fair Value Measurement to Changes in Significant Unobservable Inputs ¹
Correlation	Interest rates	14% to 70%	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 generally results in a higher fair value measurement.
	Credit	5% to 91%	
	Currencies	66% to 87%	
	Equities	46% to 91%	
	Various ²	(51)% to 83%	
Volatility	Interest rates	36% to 91%	In general, for purchased options an increase in volatility results in a higher fair value measurement.
	Commodities	4% to 80%	
	Equities	12% to 56%	

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Credit spreads	Credit	88 basis points (bps) to 2,250 bps	In general, the fair value of purchased credit protection increases as credit spreads increase, recovery rates decrease or basis widens.
Recovery rates	Credit	0% to 85%	Credit spreads, recovery rates and basis 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.
Basis	Credit	1 point to 10 points	
Spread per million British Thermal units (MMBTU) of natural gas	Commodities	\$(0.82) to \$3.91	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) generally results in a higher fair value measurement.

1. Represents 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.

2. Represents correlation across derivative product types.

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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 in the tables below exclude the effects of both netting under enforceable netting agreements and netting of cash

received or posted under credit support agreements both in and across levels of the fair value hierarchy, and therefore are not representative of the firm's exposure.

<i>in millions</i>	Derivative Assets at Fair Value as of March 2012				
	Level 1	Level 2	Level 3	Cross-Level Netting	Total
Interest rates	\$149	\$ 574,153	\$ 260	\$	\$ 574,562
Credit		103,453	11,612		115,065
Currencies		73,384	1,379		74,763
Commodities		35,198	860		36,058
Equities	31	58,180	1,412		59,623
Gross fair value of derivative assets	180	844,368	15,523		860,071
Counterparty netting ¹		(675,980)	(4,372)	(2,374) ³	(682,726)
Subtotal	\$180	\$ 168,388	\$11,151	\$(2,374)	\$ 177,345
Cash collateral netting ²					(106,087)
Fair value included in financial instruments owned					\$ 71,258

<i>in millions</i>	Derivative Liabilities at Fair Value as of March 2012				
	Level 1	Level 2	Level 3	Cross-Level Netting	Total
Interest rates	\$139	\$ 511,801	\$ 500	\$	\$ 512,440
Credit		92,735	5,110		97,845
Currencies		60,150	989		61,139
Commodities		36,000	959		36,959
Equities	33	49,739	1,932		51,704
Gross fair value of derivative liabilities	172	750,425	9,490		760,087
Counterparty netting ¹		(675,980)	(4,372)	(2,374) ³	(682,726)
Subtotal	\$172	\$ 74,445	\$ 5,118	\$(2,374)	\$ 77,361
Cash collateral netting ²					(26,011)
Fair value included in financial instruments sold, but not yet purchased					\$ 51,350

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 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)**

	\$172	\$172	\$172	\$172	\$172
	Derivative Assets at Fair Value as of December 2011				
	Cross-Level				
<i>in millions</i>	Level 1	Level 2	Level 3	Netting	Total
Interest rates	\$33	\$ 645,923	\$ 214	\$	\$ 646,170
Credit		137,110	13,706		150,816
Currencies		86,752	2,026		88,778
Commodities		35,062	904		35,966
Equities	24	62,684	1,427		64,135
Gross fair value of derivative assets	57	967,531	18,277		985,865
Counterparty netting ¹		(778,639)	(6,377)	(2,717) ³	(787,733)
Subtotal	\$57	\$ 188,892	\$11,900	\$(2,717)	\$ 198,132
Cash collateral netting ²					(118,104)
Fair value included in financial instruments owned					\$ 80,028

	Derivative Liabilities at Fair Value as of December 2011				
	Cross-Level				
<i>in millions</i>	Level 1	Level 2	Level 3	Netting	Total
Interest rates	\$ 24	\$ 582,012	\$ 585	\$	\$ 582,621
Credit		123,253	7,406		130,659
Currencies		70,573	1,184		71,757
Commodities		36,541	1,509		38,050
Equities	185	49,884	1,859		51,928
Gross fair value of derivative liabilities	209	862,263	12,543		875,015
Counterparty netting ¹		(778,639)	(6,377)	(2,717) ³	(787,733)
Subtotal	\$209	\$ 83,624	\$6,166	\$(2,717)	\$ 87,282
Cash collateral netting ²					(28,829)
Fair value included in financial instruments sold, but not yet purchased					\$ 58,453

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 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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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.

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 2012

	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 into level 3	Transfers out of level 3	Asset/ (liability) balance, end of period
<i>in millions</i>									
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 ³	390
Commodities net	(605)	40	206	99	(99)	41	100	119 ³	(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.

3. Reflects a net transfer to level 2 of derivative liabilities.

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 more 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.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

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

Level 3 Derivative Assets and Liabilities at Fair Value for the Three Months Ended March 2011

<i>in millions</i>								Asset/ (liability)	balance, end of period
	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	Net transfers in and/or (out) of level 3		
Interest rates net	\$ 194	\$ (26)	\$ (58)	\$ 1	\$ (81)	\$ 13	\$(221)	\$ (97)	
Credit net	7,040	3	(104)	70	(81)	(722)	385	6,591	
Currencies net	1,098	(1)	(194)	25	(6)	(31)	241	1,132	
Commodities net	220	(78)	90	241	(233)	115	(162)	193	
Equities net	(990)	176	(294)	459	(625)	58	200	(1,016)	
Total derivatives net	\$7,562	\$ 74 ¹	\$(560) ^{1, 2}	\$796	\$(945)	\$(567)	\$443	\$ 6,803	

1. The aggregate amounts include approximately \$(501) million and \$15 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 \$560 million for the three months ended March 2011 was primarily attributable to increases in equity index prices, tighter credit spreads and changes in foreign exchange rates on the underlying instruments.

Significant transfers in or out of level 3 derivatives during the three months ended March 2011 included:

Credit net: net transfer to level 3 of \$385 million, principally due to reduced transparency of the correlation inputs used to value certain mortgage 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 \$179 million and \$25 million for the three months ended March 2012 and March 2011, respectively.

Bifurcated Embedded Derivatives

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

	As of	
	March	December
<i>in millions, except number of contracts</i>	2012	2011
Fair value of assets	\$387	\$422
Fair value of liabilities	310	304
Net	\$ 77	\$118
Number of contracts	357	333

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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.

in millions

OTC Derivatives as of March 2012

Product Type	0 - 12 Months	1 - 5 Years	5 Years or Greater	Total
Interest rates	\$ 9,356	\$31,554	\$ 74,244	\$ 115,154
Credit	2,705	13,987	10,976	27,668
Currencies	9,877	9,280	12,990	32,147
Commodities	5,768	4,837	124	10,729
Equities	4,306	7,620	7,370	19,296
Netting across product types ¹	(1,960)	(6,135)	(5,092)	(13,187)
Subtotal	\$30,052	\$61,143	\$100,612	191,807
Cross maturity netting ²				(19,841)
Cash collateral netting ³				(106,087)
Total				\$ 65,879

Liabilities

Product Type	0 - 12 Months	1 - 5 Years	5 Years or Greater	Total
Interest rates	\$ 6,541	\$17,077	\$29,390	\$ 53,008
Credit	1,222	5,826	3,400	10,448
Currencies	7,685	4,853	5,965	18,503
Commodities	5,235	4,747	2,556	12,538
Equities	3,626	4,544	3,844	12,014
Netting across product types ¹	(1,960)	(6,135)	(5,092)	(13,187)
Subtotal	\$22,349	\$30,912	\$40,063	93,324
Cross maturity netting ²				(19,841)
Cash collateral netting ³				(26,011)
Total				\$ 47,472

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.

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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 credit support agreements.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)***in millions*
Assets

OTC Derivatives as of December 2011

Product Type	0 - 12 Months	1 - 5 Years	5 Years or Greater	Total
Interest rates	\$10,931	\$32,194	\$ 82,480	\$ 125,605
Credit	3,054	15,468	13,687	32,209
Currencies	11,253	11,592	16,023	38,868
Commodities	5,286	5,931	147	11,364
Equities	6,663	7,768	7,468	21,899
Netting across product types ¹	(3,071)	(6,033)	(6,027)	(15,131)
Subtotal	\$34,116	\$66,920	\$113,778	214,814
Cross maturity netting ²				(22,562)
Cash collateral netting ³				(118,104)
Total				\$ 74,148

Liabilities

Product Type	0 - 12 Months	1 - 5 Years	5 Years or Greater	Total
Interest rates	\$ 5,787	\$18,607	\$37,739	\$ 62,133
Credit	1,200	6,957	3,894	12,051
Currencies	9,826	5,514	6,502	21,842
Commodities	6,322	5,174	2,727	14,223
Equities	3,290	4,018	4,246	11,554
Netting across product types ¹	(3,071)	(6,033)	(6,027)	(15,131)
Subtotal	\$23,354	\$34,237	\$49,081	106,672
Cross maturity netting ²				(22,562)
Cash collateral netting ³				(28,829)
Total				\$ 55,281

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 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 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.

	As of	
	March	December
<i>in millions</i>	2012	2011
Net derivative liabilities under bilateral agreements	\$27,370	\$35,066
Collateral posted	22,742	29,002
Additional collateral or termination payments for a one-notch downgrade	1,331	1,303
Additional collateral or termination payments for a two-notch downgrade	2,207	2,183

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 not 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 2012, written and purchased credit derivatives had total gross notional amounts of \$1.97 trillion and \$2.10 trillion, respectively, for total net notional purchased protection of \$123.20 billion. As of December 2011, written and purchased credit derivatives had total gross notional amounts of \$1.96 trillion and \$2.08 trillion, respectively, for total net notional purchased protection of \$116.93 billion.

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

fair values exclude the effects of both netting under enforceable netting agreements and netting of cash received or posted under 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.

\$ in millions	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	Other	Asset	Liability	Net Asset/ (Liability)
					Purchased	Purchased			
					Credit Derivatives ¹	Credit Derivatives ²			
<u>As of March 2012</u>									
Credit spread on underlying									
(basis points)									
0-250	\$345,122	\$ 906,230	\$180,754	\$1,432,106	\$1,323,645	\$212,487	\$23,214	\$ 11,569	\$ 11,645
251-500	29,433	195,101	55,788	280,322	251,767	40,987	5,534	13,026	(7,492)
501-1,000	13,226	112,724	24,416	150,366	134,781	20,049	1,368	10,701	(9,333)
Greater than 1,000	19,673	77,527	12,880	110,080	91,671	20,690	488	35,757	(35,269)
Total	\$407,454	\$1,291,582	\$273,838	\$1,972,874	\$1,801,864	\$294,213	\$30,604	\$ 71,053	\$(40,449)

As of December 2011

Credit spread on underlying

(basis points)

0-250	\$282,851	\$ 794,193	\$141,688	\$1,218,732	\$1,122,296	\$180,316	\$17,572	\$ 16,907	\$ 665
251-500	42,682	269,687	69,864	382,233	345,942	47,739	4,517	20,810	(16,293)
501-1,000	29,377	140,389	21,819	191,585	181,003	23,176	138	15,398	(15,260)

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Greater than 1,000	30,244	114,103	22,995	167,342	147,614	28,734	512	57,201	(56,689)
Total	\$385,154	\$1,318,372	\$256,366	\$1,959,892	\$1,796,855	\$279,965	\$22,739	\$110,316	\$(87,577)

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 in 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	
	2012	2011
Interest rate hedges	\$ (2,238)	\$ (2,658)
Hedged borrowings and bank deposits	1,778	2,163
Hedge ineffectiveness ¹	(460)	(495)

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.

<i>in millions</i>	Three Months Ended March	
	2012	2011
Currency hedges	\$ (212)	\$ (225)
Foreign currency-denominated debt	221	82

The gain/(loss) related to ineffectiveness and the gain/(loss) reclassified to earnings from accumulated other comprehensive income was not material for the three months ended March 2012 and March 2011.

As of March 2012 and December 2011, the firm had designated \$2.89 billion and \$3.11 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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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

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:

resale and repurchase agreements;

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

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certain other secured financings, primarily transfers of assets accounted for as financings rather than sales and certain other nonrecourse financings;

certain unsecured short-term borrowings, consisting of all promissory notes and commercial paper and certain hybrid financial instruments;

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

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

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

certain subordinated liabilities issued by consolidated VIEs; and

certain time deposits issued by the firm's bank subsidiaries (deposits with no stated maturity are not eligible for a fair value option election). 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. These inputs are not representative of the inputs that could have been used in the valuation of any one instrument. For example, the highest funding spread 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 range 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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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

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 the amount and timing of expected future cash flows, interest rates, the fair value of the collateral delivered or received by the firm (which is determined using the amount and timing of expected future cash flows, market yields and recovery assumptions), and collateral funding spreads. The ranges of significant unobservable inputs used to value level 3 resale and repurchase agreements as of March 2012 are as follows:

Yield: 2.1% to 4.5%

Duration: 2.0 to 5.4 years

Funding spreads: 74 bps to 355 bps

Generally, increases in yield, duration or funding spreads, 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, the fair value of the collateral delivered by the firm (which is determined using the amount and timing of expected future cash flows, market yields and recovery assumptions), the frequency of additional collateral calls and the credit spreads of the firm. The ranges of significant unobservable inputs used to value level 3 other secured financings as of March 2012 are as follows:

Yield: 3.5% to 25.0%

Duration: 0.7 to 7.0 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 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 and, for certain hybrid financial instruments, equity prices, inflation rates and index levels. 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 included in Receivables from customers and counterparties and Other liabilities and accrued expenses. 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 level 2 inputs typically include interest rates, inflation rates, volatilities, and policy lapse and projected mortality assumptions. Significant level 3 inputs typically include funding spreads. 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 range of significant unobservable inputs used to value level 3 insurance and reinsurance contracts as of March 2012 is as follows:

Funding spreads: 80 bps to 170 bps

Generally, increases in funding spreads would result in a lower fair value measurement of both assets and liabilities.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

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

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 and the amount and timing of expected future cash flows. 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. While these margin loans 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 margin loans been included in the firm's fair value hierarchy, substantially all would have been classified in level 2 as of March 2012.

Deposits. The significant inputs to the valuation of time deposits are interest rates and the amount and timing of future cash flows. See Note 14 for further information about deposits.

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 under the fair value option.

<i>in millions</i>	Other Financial Assets at Fair Value as of March 2012			
	Level 1	Level 2	Level 3	Total
Securities segregated for regulatory and other purposes ¹	\$24,231	\$ 9,448	\$	\$ 33,679
Securities purchased under agreements to resell		180,094	956	181,050
Securities borrowed		57,062		57,062
Receivables from customers and counterparties		7,897	431	8,328
Total	\$24,231	\$254,501	\$ 1,387	\$280,119

<i>in millions</i>	Other Financial Liabilities at Fair Value as of March 2012			
	Level 1	Level 2	Level 3	Total
Deposits	\$	\$ 5,428	\$ 96	\$ 5,524
Securities sold under agreements to repurchase		171,044	2,048	173,092
Securities loaned		550		550
Other secured financings		27,085	1,282	28,367
Unsecured short-term borrowings		14,397	3,375	17,772
Unsecured long-term borrowings		15,199	2,310	17,509
Other liabilities and accrued expenses		486	8,965	9,451
Total	\$	\$234,189	\$18,076	\$252,265

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 \$24.23 billion of level 1 and \$534 million of level 2 securities segregated for regulatory and other purposes accounted for at fair value under other U.S. GAAP, principally consisting of U.S. Treasury securities, money market instruments and insurance separate account assets.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

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

<i>in millions</i>	Other Financial Assets at Fair Value as of December 2011			
	Level 1	Level 2	Level 3	Total
Securities segregated for regulatory and other purposes ¹	\$21,263	\$ 20,751	\$	\$ 42,014
Securities purchased under agreements to resell		187,232	557	187,789
Securities borrowed		47,621		47,621
Receivables from customers and counterparties		8,887	795	9,682
Total	\$21,263	\$264,491	\$ 1,352	\$287,106

<i>in millions</i>	Other Financial Liabilities at Fair Value as of December 2011			
	Level 1	Level 2	Level 3	Total
Deposits	\$	\$ 4,513	\$ 13	\$ 4,526
Securities sold under agreements to repurchase		162,321	2,181	164,502
Securities loaned		107		107
Other secured financings		28,267	1,752	30,019
Unsecured short-term borrowings		14,560	3,294	17,854
Unsecured long-term borrowings		14,971	2,191	17,162
Other liabilities and accrued expenses		490	8,996	9,486
Total	\$	\$225,229	\$18,427	\$243,656

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 \$21.26 billion of level 1 and \$528 million of level 2 securities segregated for regulatory and other purposes accounted for at fair value under other U.S. GAAP, principally consisting of U.S. Treasury securities, money market instruments and insurance separate account assets.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)****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. Transfers between levels are recognized at the beginning of the reporting period in which they occur.

The tables below present changes in fair value for other financial assets and financial liabilities accounted for at fair value under the fair value option 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.

<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	Issues	Settlements	Transfers		Balance, end of period
								into level 3	out of level 3	
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.

<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	Issues	Settlements	Transfers		Balance, end of period
								into level 3	out of level 3	
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
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

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Total	\$18,427	\$ 1	\$371¹	\$ (13)	\$ 397	\$(917)	\$315	\$(504)	\$18,076
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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)**

<i>in millions</i>	Level 3 Other Financial Assets at Fair Value for the Three Months Ended March 2011								Balance, end of period
	Balance, beginning of period	Net realized gains/ (losses)	Net unrealized gains/(losses) relating to instruments still held at period-end	Purchases	Sales	Issues	Settlements	Net transfers in and/or (out) of level 3	
Securities purchased under agreements to resell	\$ 100	\$ 2	\$	\$ 64	\$	\$	\$ (8)	\$	\$ 158
Receivables from customers and counterparties	298		16	14			(6)		322
Total	\$ 398	\$ 2¹	\$ 16¹	\$ 78	\$	\$	\$ (14)	\$	\$ 480

1. The aggregate amounts include gains of approximately \$16 million and \$2 million reported in Market making and Other principal transactions, respectively.

<i>in millions</i>	Level 3 Other Financial Liabilities at Fair Value for the Three Months Ended March 2011								Balance, end of period
	Balance, beginning of period	Net realized (gains)/ losses	Net unrealized (gains)/losses relating to instruments still held at period-end	Purchases	Sales	Issues	Settlements	Net transfers in and/or (out) of level 3	
Securities sold under agreements to repurchase, at fair value	\$ 2,060	\$	\$	\$	\$	\$	\$ (114)	\$	\$ 1,946
Other secured financings	8,349		9			11	(1,262)		7,107
Unsecured short-term borrowings	3,476	60	(204)			562	(153)	(532)	3,209
Unsecured long-term borrowings	2,104	4	45			241	(72)	82	2,404
Other liabilities and accrued expenses	2,409		152	4,337			(46)		6,852
Total	\$18,398	\$64¹	\$ 2¹	\$4,337	\$	\$814	\$(1,647)	\$(450)	\$21,518

1. The aggregate amounts include gains/(losses) of approximately \$(165) million, \$104 million and \$(5) million reported in Market making, Other principal transactions and Interest expense, respectively.

Significant transfers in or out of level 3 during the three months ended March 2011 included:

Unsecured short-term borrowings and Unsecured long-term borrowings: net transfer out of level 3 of \$532 million and net transfer into level 3 of \$82 million, respectively, principally due to a transfer of approximately \$230 million from level 3 Unsecured short-term borrowings to level 3 Unsecured long-term borrowings related to an extension in the tenor of certain borrowings and the transfer to level 2 of certain short-term and long-term hybrid financial instruments due to improved transparency of the equity price inputs used to value these financial instruments.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)****Gains and Losses on Other Financial Assets and****Financial Liabilities at Fair Value**

The Fair Value Option columns in the table below present 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 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. The table also excludes gains and losses related to financial instruments owned, at fair value and financial instruments sold, but not yet purchased, at fair value.

Included in the Other columns in the table below are:

Gains and losses on the embedded derivative component of hybrid financial instruments included in unsecured short-term borrowings and unsecured long-term borrowings. 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.

Gains and losses on secured financings related to transfers of assets accounted for as financings rather than sales. These gains and losses are offset by gains and losses on the related instruments included in Financial instruments owned, at fair value and Receivables from customers and counterparties.

Gains and losses on receivables from customers and counterparties related to transfers of assets accounted for as receivables rather than purchases. These gains and losses are offset by gains and losses on the related financial instruments included in Other secured financings.

Gains and losses on subordinated liabilities issued by consolidated VIEs, which are included in Other liabilities and accrued expenses. These gains and losses are offset by gains and losses on the financial assets held by the consolidated VIEs.

	Gains/(Losses) on Other Financial Assets and Financial Liabilities at Fair Value Three Months Ended March			
	2012		2011	
	Fair		Fair	
	Value	Other	Value	Other
<i>in millions</i>				
Receivables from customers and counterparties ¹	\$ 24	\$ 459	\$ 1	\$ 319
Other secured financings	(26)	(915)	4	(415)
Unsecured short-term borrowings	(42)	(853)	7	(224)

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Unsecured long-term borrowings	(231)	(368)	3	(1,271)
Other liabilities and accrued expenses ²	(102)	41	(189)	87
Other ³	(17)	5	35	
Total	\$ (394)	\$ (1,631)	\$ (139)	\$ (1,504)

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

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

3. 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 represents 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.

	As of	
	March	December
<i>in millions</i>	2012	2011
Aggregate contractual principal amount of performing loans and long-term receivables in excess of the related fair value	\$ 3,347	\$ 3,826
Aggregate contractual principal amount of loans on nonaccrual status and/or more than 90 days past due in excess of the related fair value	22,228	23,034
Total¹	\$25,575	\$26,860
Aggregate fair value of loans on nonaccrual status and/or more than 90 days past due	\$ 2,378	\$ 3,174

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 2012 and December 2011, the fair value of unfunded lending commitments for which the fair value option was elected was a liability of \$2.18 billion and \$2.82 billion, respectively, and the related total contractual amount of these lending commitments was \$62.61 billion and \$66.12 billion, respectively. See Note 18 for further information about lending commitments.

Long-term Debt Instruments

The aggregate contractual principal amount of long-term debt instruments (principal and non-principal protected) for which the fair value option was elected exceeded the related fair value by \$393 million and \$932 million as of March 2012 and December 2011, respectively. Of these amounts, \$196 million and \$693 million as of March 2012 and December 2011, respectively, related to unsecured long-term borrowings and the remainder related to long-term other secured financings.

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 \$973 million and \$756 million for the three months ended March 2012 and March 2011, 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.

<i>in millions</i>	Three Months Ended March	
	2012	2011
Net gains/(losses) including hedges	\$(224)	\$41
Net gains/(losses) excluding hedges	(289)	44

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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 or reverse repurchase 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.

<i>in millions</i>	March	As of December
	2012	2011
Securities purchased under agreements to resell ¹	\$181,050	\$187,789
Securities borrowed ²	169,092	153,341
Securities sold under agreements to repurchase ¹	173,092	164,502
Securities loaned ²	8,121	7,182

1. 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. As of March 2012 and December 2011, \$57.06 billion and \$47.62 billion of securities borrowed and \$550 million and \$107 million 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.

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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 2012 or December 2011.

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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 delivery of 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.

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 2012.

As of March 2012 and December 2011, the firm had \$8.91 billion and \$20.22 billion, respectively, of securities received under resale agreements and 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.

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 2012 and December 2011, nonrecourse other secured financings were \$2.31 billion and \$3.14 billion, respectively.

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The firm has elected to apply the fair value option to the following other secured financings because the use of fair value eliminates non-economic volatility in earnings that would arise from using different measurement attributes:

transfers of assets accounted for as financings rather than sales; and

certain other nonrecourse financings.

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 generally short-term and 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 2 as of March 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.

\$ in millions	As of March 2012			As of December 2011		
	U.S. Dollar	Non-U.S. Dollar	Total	U.S. Dollar	Non-U.S. Dollar	Total
Other secured financings (short-term):						
At fair value	\$ 16,980	\$ 5,213	\$ 22,193	\$ 18,519	\$ 5,140	\$ 23,659
At amortized cost	144	2,991	3,135	155	5,371	5,526
Interest rates ¹	3.20%	0.19%		3.85%	0.22%	
Other secured financings (long-term):						
At fair value	4,725	1,449	6,174	4,305	2,055	6,360
At amortized cost	891	746	1,637	1,024	795	1,819
Interest rates ¹	2.53%	3.25%		1.88%	3.28%	
Total ²	\$ 22,740	\$10,399	\$ 33,139	\$ 24,003	\$13,361	\$ 37,364
Amount of other secured financings collateralized by:						
Financial instruments ³	\$ 22,437	\$ 9,820	\$ 32,257	\$ 23,703	\$12,169	\$ 35,872
Other assets ⁴	303	579	882	300	1,192	1,492

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 \$7.45 billion and \$9.36 billion related to transfers of financial assets accounted for as financings rather than sales as of March 2012 and December 2011, respectively. Such financings were collateralized by financial assets included in Financial instruments owned, at fair value of \$7.66 billion and \$9.51 billion as of March 2012 and December 2011, respectively.

3. Includes \$16.47 billion and \$14.82 billion of other secured financings collateralized by financial instruments owned, at fair value as of March 2012 and December 2011, respectively, and includes \$15.79 billion and \$21.06 billion of other secured financings collateralized by financial instruments received as collateral and pledged as of March 2012 and December 2011, respectively.

4. Primarily real estate and cash.

The table below presents other secured financings by maturity.

<i>in millions</i>	As of
	March 2012
Other secured financings (short-term)	\$25,328
Other secured financings (long-term):	
2013	1,437
2014	3,635
2015	576
2016	438
2017	201
2018-thereafter	1,524
Total other secured financings (long-term)	7,811
Total other secured financings	\$33,139

The aggregate contractual principal amount of other secured financings (long-term) for which the fair value option was elected exceeded the related fair value by \$197 million and \$239 million, as of March 2012 and December 2011, respectively.

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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 financial instruments (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.

In many cases, the firm is permitted to deliver or repledge these financial instruments 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 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.

	As of	
<i>in millions</i>	March 2012	December 2011
Collateral available to be delivered or repledged	\$606,896	\$622,926
Collateral that was delivered or repledged	447,378	454,604

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 information about assets pledged by the firm.

	As of	
<i>in millions</i>	March 2012	December 2011
Financial instruments owned, at fair value pledged to counterparties that:		
Had the right to deliver or repledge	\$ 67,404	\$ 53,989
Did not have the right to deliver or repledge	122,681	110,949
Other assets pledged to counterparties that:		
Did not have the right to deliver or repledge	2,921	3,444

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

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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.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

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

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.

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	
	2012	2011
Residential mortgages	\$ 10,989	\$7,703
Commercial mortgages		325
Other financial assets		32
Total	\$ 10,989	\$8,060
Cash flows on retained interests	\$ 147	\$ 228

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 2012			As of December 2011		
	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	\$67,883	\$4,913	\$	\$70,448	\$5,038	\$
Other residential mortgage-backed ²	4,274	101		4,459	101	3
Commercial mortgage-backed ³	2,311	28	46	3,398	606	331
CDOs, CLOs and other ⁴	10,305	44	263	9,972	32	211
Total⁵	\$84,773	\$5,086	\$309	\$88,277	\$5,777	\$545

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1. Outstanding principal amount and fair value of retained interests primarily relate to securitizations during 2012 and 2011 as of March 2012, and securitizations during 2011 and 2010 as of December 2011.
2. Outstanding principal amount and fair value of retained interests as of both March 2012 and December 2011 primarily relate to prime and Alt-A securitizations during 2007 and 2006.
3. As of March 2012, the outstanding principal amount and the fair value of retained interests primarily relate to securitizations during 2006. As of December 2011, the outstanding principal amount primarily relates to securitizations during 2010, 2007 and 2006 and the fair value of retained interests primarily relates to securitizations during 2010.
4. Outstanding principal amount and fair value of retained interests as of both March 2012 and December 2011 primarily relate to CDO and CLO securitizations during 2007 and 2006.
5. Outstanding principal amount includes \$789 million and \$774 million as of March 2012 and December 2011, 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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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 \$2 million and a net liability of \$52 million as of March 2012 and December 2011, 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 2012		As of December 2011	
	Type of Retained Interests		Type of Retained Interests	
	Mortgage-Backed	Other ¹	Mortgage-Backed	Other ¹
Fair value of retained interests	\$5,042	\$ 44	\$5,745	\$ 32
Weighted average life (years)	8.0	4.6	7.1	4.7
Constant prepayment rate ²	11.9%	N.M.	14.1%	N.M.
Impact of 10% adverse change ²	\$ (46)	N.M.	\$ (55)	N.M.
Impact of 20% adverse change ²	(89)	N.M.	(108)	N.M.
Discount rate ³	5.7%	N.M.	5.4%	N.M.
Impact of 10% adverse change	\$ (118)	N.M.	\$ (125)	N.M.
Impact of 20% adverse change	(230)	N.M.	(240)	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 2012 and December 2011. The firm's maximum exposure to adverse changes in the value of these interests is the carrying value of \$44 million and \$32 million as of March 2012 and December 2011, 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.

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.

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 consolidated statement of financial condition as follows:

Substantially all assets held by the firm related to mortgage-backed, corporate CDO and CLO 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 mortgage-backed, corporate CDO and CLO and other asset-backed VIEs are included in 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)**

Assets and liabilities held by the firm related to real estate, credit-related and other investing VIEs are primarily included in Financial instruments owned, at fair value and Financial instruments sold, but not yet purchased, at fair value and Other liabilities and accrued expenses, respectively.

Assets and liabilities held by the firm related to power-related VIEs are primarily included in Other assets and Other liabilities and accrued expenses, respectively.

<i>in millions</i>	Nonconsolidated VIEs As of March 2012						Total
	Mortgage- backed	Corporate CDOs and CLOs	Real estate, credit- related and other investing	Other asset- backed	Power- related	Investment funds	
Assets in VIE	\$93,300 ²	\$22,233	\$7,890	\$2,711	\$536	\$2,406	\$129,076
Carrying Value of the Firm's Variable Interests							
Assets	6,453	1,127	1,448	168	300	5	9,501
Liabilities		23	3	34			60
Maximum Exposure to Loss in Nonconsolidated VIEs							
Retained interests	5,042	44					5,086
Purchased interests	1,039	527		151			1,717
Commitments and guarantees ¹		1	368		7		376
Derivatives ¹	2,336	6,826		1,177			10,339
Loans and investments	121		1,447		300	5	1,873
Total	\$ 8,538²	\$ 7,398	\$1,815	\$1,328	\$307	\$ 5	\$ 19,391

<i>in millions</i>	Nonconsolidated VIEs As of December 2011						Total
	Mortgage- backed	Corporate CDOs and CLOs	Real estate, credit- related and other investing	Other asset- backed	Power- related	Investment funds	
Assets in VIE	\$94,047 ²	\$20,340	\$8,974	\$4,593	\$519	\$2,208	\$130,681
Carrying Value of the Firm's Variable Interests							
Assets	7,004	911	1,495	352	289	5	10,056
Liabilities		63	3	24	2		92
Maximum Exposure to Loss in Nonconsolidated VIEs							
Retained interests	5,745	32					5,777
Purchased interests	962	368		333			1,663
Commitments and guarantees ¹		1	373		46		420
Derivatives ¹	2,469	7,529		1,221			11,219
Loans and investments	82		1,495		288	5	1,870
Total	\$ 9,258²	\$ 7,930	\$1,868	\$1,554	\$334	\$ 5	\$ 20,949

1. The aggregate amounts include \$3.92 billion and \$4.17 billion as of March 2012 and December 2011, respectively, related to guarantees and derivative transactions with VIEs to which the firm transferred assets.

2.

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Assets in VIE and maximum exposure to loss include \$7.17 billion and \$2.61 billion, respectively, as of March 2012, and \$6.15 billion and \$2.62 billion, respectively, as of December 2011, related to CDOs backed by mortgage obligations.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

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

The tables below present the carrying amount and classification of assets and liabilities in consolidated VIEs, excluding the benefit of offsetting financial instruments that are held to mitigate the risks associated with the firm's variable interests. Consolidated VIEs are aggregated based on principal business activity and their assets and liabilities are presented net of intercompany eliminations. The majority of the assets in principal-protected notes VIEs are intercompany and are eliminated in consolidation.

Substantially all the assets in consolidated VIEs can only be used to settle obligations of the VIE.

The tables below exclude VIEs in which the firm holds a majority voting interest if (i) the VIE meets the definition of a business and (ii) the VIE's assets can be used for purposes other than the settlement of its obligations.

The liabilities of real estate, credit-related and other investing VIEs and CDOs, mortgage-backed and other asset-backed VIEs do not have recourse to the general credit of the firm.

<i>in millions</i>	Consolidated VIEs As of March 2012 CDOs, mortgage-backed			Total
	Real estate, credit-related and other investing	and other asset-backed	Principal- protected notes	
Assets				
Cash and cash equivalents	\$ 185	\$ 60	\$	\$ 245
Cash and securities segregated for regulatory and other purposes	120			120
Receivables from brokers, dealers and clearing organizations	3			3
Receivables from customers and counterparties		12		12
Financial instruments owned, at fair value	2,266	389	94	2,749
Other assets	1,442	421		1,863
Total	\$4,016	\$882	\$ 94	\$4,992
Liabilities				
Other secured financings	\$ 882	\$383	\$ 227	\$1,492
Financial instruments sold, but not yet purchased, at fair value		1	2	3
Unsecured short-term borrowings, including the current portion of unsecured long-term borrowings	180		1,837	2,017
Unsecured long-term borrowings	4		254	258
Other liabilities and accrued expenses	1,894	40		1,934
Total	\$2,960	\$424	\$2,320	\$5,704

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

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

<i>in millions</i>	Consolidated VIEs As of December 2011 CDOs, mortgage-backed			Total
	Real estate, credit-related and other investing	and other asset-backed	Principal- protected notes	
Assets				
Cash and cash equivalents	\$ 660	\$ 51	\$ 1	\$ 712
Cash and securities segregated for regulatory and other purposes	139			139
Receivables from brokers, dealers and clearing organizations	4			4
Receivables from customers and counterparties		16		16
Financial instruments owned, at fair value	2,369	352	112	2,833
Other assets	1,552	437		1,989
Total	\$4,724	\$856	\$ 113	\$5,693
Liabilities				
Other secured financings	\$1,418	\$298	\$3,208	\$4,924
Payables to customers and counterparties		9		9
Financial instruments sold, but not yet purchased, at fair value			2	2
Unsecured short-term borrowings, including the current portion of unsecured long-term borrowings	185		1,941	2,126
Unsecured long-term borrowings	4		269	273
Other liabilities and accrued expenses	2,046	40		2,086
Total	\$3,653	\$347	\$5,420	\$9,420

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

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

Note 12. Other Assets

Note 12.**Other Assets**

Other assets are generally less liquid, non-financial assets. The table below presents other assets by type.

	March	As of December
<i>in millions</i>	2012	2011
Property, leasehold improvements and equipment ¹	\$ 8,597	\$ 8,697
Goodwill and identifiable intangible assets ²	5,370	5,468
Income tax-related assets ³	4,808	5,017
Equity-method investments ⁴	667	664
Miscellaneous receivables and other	3,508	3,306
Total	\$22,950	\$23,152

1. Net of accumulated depreciation and amortization of \$8.59 billion and \$8.46 billion as of March 2012 and December 2011, respectively.

2. See Note 13 for further information about goodwill and identifiable intangible assets.

3. See Note 24 for further information about income taxes.

4. Excludes investments accounted for at fair value under the fair value option where the firm would otherwise apply the equity method of accounting of \$4.21 billion and \$4.17 billion as of March 2012 and December 2011, respectively, which are included in Financial instruments owned, at fair value. The firm has generally elected the fair value option for such investments acquired after the fair value option became available.

Property, Leasehold Improvements and Equipment

Property, leasehold improvements and equipment included \$6.58 billion and \$6.48 billion as of March 2012 and December 2011, respectively, related to property, leasehold improvements and equipment that the firm uses in connection with its operations. The remainder is held by investment entities, including VIEs, consolidated by the firm.

Substantially all property and equipment are depreciated on a straight-line basis over the useful life of the asset. Leasehold improvements are amortized on a straight-line basis over the useful life of the improvement or the term of the lease, whichever is shorter. Certain costs of software

developed or obtained for internal use are capitalized and amortized on a straight-line basis over the useful life of the software.

Property, leasehold improvements and equipment are tested for impairment whenever events or changes in circumstances suggest that an asset's or asset group's carrying value may not be fully recoverable. The firm's policy for impairment testing of property, leasehold improvements and equipment is the same as is used for identifiable intangible assets with finite lives. See Note 13 for further information.

Impairments

As a result of a decline in the market conditions in which certain of the firm's consolidated investments operate, during the first quarter of 2012 the firm tested certain commodity-related intangible assets, property, leasehold improvements and equipment, and other assets for impairment in accordance with ASC 360. The carrying value of these assets exceeded the projected undiscounted cash flows over the estimated remaining useful lives of these assets; as such, the firm determined the assets were impaired and recorded an impairment loss of \$116 million (\$90 million related to property, leasehold improvements and equipment, \$20 million related to commodity-related intangible assets and \$6 million related to other assets), substantially all of which was included in Depreciation and amortization. These impairment losses were included in the firm's Investing & Lending segment and represented the excess of the carrying values of these assets over their estimated fair values, which are level 3 measurements, using a combination of discounted cash flow analyses and relative value analyses, including the estimated cash flows expected to be received from the disposition of certain of these assets.

In the first quarter of 2011, the firm classified certain assets as held for sale, primarily related to Litton Loan Servicing LP (Litton) and recognized impairment losses of approximately \$220 million, principally in the firm's Institutional Client Services segment. These impairment losses, which were included in Depreciation and amortization, represent the excess of (i) the carrying value of these assets over (ii) their estimated fair value less estimated cost to sell. These assets were sold in the third quarter of 2011. The firm received total consideration that approximated the firm's adjusted carrying value for Litton. See Note 18 for further information about the sale of Litton.

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

Note 13. Goodwill and Identifiable Intangible Assets

Note 13.**Goodwill and Identifiable Intangible Assets**

The tables below present the carrying values of goodwill and identifiable intangible assets, which are included in Other assets.

<i>in millions</i>	Goodwill As of	
	March 2012	December 2011
Investment Banking:		
Financial Advisory	\$ 98	\$ 104
Underwriting	183	186
Institutional Client Services:		
Fixed Income, Currency and Commodities Client Execution	268	284
Equities Client Execution	2,388	2,390
Securities Services	117	117
Investing & Lending	147	147
Investment Management	581	574
Total	\$3,782	\$3,802

<i>in millions</i>	Identifiable Intangible Assets As of	
	March 2012	December 2011
Investment Banking:		
Financial Advisory	\$ 2	\$ 4
Underwriting	1	1
Institutional Client Services:		
Fixed Income, Currency and Commodities Client Execution	473	488
Equities Client Execution	656	677
Investing & Lending	326	369
Investment Management	130	127
Total	\$1,588	\$1,666

Goodwill

Goodwill is the cost of acquired companies in excess of the fair value of net assets, including identifiable intangible assets, at the acquisition date.

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Goodwill is assessed annually for impairment or more frequently if events occur or circumstances change that indicate an impairment may exist. Qualitative factors are assessed to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If results of the qualitative assessment are not conclusive, a quantitative goodwill impairment test is performed.

The quantitative goodwill impairment test consists of two steps.

The first step compares the estimated fair value of each reporting unit with its estimated net book value (including goodwill and identified intangible assets). If the reporting unit's fair value exceeds its estimated net book value, goodwill is not impaired.

If the estimated fair value of a reporting unit is less than its estimated net book value, the second step of the goodwill impairment test is performed to measure the amount of impairment loss, if any. An impairment loss is equal to the excess of the carrying amount of goodwill over its fair value.

Goodwill was tested for impairment, using a quantitative test, during the fourth quarter of 2011 and goodwill was not impaired.

To estimate the fair value of each reporting unit, both relative value and residual income valuation techniques are used because the firm believes market participants would use these techniques to value the firm's reporting units.

Relative value techniques apply average observable price-to-earnings multiples of comparable competitors to certain reporting units' net earnings. For other reporting units, fair value is estimated using price-to-book multiples based on residual income techniques, which consider a reporting unit's return on equity in excess of the firm's cost of equity capital. The net book value of each reporting unit reflects the estimated amount of shareholders' equity required to support the activities of the reporting unit.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)****Identifiable Intangible Assets**

The table below presents the gross carrying amount, accumulated amortization and net carrying amount of identifiable intangible assets and their weighted average remaining lives.

<i>\$ in millions</i>		March	As of Weighted Average Remaining Lives (years)	December
		2012		2011
Customer lists	Gross carrying amount	\$ 1,121		\$ 1,119
	Accumulated amortization	(612)		(593)
	Net carrying amount	509	9	526
Commodities-related intangibles ¹	Gross carrying amount	480		595
	Accumulated amortization	(162)		(237)
	Net carrying amount	318	9	358
Broadcast royalties ²	Gross carrying amount	560		560
	Accumulated amortization	(139)		(123)
	Net carrying amount	421	7	437
Insurance-related intangibles ³	Gross carrying amount	292		292
	Accumulated amortization	(150)		(146)
	Net carrying amount	142	7	146
Other ⁴	Gross carrying amount	954		950
	Accumulated amortization	(756)		(751)

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	Net carrying amount	198	12	199
Total	Gross carrying amount	3,407		3,516
	Accumulated amortization	(1,819)		(1,850)
	Net carrying amount	\$ 1,588	8	\$ 1,666

1. Primarily includes commodity-related customer contracts and relationships, permits and access rights.

2. Represents television broadcast royalties held by a consolidated VIE.

3. Represents value of business acquired related to the firm's insurance businesses.

4. Primarily includes the firm's New York Stock Exchange (NYSE) Designated Market Maker (DMM) rights and exchange-traded fund lead market maker rights.

Substantially all of the firm's identifiable intangible assets are considered to have finite lives and are amortized (i) over their estimated lives, (ii) based on economic usage for certain commodity-related intangibles or (iii) in proportion

to estimated gross profits or premium revenues. Amortization expense for identifiable intangible assets is included in Depreciation and amortization.

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

The tables below present amortization expense for identifiable intangible assets for the three months ended March 2012 and March 2011, and the estimated future amortization expense through 2017 for identifiable intangible assets as of March 2012.

<i>in millions</i>	Three Months Ended March	
	2012	2011
Amortization expense	\$70	\$57

<i>in millions</i>	As of March 2012
Estimated future amortization expense:	
Remainder of 2012	\$197
2013	232
2014	201
2015	167
2016	163
2017	160

Identifiable intangible assets are tested for recoverability whenever events or changes in circumstances indicate that an asset's or asset group's carrying value may not be recoverable.

If a recoverability test is necessary, the carrying value of an asset or asset group is compared to the total of the undiscounted cash flows expected to be received over the remaining useful life and from the disposition of the asset or asset group.

If the total of the undiscounted cash flows exceeds the carrying value, the asset or asset group is not impaired.

If the total of the undiscounted cash flows is less than the carrying value, the asset or asset group is not fully recoverable and an impairment loss is recognized as the difference between the carrying amount of the asset or asset group and its estimated fair value. See Note 12 for information about impairments of the firm's identifiable intangible assets.

Note 14. Deposits

Note 14.**Deposits**

The table below presents deposits held in U.S. and non-U.S. offices. Substantially all U.S. deposits were held at Goldman Sachs Bank USA (GS Bank USA) and were interest-bearing and substantially all non-U.S. deposits were held at Goldman Sachs Bank (Europe) plc (GS Bank Europe) and were interest-bearing.

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	March 2012	As of December 2011
<i>in millions</i>		
U.S. offices	\$42,853	\$38,477
Non-U.S. offices	8,021	7,632
Total	\$50,874¹	\$46,109¹

The table below presents maturities of time deposits held in U.S. and non-U.S. offices.

	As of March 2012		
<i>in millions</i>	U.S.	Non-U.S.	Total
Remainder of 2012	\$ 1,764	\$2,684	\$ 4,448
2013	4,167	24	4,191
2014	2,103		2,103
2015	1,801		1,801
2016	1,049		1,049
2017	798		798
2018 - thereafter	3,094		3,094
Total	\$14,776²	\$2,708³	\$17,484¹

1. Includes \$5.52 billion and \$4.53 billion as of March 2012 and December 2011, respectively, of time deposits accounted for at fair value under the fair value option.

2. Includes \$77 million greater than \$100,000, of which \$3 million matures within three months, \$35 million matures within three to six months, \$8 million matures within six to twelve months, and \$31 million matures after twelve months.

3. Substantially all were greater than \$100,000.

Demand deposits of \$33.39 billion are recorded based on the amount of cash received plus accrued interest, which approximates fair value. In addition, the firm designates certain derivatives as fair value hedges on substantially all of its time deposits for which it has not elected the fair value option. Accordingly, \$11.96 billion of time deposits were effectively converted from fixed-rate obligations to floating-rate obligations and are recorded at amounts that generally approximate fair value. While these demand deposits and time deposits 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 deposits been included in the firm's fair value hierarchy, they would have been classified in level 2.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

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

Note 15. Short-Term Borrowings

Note 15.**Short-Term Borrowings**

Short-term borrowings were comprised of the following:

	March	As of	December
<i>in millions</i>	2012		2011
Other secured financings (short-term)	\$25,328		\$29,185
Unsecured short-term borrowings	48,721		49,038
Total	\$74,049		\$78,223

See Note 9 for further information about other secured financings.

Unsecured short-term borrowings include the portion of unsecured long-term borrowings maturing within one year of the financial statement date and unsecured long-term borrowings that are redeemable within one year of the financial statement date at the option of the holder.

The firm accounts for promissory notes, commercial paper and certain hybrid financial instruments at fair value under the fair value option. See Note 8 for further information about unsecured short-term borrowings that are accounted for at fair value. Short-term borrowings that are not recorded at fair value are recorded based on the amount of cash received plus accrued interest, and such amounts approximate fair value due to the short-term nature of the obligations. While these short-term borrowings 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 borrowings been included in the firm's fair value hierarchy, substantially all would have been classified in level 2 as of March 2012.

The table below presents unsecured short-term borrowings.

	March	As of	December
<i>in millions</i>	2012		2011
Current portion of unsecured long-term borrowings ¹	\$29,439		\$28,836
Hybrid financial instruments	12,654		11,526
Promissory notes	287		1,328
Commercial paper	989		1,491

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Other short-term borrowings	5,352	5,857
Total	\$48,721	\$49,038
Weighted average interest rate ²	1.96%	1.89%

1. Includes \$5.51 billion and \$8.53 billion as of March 2012 and December 2011, respectively, guaranteed by the Federal Deposit Insurance Corporation (FDIC) under the Temporary Liquidity Guarantee Program (TLGP).

2. The weighted average interest rates for these borrowings include the effect of hedging activities and exclude financial instruments accounted for at fair value under the fair value option. See Note 7 for further information about hedging activities.

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Note 16. Long-Term Borrowings

Note 16.**Long-Term Borrowings**

Long-term borrowings were comprised of the following:

	As of	
	March	December
<i>in millions</i>	2012	2011
Other secured financings (long-term)	\$ 7,811	\$ 8,179
Unsecured long-term borrowings	171,592	173,545
Total	\$ 179,403	\$ 181,724

See Note 9 for further information about other secured financings. The table below presents unsecured long-term borrowings extending through 2061 and consisting principally of senior borrowings.

<i>in millions</i>	As of March 2012			As of December 2011		
	U.S. Dollar	Non-U.S. Dollar	Total	U.S. Dollar	Non-U.S. Dollar	Total
Fixed-rate obligations ¹	\$ 87,365	\$36,331	\$ 123,696	\$ 84,058	\$38,569	\$ 122,627
Floating-rate obligations ²	24,972	22,924	47,896	23,436	27,482	50,918
Total	\$ 112,337	\$59,255	\$ 171,592	\$ 107,494	\$66,051	\$ 173,545

1. Interest rates on U.S. dollar-denominated debt ranged from 0.10% to 10.04% (with a weighted average rate of 5.43%) and 0.10% to 10.04% (with a weighted average rate of 5.62%) as of March 2012 and December 2011, respectively. Interest rates on non-U.S. dollar-denominated debt ranged from 0.85% to 14.85% (with a weighted average rate of 4.70%) and 0.85% to 14.85% (with a weighted average rate of 4.75%) as of March 2012 and December 2011, respectively.

2. Floating interest rates generally are based on LIBOR or the federal funds target rate. Equity-linked and indexed instruments are included in floating-rate obligations.

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

The table below presents unsecured long-term borrowings by maturity date. In the table below:

unsecured long-term borrowings maturing within one year of the financial statement date and unsecured long-term borrowings that are redeemable within one year of the financial statement date at the option of the holder are included as unsecured short-term borrowings;

unsecured long-term borrowings that are repayable prior to maturity at the option of the firm are reflected at their contractual maturity dates; and

unsecured long-term borrowings 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 2012
2013	\$ 13,203
2014	20,764
2015	17,351
2016	26,221
2017	18,376
2018 - thereafter	75,677
Total ¹	\$171,592

1. Includes \$9.47 billion related to interest rate hedges on certain unsecured long-term borrowings, by year of maturity as follows: \$367 million in 2013, \$801 million in 2014, \$598 million in 2015, \$1.12 billion in 2016, \$1.25 billion in 2017 and \$5.33 billion in 2018 and thereafter.

The aggregate contractual principal amount of unsecured long-term borrowings (principal and non-principal protected) for which the fair value option was elected exceeded the related fair value by \$196 million and \$693 million as of March 2012 and December 2011, respectively.

The firm designates certain derivatives as fair value hedges to effectively convert a substantial portion of its fixed-rate unsecured long-term borrowings which are not accounted for at fair value into floating-rate obligations. Accordingly, excluding the cumulative impact of changes in the firm's credit spreads, the carrying value of unsecured long-term borrowings approximated fair value as of March 2012 and December 2011. While these unsecured long-term borrowings 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 borrowings been included in the firm's fair value hierarchy, substantially all would have been classified in level 2 as of March 2012. For unsecured long-term borrowings for which the firm did not elect the fair value option, the cumulative impact due to changes in the firm's own credit spreads would be a reduction in the carrying value of total unsecured long-term borrowings of less than 4% as of both March 2012 and December 2011. See Note 7 for further information about hedging activities.

The table below presents unsecured long-term borrowings, after giving effect to hedging activities that converted a substantial portion of fixed-rate obligations to floating-rate obligations.

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<i>in millions</i>	As of	
	March 2012	December 2011
Fixed-rate obligations		
At fair value	\$ 48	\$ 76
At amortized cost ¹	25,185	28,773
Floating-rate obligations		
At fair value	17,461	17,086
At amortized cost ¹	128,898	127,610
Total	\$171,592	\$173,545

1. The weighted average interest rates on the aggregate amounts were 2.68% (5.14% related to fixed-rate obligations and 2.23% related to floating-rate obligations) and 2.59% (5.18% related to fixed-rate obligations and 2.03% related to floating-rate obligations) as of March 2012 and December 2011, respectively. These rates exclude financial instruments 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)****Subordinated Borrowings**

Unsecured long-term borrowings include subordinated debt and junior subordinated debt. Junior subordinated debt is junior in right of payment to other subordinated

borrowings, which are junior to senior borrowings. As of both March 2012 and December 2011, subordinated debt had maturities ranging from 2017 to 2038. The table below presents subordinated borrowings.

<i>in millions</i>	As of March 2012			As of December 2011		
	Par Amount	Carrying Amount	Rate ¹	Par Amount	Carrying Amount	Rate ¹
Subordinated debt	\$14,446	\$17,380	4.24%	\$14,310	\$17,362	4.39%
Junior subordinated debt	3,335	4,501	0.86%	5,085	6,533	2.43%
Total subordinated borrowings	\$17,781	\$21,881	3.60%	\$19,395	\$23,895	3.87%

1. Weighted average interest rate after giving effect to fair value hedges used to convert these fixed-rate obligations into floating-rate obligations. See Note 7 for further information about hedging activities. See below for information about interest rates on junior subordinated debt.

Junior Subordinated Debt

Junior Subordinated Debt Issued to APEX Trusts. In 2007, Group Inc. issued a total of \$2.25 billion of remarketable junior subordinated debt to Goldman Sachs Capital II and Goldman Sachs Capital III (APEX Trusts), Delaware statutory trusts. The APEX Trusts issued \$2.25 billion of guaranteed perpetual Normal Automatic Preferred Enhanced Capital Securities (APEX) to third parties and a de minimis amount of common securities to Group Inc. Group Inc. also entered into contracts with the APEX Trusts to sell \$2.25 billion of Group Inc. perpetual non-cumulative preferred stock (the stock purchase contracts). See Note 19 for more information about the preferred stock that Group Inc. will issue in connection with the stock purchase contracts.

The firm accounted for the stock purchase contracts as equity instruments and, accordingly, recorded the cost of the stock purchase contracts as a reduction to additional paid-in capital.

During the first quarter of 2012, pursuant to a remarketing provided for by the initial terms of the junior subordinated debt, Goldman Sachs Capital II sold all of its \$1.75 billion of junior subordinated debt to Murray Street Investment Trust I (2012 Trust), a new trust sponsored by the firm, and will use the proceeds to purchase the perpetual non-cumulative preferred stock and make certain payments to the holders of the APEX issued by Goldman Sachs Capital II on June 1, 2012.

In connection with the remarketing of the junior subordinated debt to the 2012 Trust, pursuant to the terms of the junior subordinated debt, the interest rate and other terms were modified. Following such sale, the firm pays interest semi-annually on the \$1.75 billion of junior subordinated debt held by the 2012 Trust at a fixed annual rate of 4.647% and the debt matures on March 9, 2017. To fund the purchase of the junior subordinated debt, the 2012 Trust issued \$1.75 billion of senior guaranteed trust securities. The 2012 Trust is required to pay distributions on its senior guaranteed trust securities in the same amounts and on the same dates that it is scheduled to receive interest on the junior subordinated debt it holds, and is required to redeem its senior guaranteed trust securities upon the maturity or earlier redemption of the junior subordinated

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debt it holds. Group Inc. fully and unconditionally guarantees the payment of these distribution and redemption amounts when due on a senior basis and, as such, the \$1.75 billion of junior subordinated debt held by the 2012 Trust for the benefit of investors is no longer classified as junior subordinated debt. If the firm were to defer payment of interest on the junior subordinated debt securities and the 2012 Trust was therefore unable to make scheduled distributions to the holders of the senior guaranteed trust securities, under the guarantee Group Inc. would be obligated to make those payments to the holders of the senior guaranteed trust securities.

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(Unaudited)

The firm pays interest quarterly on \$500 million of junior subordinated debt issued to Goldman Sachs Capital III at a rate per annum equal to three-month LIBOR plus 0.57% and the debt matures on September 1, 2043. In addition, the firm makes contract payments at a rate of 0.20% per annum on the stock purchase contracts held by the APEX Trusts.

The firm has the right to defer payments on the junior subordinated debt and the stock purchase contracts, subject to limitations, and therefore cause payment on the APEX to be deferred. During any such extension period, the firm will not be permitted to, among other things, pay dividends on or make certain repurchases of its common or preferred stock.

The APEX Trusts and the 2012 Trust are wholly-owned finance subsidiaries of the firm for regulatory and legal purposes but are not consolidated for accounting purposes.

In connection with the APEX issuance, the firm covenanted in favor of certain of its debtholders, who were initially and are currently the holders of Group Inc.'s 6.345% Junior Subordinated Debentures due February 15, 2034, that, subject to certain exceptions, the firm would not redeem or purchase (i) Group Inc.'s junior subordinated debt originally issued to the APEX Trusts prior to the applicable stock purchase date or (ii) APEX or shares of Group Inc.'s perpetual Non-Cumulative Preferred Stock, Series E (Series E Preferred Stock) or perpetual Non-Cumulative Preferred Stock, Series F (Series F Preferred Stock) prior to the date that is ten years after the applicable stock purchase date, unless the applicable redemption or purchase price does not exceed a maximum amount determined by reference to the aggregate amount of net cash proceeds that the firm has received from the sale of qualifying equity securities during the 180-day period preceding the redemption or purchase.

Junior Subordinated Debt Issued in Connection with Trust Preferred Securities. Group Inc. issued \$2.84 billion of junior subordinated debentures in 2004 to Goldman Sachs Capital I (Trust), a Delaware statutory trust. The Trust issued \$2.75 billion of guaranteed preferred beneficial interests to third parties and \$85 million of common beneficial interests to Group Inc. and used the proceeds from the issuances to purchase the junior subordinated debentures from Group Inc. The Trust is a wholly-owned finance subsidiary of the firm for regulatory and legal purposes but is not consolidated for accounting purposes.

The firm pays interest semi-annually on the debentures at an annual rate of 6.345% and the debentures mature on February 15, 2034. The coupon rate and the payment dates applicable to the beneficial interests are the same as the interest rate and payment dates for the debentures. The firm has the right, from time to time, to defer payment of interest on the debentures, and therefore cause payment on the Trust's preferred beneficial interests to be deferred, in each case up to ten consecutive semi-annual periods. During any such extension period, the firm will not be permitted to, among other things, pay dividends on or make certain repurchases of its common stock. The Trust is not permitted to pay any distributions on the common beneficial interests held by Group Inc. unless all dividends payable on the preferred beneficial interests have been paid in full.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

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

Note 17. Other Liabilities and Accrued Expenses

Note 17.**Other Liabilities and Accrued Expenses**

The table below presents other liabilities and accrued expenses by type.

	March	As of	December
<i>in millions</i>	2012		2011
Compensation and benefits	\$ 5,068		\$ 5,701
Insurance-related liabilities	18,712		18,614
Noncontrolling interests ¹	1,377		1,450
Income tax-related liabilities ²	1,494		533
Employee interests in consolidated funds	299		305
Subordinated liabilities issued by consolidated VIEs	1,008		1,090
Accrued expenses and other	4,223		4,108
Total	\$32,181		\$31,801

1. Includes \$1.14 billion and \$1.17 billion related to consolidated investment funds as of March 2012 and December 2011, respectively.

2. See Note 24 for further information about income taxes.

The table below presents insurance-related liabilities by type.

	March	As of	December
<i>in millions</i>	2012		2011
Separate account liabilities	\$ 3,485		\$ 3,296
Liabilities for future benefits and unpaid claims	14,154		14,213
Contract holder account balances	848		835
Reserves for guaranteed minimum death and income benefits	225		270
Total	\$18,712		\$18,614

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Separate account liabilities are supported by separate account assets, representing segregated contract holder funds under variable annuity and life insurance contracts. Separate account assets are included in Cash and securities segregated for regulatory and other purposes.

Liabilities for future benefits and unpaid claims include liabilities arising from reinsurance provided by the firm to other insurers. The firm had a receivable of \$1.30 billion as of both March 2012 and December 2011 related to such reinsurance contracts, which is reported in Receivables from customers and counterparties. In addition, the firm has ceded risks to reinsurers related to certain of its liabilities for future benefits and unpaid claims and had a receivable of \$633 million and \$648 million as of March 2012 and December 2011, respectively, related to such reinsurance contracts, which is reported in Receivables from customers and counterparties. Contracts to cede risks to reinsurers do not relieve the firm of its obligations to contract holders. Liabilities for future benefits and unpaid claims include \$8.77 billion and \$8.75 billion carried at fair value under the fair value option as of March 2012 and December 2011, respectively.

Reserves for guaranteed minimum death and income benefits represent a liability for the expected value of guaranteed benefits in excess of projected annuity account balances. These reserves are based on total payments expected to be made less total fees expected to be assessed over the life of the contract.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

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

Note 18. Commitments, Contingencies and Guarantees

Note 18.**Commitments, Contingencies and Guarantees****Commitments**

The table below presents the firm's commitments.

<i>in millions</i>	Commitment Amount by Period				Total Commitments	
	of Expiration as of March 2012				as of	
	Remainder 2012	2013- 2014	2015- 2016	2017- Thereafter	March 2012	December 2011
Commitments to extend credit ¹						
Commercial lending: ²						
Investment-grade	\$ 7,441	\$11,017	\$29,163	\$5,478	\$ 53,099	\$ 51,281
Non-investment-grade	681	3,314	7,592	1,779	13,366	14,217
Warehouse financing	150	363			513	247
Total commitments to extend credit	8,272	14,694	36,755	7,257	66,978	65,745
Contingent and forward starting resale and securities borrowing agreements ³	83,483	321			83,804	54,522
Forward starting repurchase and secured lending agreements ³	13,161				13,161	17,964
Underwriting commitments	74				74	
Letters of credit ⁴	588	198	112	6	904	1,353
Investment commitments	1,731	3,564	410	2,455	8,160	9,118
Other	4,104	112	36	7	4,259	5,342
Total commitments	\$111,413	\$18,889	\$37,313	\$9,725	\$177,340	\$154,044

1. Commitments to extend credit are presented net of amounts syndicated to third parties.

2. Includes commitments associated with the former William Street credit extension program.

3. These agreements generally settle within three business days.

4. Consists of commitments under letters of credit issued by various banks which the firm provides to counterparties in lieu of securities or cash to satisfy various collateral and margin deposit requirements.

Commitments to Extend Credit

The firm's commitments to extend credit are agreements to lend with fixed termination dates and depend on the satisfaction of all contractual conditions to borrowing. The total commitment amount does not necessarily reflect actual future cash flows because the firm may syndicate all or substantial portions of these commitments and commitments can expire unused or be reduced or cancelled at the counterparty's request.

The firm generally accounts for commitments to extend credit at fair value. Losses, if any, are generally recorded, net of any fees in Other principal transactions.

Certain lending commitments, entered into during 2012, were held for investment and therefore were accounted for on an accrual basis. As of March 2012, approximately \$4.31 billion of the firm's lending commitments were held for investment. The carrying value and the estimated fair value of such lending commitments were liabilities of \$14 million and \$117 million, respectively. As these lending commitments are not accounted for at fair value under the

fair value option or at fair value in accordance with other U.S. GAAP, their fair value is not included in the firm's fair value hierarchy in Notes 6, 7 and 8. Had these commitments been included in the firm's fair value hierarchy, they would have primarily been classified in level 3 as of March 2012.

Commercial Lending. The firm's commercial lending commitments are extended to investment-grade and non-investment-grade corporate borrowers. Commitments to investment-grade corporate borrowers are principally used for operating liquidity and general corporate purposes. The firm also extends lending commitments in connection with contingent acquisition financing and other types of corporate lending as well as commercial real estate financing. Commitments that are extended for contingent acquisition financing are often intended to be short-term in nature, as borrowers often seek to replace them with other funding sources.

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Sumitomo Mitsui Financial Group, Inc. (SMFG) provides the firm with credit loss protection on certain approved loan commitments (primarily investment-grade commercial lending commitments). The notional amount of such loan commitments was \$32.83 billion and \$31.94 billion as of March 2012 and December 2011, respectively. The credit loss protection on loan commitments provided by SMFG is generally limited to 95% of the first loss the firm realizes on such commitments, up to a maximum of approximately \$950 million. In addition, subject to the satisfaction of certain conditions, upon the firm's request, SMFG will provide protection for 70% of additional losses on such commitments, up to a maximum of \$1.13 billion, of which \$300 million of protection had been provided as of both March 2012 and December 2011. The firm also uses other financial instruments to mitigate credit risks related to certain commitments not covered by SMFG.

Warehouse Financing. The firm provides financing to clients who warehouse financial assets. These arrangements are secured by the warehoused assets, primarily consisting of commercial mortgage loans.

Contingent and Forward Starting Resale and Securities Borrowing Agreements/Forward Starting Repurchase and Secured Lending Agreements

The firm enters into resale and securities borrowing agreements and repurchase and secured lending agreements that settle at a future date. The firm also enters into commitments to provide contingent financing to its clients through resale agreements. The firm's funding of these commitments depends on the satisfaction of all contractual conditions to the resale agreement and these commitments can expire unused.

Investment Commitments

The firm's investment commitments consist of commitments to invest in private equity, real estate and other assets directly and through funds that the firm raises and manages. These commitments include \$1.47 billion and \$1.62 billion as of March 2012 and December 2011, respectively, related to real estate private investments and \$6.69 billion and \$7.50 billion as of March 2012 and December 2011, respectively, related to corporate and other private investments. Of these amounts, \$7.46 billion and \$8.38 billion as of March 2012 and December 2011, respectively, relate to commitments to invest in funds managed by the firm, which will be funded at market value on the date of investment.

Leases

The firm has contractual obligations under long-term noncancelable lease agreements, principally for office space, expiring on various dates through 2069. Certain agreements are subject to periodic escalation provisions for increases in real estate taxes and other charges. The table below presents future minimum rental payments, net of minimum sublease rentals.

<i>in millions</i>	As of March 2012
Remainder of 2012	\$ 333
2013	422
2014	387
2015	337
2016	301
2017	287
2018 - thereafter	1,093
Total	\$3,160

Operating leases include office space held in excess of current requirements. Rent expense relating to space held for growth is included in Occupancy. The firm records a liability, based on the fair value of the remaining lease rentals reduced by any potential or existing sublease rentals, for leases where the firm has ceased using the space and management has concluded that the firm will not derive any future economic benefits. Costs to terminate a lease before the end of its term are recognized and measured at fair value on termination.

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(Unaudited)

Contingencies

Legal Proceedings. See Note 27 for information about legal proceedings, including certain mortgage-related matters.

Certain Mortgage-Related Contingencies. There are multiple areas of focus by regulators, governmental agencies and others within the mortgage market that may impact originators, issuers, servicers and investors. There remains significant uncertainty surrounding the nature and extent of any potential exposure for participants in this market.

Representations and Warranties. The firm has not been a significant originator of residential mortgage loans. The firm did purchase loans originated by others and generally received loan-level representations of the type described below from the originators. During the period 2005 through 2008, the firm sold approximately \$10 billion of loans to government-sponsored enterprises and approximately \$11 billion of loans to other third parties. In addition, the firm transferred loans to trusts and other mortgage securitization vehicles. As of March 2012 and December 2011, the outstanding balance of the loans transferred to trusts and other mortgage securitization vehicles during the period 2005 through 2008 was approximately \$40 billion and \$42 billion, respectively. This amount reflects paydowns and cumulative losses of approximately \$85 billion (\$18 billion of which are cumulative losses) as of March 2012 and approximately \$83 billion (\$17 billion of which are cumulative losses) as of December 2011. A small number of these Goldman Sachs-issued securitizations with an outstanding principal balance of \$610 million and total paydowns and cumulative losses of \$1.45 billion (\$478 million of which are cumulative losses) as of March 2012, and an outstanding principal balance of \$635 million and total paydowns and cumulative losses of \$1.42 billion (\$465 million of which are cumulative losses) as of December 2011, were structured with credit protection obtained from monoline insurers. In connection with both sales of loans and securitizations, the firm provided loan level representations of the type described below and/or assigned the loan level representations from the party from whom the firm purchased the loans.

The loan level representations made in connection with the sale or securitization of mortgage loans varied among transactions but were generally detailed representations applicable to each loan in the portfolio and addressed matters relating to the property, the borrower and the note. These representations generally included, but were not limited to, the following: (i) certain attributes of the borrower's financial status; (ii) loan-to-value ratios, owner occupancy status and certain other characteristics of the property; (iii) the lien position; (iv) the fact that the loan was originated in compliance with law; and (v) completeness of the loan documentation.

To date, repurchase claims and actual repurchases of residential mortgage loans based upon alleged breaches of representations have not been significant and have mainly involved government-sponsored enterprises. During both the three months ended March 2012 and March 2011, the firm repurchased loans with an unpaid principal balance of less than \$10 million. The loss related to the repurchase of these loans was not material for both the three months ended March 2012 and March 2011.

Ultimately, the firm's exposure to claims for repurchase of residential mortgage loans based on alleged breaches of representations will depend on a number of factors including the following: (i) the extent to which these claims are actually made; (ii) the extent to which there are underlying breaches of representations that give rise to valid claims for repurchase; (iii) in the case of loans originated by others, the extent to which the firm could be held liable and, if it is, the firm's ability to pursue and collect on any claims against the parties who made representations to the firm; (iv) macro-economic factors, including developments in the residential real estate market; and (v) legal and regulatory developments.

Based upon the large number of defaults in residential mortgages, including those sold or securitized by the firm, there is a potential for increasing claims for repurchases. However, the firm is not in a position to make a meaningful estimate of that exposure at this time.

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Foreclosure and Other Mortgage Loan Servicing Practices and Procedures. The firm had received a number of requests for information from regulators and other agencies, including state attorneys general and banking regulators, as part of an industry-wide focus on the practices of lenders and servicers in connection with foreclosure proceedings and other aspects of mortgage loan servicing practices and procedures. The requests sought information about the foreclosure and servicing protocols and activities of Litton, a residential mortgage servicing subsidiary sold by the firm to Ocwen Financial Corporation (Ocwen) in the third quarter of 2011. The firm is cooperating with the requests and these inquiries may result in the imposition of fines or other regulatory action. In the third quarter of 2010, prior to the firm's sale of Litton, Litton had temporarily suspended evictions and foreclosure and real estate owned sales in a number of states, including those with judicial foreclosure procedures. Litton resumed these activities beginning in the fourth quarter of 2010.

In connection with the sale of Litton, the firm provided customary representations and warranties, and indemnities for breaches of these representations and warranties, to Ocwen. These indemnities are subject to various limitations, and are capped at approximately \$50 million. The firm has not yet received any claims relating to these indemnities. The firm also agreed to provide specific indemnities to Ocwen related to claims made by third parties with respect to servicing activities during the period that Litton was owned by the firm and which are in excess of the related reserves accrued for such matters by Litton at the time of the sale. These indemnities are capped at approximately \$125 million. The firm has recorded a reserve for the portion of these potential losses that it believes is probable and can be reasonably estimated. As of March 2012, the firm had not received material claims with respect to these indemnities and had not made material payments in connection with these claims.

The firm further agreed to provide indemnities to Ocwen not subject to a cap, which primarily relate to potential liabilities constituting fines or civil monetary penalties which could be imposed in settlements with certain terms with U.S. states attorneys general or in consent orders with certain terms with the Federal Reserve, the Office of Thrift Supervision, the Office of the Comptroller of the Currency, the FDIC or the New York State Department of Financial Services, in each case relating to Litton's foreclosure and servicing practices while it was owned by the firm. Under the Litton sale agreement the firm also retained liabilities associated with claims related to

Litton's failure to maintain lender-placed mortgage insurance, obligations to repurchase certain loans from Freddie Mac, subpoenas from one of Litton's regulators, and fines or civil penalties imposed by the Federal Reserve or the New York State Department of Financial Services in connection with certain compliance matters. Management is unable to develop an estimate of the maximum potential amount of future payments under these indemnities because the firm has received no claims under these indemnities other than an immaterial amount with respect to Freddie Mac repurchase requests. However, management does not believe, based on currently available information, that any payments under these indemnities will have a material adverse effect on the firm's financial condition.

On September 1, 2011, Group Inc. and GS Bank USA entered into a Consent Order (the Order) with the Board of Governors of the Federal Reserve System (Federal Reserve Board) relating to the servicing of residential mortgage loans. The terms of the Order are substantially similar and, in many respects, identical to the orders entered into with the Federal Reserve Board by other large U.S. financial institutions. The Order sets forth various allegations of improper conduct in servicing by Litton, requires that Group Inc. and GS Bank USA cease and desist such conduct, and requires that Group Inc. and GS Bank USA, and their boards of directors, take various affirmative steps. The Order requires (i) Group Inc. and GS Bank USA to engage a third-party consultant to conduct a review of certain foreclosure actions or proceedings that occurred or were pending between January 1, 2009 and December 31, 2010; (ii) the adoption of policies and procedures related to management of third parties used to outsource residential mortgage servicing, loss mitigation or foreclosure; (iii) a validation report from an independent third-party consultant regarding compliance with the Order for the first year; and (iv) submission of quarterly progress reports as to compliance with the Order by the boards of directors (or committees thereof) of Group Inc. and GS Bank USA.

In addition, on September 1, 2011, GS Bank USA entered into an Agreement on Mortgage Servicing Practices with the New York State Department of Financial Services, Litton and Ocwen relating to the servicing of residential mortgage loans, and, in a related agreement with the New York State Department of Financial Services, Group Inc. agreed to forgive 25% of the unpaid principal balance on certain delinquent first lien residential mortgage loans owned by Group Inc. or a subsidiary, totaling approximately \$13 million in principal forgiveness.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

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Guaranteed Minimum Death and Income Benefits. In connection with its insurance business, the firm is contingently liable to provide guaranteed minimum death and income benefits to certain contract holders and has established a reserve related to \$5.65 billion and \$5.52 billion of contract holder account balances as of March 2012 and December 2011, respectively, for such benefits. The weighted average attained age of these contract holders was 69 years for both March 2012 and December 2011.

The net amount at risk, representing guaranteed minimum death and income benefits in excess of contract holder account balances, was \$1.31 billion and \$1.51 billion as of March 2012 and December 2011, respectively. See Note 17 for further information about the reserves recorded in Other liabilities and accrued expenses related to guaranteed minimum death and income benefits.

Guarantees

The firm enters into various derivatives that meet the definition of a guarantee under U.S. GAAP, including written equity and commodity put options, written currency contracts and interest rate caps, floors and swaptions. Disclosures about derivatives are not required if they may be cash settled and the firm has no basis to conclude it is probable that the counterparties held the underlying instruments at inception of the contract. The firm has concluded that these conditions have been met for certain large, internationally active commercial and investment bank counterparties and certain other counterparties. Accordingly, the firm has not included such contracts in the table below.

The firm, in its capacity as an agency lender, indemnifies most of its securities lending customers against losses incurred in the event that borrowers do not return securities and the collateral held is insufficient to cover the market value of the securities borrowed.

In the ordinary course of business, the firm provides other financial guarantees of the obligations of third parties (e.g., standby letters of credit and other guarantees to enable clients to complete transactions and fund-related guarantees). These guarantees represent obligations to make payments to beneficiaries if the guaranteed party fails to fulfill its obligation under a contractual arrangement with that beneficiary.

The table below presents certain information about derivatives that meet the definition of a guarantee and certain other guarantees. The maximum payout in the table below is based on the notional amount of the contract and therefore does not represent anticipated losses. See Note 7 for further information about credit derivatives that meet the definition of a guarantee which are not included below.

Because derivatives are accounted for at fair value, the carrying value is considered the best indication of payment/performance risk for individual contracts. However, the carrying values below exclude the effect of a legal right of setoff that may exist under an enforceable netting agreement and the effect of netting of cash collateral posted under credit support agreements.

<i>in millions</i>	Carrying Value of Net Liability	As of March 2012 Maximum Payout/Notional Amount by Period of Expiration					Total
		Remainder of 2012	2015-			2017- Thereafter	
			2013- 2014	2016			
Derivatives ¹	\$9,868	\$501,166	\$278,786	\$64,457	\$61,428	\$905,837	
Securities lending indemnifications ²		29,002				29,002	
Other financial guarantees ³	182	521	777	1,220	1,024	3,542	

1.

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These derivatives are risk managed together with derivatives that do not meet the definition of a guarantee, and therefore these amounts do not reflect the firm's overall risk related to its derivative activities. As of December 2011, the carrying value of the net liability related to derivative guarantees was \$11.88 billion.

2. Collateral held by the lenders in connection with securities lending indemnifications was \$29.84 billion as of March 2012. Because the contractual nature of these arrangements requires the firm to obtain collateral with a market value that exceeds the value of the securities lent to the borrower, there is minimal performance risk associated with these guarantees.

3. Other financial guarantees excludes certain commitments to issue standby letters of credit that are included in Commitments to extend credit. See table in Commitments above for a summary of the firm's commitments. As of December 2011, the carrying value of the net liability related to other financial guarantees was \$205 million.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

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Guarantees of Securities Issued by Trusts. The firm has established trusts, including Goldman Sachs Capital I, the APEX Trusts, the 2012 Trust, and other entities for the limited purpose of issuing securities to third parties, lending the proceeds to the firm and entering into contractual arrangements with the firm and third parties related to this purpose. The firm does not consolidate these entities. See Note 16 for further information about the transactions involving Goldman Sachs Capital I, the APEX Trusts, and the 2012 Trust.

The firm effectively provides for the full and unconditional guarantee of the securities issued by these entities. Timely payment by the firm of amounts due to these entities under the guarantee, borrowing, preferred stock and related contractual arrangements will be sufficient to cover payments due on the securities issued by these entities.

Management believes that it is unlikely that any circumstances will occur, such as nonperformance on the part of paying agents or other service providers, that would make it necessary for the firm to make payments related to these entities other than those required under the terms of the guarantee, borrowing, preferred stock and related contractual arrangements and in connection with certain expenses incurred by these entities.

Indemnities and Guarantees of Service Providers. In the ordinary course of business, the firm indemnifies and guarantees certain service providers, such as clearing and custody agents, trustees and administrators, against specified potential losses in connection with their acting as an agent of, or providing services to, the firm or its affiliates.

The firm also indemnifies some clients against potential losses incurred in the event specified third-party service providers, including sub-custodians and third-party brokers, improperly execute transactions. In addition, the firm is a member of payment, clearing and settlement networks as well as securities exchanges around the world that may require the firm to meet the obligations of such networks and exchanges in the event of member defaults.

In connection with its prime brokerage and clearing businesses, the firm agrees to clear and settle on behalf of its clients the transactions entered into by them with other brokerage firms. The firm's obligations in respect of such transactions are secured by the assets in the client's account as well as any proceeds received from the transactions cleared and settled by the firm on behalf of the client. In connection with joint venture investments, the firm may issue loan guarantees under which it may be liable in the event of fraud, misappropriation, environmental liabilities and certain other matters involving the borrower.

The firm is unable to develop an estimate of the maximum payout under these guarantees and indemnifications. However, management believes that it is unlikely the firm will have to make any material payments under these arrangements, and no material liabilities related to these guarantees and indemnifications have been recognized in the condensed consolidated statements of financial condition as of March 2012 and December 2011.

Other Representations, Warranties and Indemnifications. The firm provides representations and warranties to counterparties in connection with a variety of commercial transactions and occasionally indemnifies them against potential losses caused by the breach of those representations and warranties. The firm may also provide indemnifications protecting against changes in or adverse application of certain U.S. tax laws in connection with ordinary-course transactions such as securities issuances, borrowings or derivatives.

In addition, the firm may provide indemnifications to some counterparties to protect them in the event additional taxes are owed or payments are withheld, due either to a change in or an adverse application of certain non-U.S. tax laws.

These indemnifications generally are standard contractual terms and are entered into in the ordinary course of business. Generally, there are no stated or notional amounts included in these indemnifications, and the contingencies triggering the obligation to indemnify are not expected to occur. The firm is unable to develop an estimate of the maximum payout under these guarantees and indemnifications. However, management believes that it is unlikely the firm will have to make any material payments under these arrangements, and no material liabilities related to these arrangements have been recognized in the condensed consolidated statements of financial condition as of March 2012 and December 2011.

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(Unaudited)

Guarantees of Subsidiaries. Group Inc. fully and unconditionally guarantees the securities issued by GS Finance Corp., a wholly-owned finance subsidiary of the firm.

Group Inc. has guaranteed the payment obligations of Goldman, Sachs & Co. (GS&Co.), GS Bank USA, GS Bank Europe and Goldman Sachs Execution & Clearing, L.P. (GSEC), subject to certain exceptions.

In November 2008, the firm contributed subsidiaries into GS Bank USA, and Group Inc. agreed to guarantee the reimbursement of certain losses, including credit-related losses, relating to assets held by the contributed entities. In connection with this guarantee, Group Inc. also agreed to pledge to GS Bank USA certain collateral, including interests in subsidiaries and other illiquid assets.

In addition, Group Inc. guarantees many of the obligations of its other consolidated subsidiaries on a transaction-by-transaction basis, as negotiated with counterparties. Group Inc. is unable to develop an estimate of the maximum payout under its subsidiary guarantees; however, because these guaranteed obligations are also obligations of consolidated subsidiaries included in the table above, Group Inc.'s liabilities as guarantor are not separately disclosed.

Group Inc. has established a program for the issuance of securities by Goldman Sachs Secured Finance Limited insured by GS Secured Guaranty Company Limited (SGCL), a wholly-owned subsidiary of Group Inc. that is a financial guaranty insurer organized under the laws of Bermuda. The funds raised by SGCL are used to enter into repurchase transactions with GS&Co. and Goldman Sachs International (GSI). Group Inc. has fully and unconditionally guaranteed the securities issued by Goldman Sachs Secured Finance Limited, as well as the obligations of GS&Co. and GSI under their respective repurchase transactions. Group Inc. has not guaranteed the obligations of SGCL. The assets and liabilities of SGCL are legally separated from other assets and liabilities of the firm. The assets of SGCL will not be available to any holder of its capital stock until the claims of creditors have been paid.

Note 19. Shareholders' Equity

Note 19.

Shareholders' Equity

Common Equity

On April 16, 2012, the Board of Directors of Group Inc. (Board) increased the firm's quarterly dividend to \$0.46 per common share from \$0.35 per common share. The dividend will be paid on June 28, 2012 to common shareholders of record on May 31, 2012.

The firm's share repurchase program is intended to help maintain the appropriate level of common equity and to substantially offset increases in share count over time resulting from employee share-based compensation. The repurchase program is effected primarily through regular open-market purchases, the amounts and timing of which are determined primarily by the firm's current and projected capital positions (i.e., comparisons of the firm's desired level and composition of capital to its actual level and composition of capital) and the issuance of shares resulting from employee share-based compensation, but which may also be influenced by general market conditions and the prevailing price and trading volumes of the firm's common stock. Any repurchase of the firm's common stock requires approval by the Federal Reserve Board.

During the three months ended March 2012, the firm repurchased 3.3 million shares of its common stock at an average cost per share of \$111.28, for a total cost of \$362 million, under the share repurchase program. In addition, pursuant to the terms of certain share-based compensation plans, employees may remit shares to the firm or the firm may cancel RSUs to satisfy minimum statutory employee tax

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withholding requirements. Under these plans, during the three months ended March 2012, employees remitted 33,477 shares with a total value of \$3 million and the firm cancelled 8.1 million of RSUs with a total value of \$872 million.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

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

The table below presents perpetual preferred stock issued and outstanding.

Series	Shares Authorized	Shares Issued	Shares Outstanding	Dividend Rate	Redemption	<i>(in millions)</i>
					Earliest Redemption Date	
A	50,000	30,000	29,999	3 month LIBOR + 0.75%, with floor of 3.75% per annum	April 25, 2010	\$ 750
B	50,000	32,000	32,000	6.20% per annum	October 31, 2010	800
C	25,000	8,000	8,000	3 month LIBOR + 0.75%, with floor of 4.00% per annum	October 31, 2010	200
D	60,000	54,000	53,999	3 month LIBOR + 0.67%, with floor of 4.00% per annum	May 24, 2011	1,350
	185,000	124,000	123,998			\$3,100

Each share of non-cumulative Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock and Series D Preferred Stock issued and outstanding has a par value of \$0.01, has a liquidation preference of \$25,000, is represented by 1,000 depository shares and is redeemable at the firm's option, subject to the approval of the Federal Reserve Board, at a redemption price equal to \$25,000 plus declared and unpaid dividends.

All series of preferred stock are pari passu and have a preference over the firm's common stock on liquidation. Dividends on each series of preferred stock, if declared, are payable quarterly in arrears. The firm's ability to declare or pay dividends on, or purchase, redeem or otherwise acquire, its common stock is subject to certain restrictions in the event that the firm fails to pay or set aside full dividends on the preferred stock for the latest completed dividend period.

In 2007, the Board authorized 17,500.1 shares of Series E Preferred Stock, and 5,000.1 shares of Series F Preferred Stock, in connection with the APEX Trusts. See Note 16 for further information about the APEX Trusts.

Under the stock purchase contracts with the APEX Trusts, Group Inc. will issue \$2.25 billion of preferred stock, in the aggregate, on the relevant stock purchase dates (June 1, 2012 and on or before September 1, 2013 for Series E and Series F Preferred Stock, respectively), comprised of one share of Series E and Series F Preferred Stock to Goldman Sachs Capital II and III, respectively, for each \$100,000 liquidation amount of APEX issued by these trusts. When issued, each share of Series E and Series F Preferred Stock will have a par value of \$0.01 and a liquidation preference of \$100,000 per share.

Dividends on Series E Preferred Stock and Series F Preferred Stock, if declared, will be payable quarterly at a rate per annum equal to the greater of (i) three-month LIBOR plus 0.77% and (ii) 4.00%.

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The preferred stock may be redeemed at the option of the firm on the stock purchase dates or any day thereafter, subject to approval from the Federal Reserve Board and certain covenant restrictions governing the firm's ability to redeem or purchase the preferred stock without issuing common stock or other instruments with equity-like characteristics.

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In March 2011, the firm provided notice to Berkshire Hathaway Inc. and certain of its subsidiaries (collectively, Berkshire Hathaway) that it would redeem in full the 50,000 shares of the firm's 10% Cumulative Perpetual Preferred Stock, Series G (Series G Preferred Stock) held by Berkshire Hathaway for the stated redemption price of \$5.50 billion (\$110,000 per share), plus accrued and unpaid dividends. In connection with this notice, the firm recognized a preferred dividend of \$1.64 billion (calculated as the difference between the carrying value and the redemption value of the preferred stock), which was recorded as a reduction to earnings applicable to common

shareholders for the first quarter of 2011. The redemption also resulted in the acceleration of \$24 million of preferred dividends related to the period from April 1, 2011 to the redemption date, which was included in the firm's results during the three months ended March 2011. The Series G Preferred Stock was redeemed on April 18, 2011. Berkshire Hathaway continues to hold a five-year warrant, issued in October 2008, to purchase up to 43.5 million shares of common stock at an exercise price of \$115.00 per share.

The table below presents preferred dividends declared on preferred stock.

	Three Months Ended March			
	2012		2011	
	<i>per share</i>	<i>in millions</i>	<i>per share</i>	<i>in millions</i>
Series A	\$239.58	\$ 7	\$ 239.58	\$ 7
Series B	387.50	12	387.50	12
Series C	255.56	2	255.56	2
Series D	255.56	14	255.56	14
Series G			2,500.00	125 ¹
Total		\$35		\$160

1. Excludes preferred dividends related to the redemption of the firm's Series G Preferred Stock.

Accumulated Other Comprehensive Income/(Loss)

The tables below present accumulated other comprehensive income/(loss) by type.

<i>in millions</i>	Currency translation adjustment, net of tax	Pension and postretirement liability adjustments, net of tax	As of March 2012	
			Net unrealized gains/(losses) on available-for-sale securities, net of tax	Accumulated other comprehensive income/(loss), net of tax
Balance, beginning of year	\$(225)	\$(374)	\$ 83	\$(516)
Other comprehensive income/(loss)	(28)	7	30	9
Balance, end of period	\$(253)	\$(367)	\$113¹	\$(507)

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	As of December 2011			
	Net unrealized			
	Currency translation adjustment, net of tax	Pension and postretirement liability adjustments, net of tax	gains/(losses) on available-for-sale securities, net of tax	Accumulated other comprehensive income/(loss), net of tax
<i>in millions</i>				
Balance, beginning of year	\$(170)	\$(229)	\$113	\$(286)
Other comprehensive income/(loss)	(55)	(145)	(30)	(230)
Balance, end of year	\$(225)	\$(374)	\$ 83 ¹	\$(516)

1. Substantially all consists of net unrealized gains on securities held by the firm's insurance subsidiaries as of both March 2012 and December 2011.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

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

Note 20. Regulation and Capital Adequacy

Note 20.**Regulation and Capital Adequacy**

The Federal Reserve Board is the primary regulator of Group Inc., a bank holding company and a financial holding company under the U.S. Bank Holding Company Act of 1956. As a bank holding company, the firm is subject to consolidated regulatory capital requirements that are computed in accordance with the Federal Reserve Board's capital adequacy regulations currently applicable to bank holding companies (which are based on the Basel I Capital Accord of the Basel Committee on Banking Supervision (Basel Committee)). These capital requirements are expressed as capital ratios that compare measures of capital to risk-weighted assets (RWAs). The firm's U.S. bank depository institution subsidiaries, including GS Bank USA, are subject to similar capital requirements.

Under the Federal Reserve Board's capital adequacy requirements and the regulatory framework for prompt corrective action that is applicable to GS Bank USA, the firm and its bank depository institution subsidiaries must meet specific capital requirements that involve quantitative measures of assets, liabilities and certain off-balance-sheet items as calculated under regulatory reporting practices. The firm and its bank depository institution subsidiaries' capital amounts, as well as GS Bank USA's prompt corrective action classification, are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Many of the firm's subsidiaries, including GS&Co. and the firm's other broker-dealer subsidiaries, are subject to separate regulation and capital requirements as described below.

Group Inc.

Federal Reserve Board regulations require bank holding companies to maintain a minimum Tier 1 capital ratio of 4% and a minimum total capital ratio of 8%. The required minimum Tier 1 capital ratio and total capital ratio in order to be considered a well-capitalized bank holding company under the Federal Reserve Board guidelines are 6% and 10%, respectively. Bank holding companies may be expected to maintain ratios well above the minimum levels, depending on their particular condition, risk profile and growth plans. The minimum Tier 1 leverage ratio is 3% for bank holding companies that have received the highest supervisory rating under Federal Reserve Board guidelines or that have implemented the Federal Reserve Board's risk-based capital measure for market risk. Other bank holding companies must have a minimum Tier 1 leverage ratio of 4%.

The table below presents information regarding Group Inc.'s regulatory capital ratios.

<i>\$ in millions</i>	March	As of	December
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	2012	2011
Tier 1 capital	\$ 64,534	\$ 63,262
Tier 2 capital	\$ 13,559	\$ 13,881
Total capital	\$ 78,093	\$ 77,143
Risk-weighted assets	\$437,570	\$457,027
Tier 1 capital ratio	14.7%	13.8%
Total capital ratio	17.8%	16.9%
Tier 1 leverage ratio	7.1%	7.0%

RWAs under the Federal Reserve Board's risk-based capital guidelines are calculated based on the amount of market risk and credit risk. RWAs for market risk are determined by reference to the firm's Value-at-Risk (VaR) models, supplemented by other measures to capture risks not reflected in VaR models. Credit risk for on-balance sheet assets is based on the balance sheet value. For off-balance sheet exposures, including OTC derivatives and commitments, a credit equivalent amount is calculated based on the notional amount of each trade. All such assets and amounts are then assigned a risk weight depending on, among other things, whether the counterparty is a sovereign, bank or qualifying securities firm or other entity (or if collateral is held, depending on the nature of the collateral).

Tier 1 leverage ratio is defined as Tier 1 capital under Basel 1 divided by average adjusted total assets (which includes adjustments for disallowed goodwill and intangible assets, and the carrying value of equity investments in non-financial companies that are subject to deductions from Tier 1 capital).

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

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Regulatory Reform

The firm is currently working to implement the requirements set out in the Federal Reserve Board's Risk-Based Capital Standards: Advanced Capital Adequacy Framework – Basel 2, as applicable to Group Inc. as a bank holding company (Basel 2), which are based on the advanced approaches under the Revised Framework for the International Convergence of Capital Measurement and Capital Standards issued by the Basel Committee. U.S. banking regulators have incorporated the Basel 2 framework into the existing risk-based capital requirements by requiring that internationally active banking organizations, such as Group Inc., adopt Basel 2, once approved to do so by regulators. As required by the Dodd-Frank Act, U.S. banking regulators have adopted a rule that requires large banking organizations, upon adoption of Basel 2, to continue to calculate risk-based capital ratios under both Basel 1 and Basel 2. For each of the Tier 1 and Total capital ratios, the lower of the Basel 1 and Basel 2 ratios calculated will be used to determine whether the bank meets its minimum risk-based capital requirements.

In December 2011, the U.S. federal bank regulatory agencies issued revised proposals to modify their market risk regulatory capital requirements for banking organizations in the United States that have significant trading activities. These modifications are designed to address the adjustments to the market risk framework that were announced by the Basel Committee in June 2010 (Basel 2.5), as well as the prohibition on the use of credit ratings, as required by the Dodd-Frank Act. Once implemented, it is likely that these changes will result in increased capital requirements for market risk.

Additionally, the guidelines issued by the Basel Committee in December 2010 (Basel 3) revise the definition of Tier 1 capital, introduce Tier 1 common equity as a regulatory metric, set new minimum capital ratios (including a new capital conservation buffer, which must be composed exclusively of Tier 1 common equity and will be in addition to the minimum capital ratios), introduce a Tier 1 leverage ratio within international guidelines for the first time, and make substantial revisions to the computation of RWAs for credit exposures. Implementation of the new requirements is expected to take place over the next several years. The federal banking agencies have not yet proposed rules to implement the Basel 3 guidelines in the United States.

The Basel Committee has published its final provisions for assessing the global systemic importance of banking institutions and the range of additional Tier 1 common equity that should be maintained by banking institutions deemed to be globally systemically important. The additional capital for these institutions would initially range from 1% to 2.5% of Tier 1 common equity and could be as much as 3.5% for a bank that increases its systemic footprint (e.g., by increasing total assets). The firm was one of 29 institutions identified by the Financial Stability Board (established at the direction of the leaders of the Group of 20) as globally systemically important under the Basel Committee's methodology. Therefore, depending upon the manner and timing of the U.S. banking regulators' implementation of the Basel Committee's methodology, the firm expects that the minimum Tier 1 common ratio requirement applicable to the firm will include this additional capital assessment. The final determination of whether an institution is classified as globally systemically important and the calculation of the required additional capital amount is expected to be disclosed by the Basel Committee no later than November 2014 based on data through the end of 2013.

The Federal Reserve Board has proposed regulations designed to strengthen the regulation and supervision of large bank holding companies and systemically important nonbank financial firms. These proposals address risk-based capital and leverage requirements, liquidity requirements, stress tests, single counterparty limits and early remediation requirements that are designed to address financial weakness at an early stage. Although many of the proposals mirror initiatives to which bank holding companies are already subject, their full impact on the firm will not be known with certainty until the rules are finalized.

The Dodd-Frank Act will subject the firm at a firmwide level to the same leverage and risk-based capital requirements that apply to depository institutions and directs banking regulators to impose additional capital requirements as disclosed above. The Federal Reserve Board is expected to adopt the new leverage and risk-based capital regulations in 2012. As a consequence of these changes, Tier 1 capital treatment for the firm's junior subordinated debt issued to trusts will be phased out over a three-year period beginning on January 1, 2013. The interaction among the Dodd-Frank Act, the Basel Committee's proposed changes and other proposed or announced changes from other governmental entities and regulators adds further uncertainty to the firm's future capital requirements and those of the firm's subsidiaries.

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

A number of other governmental entities and regulators, including the European Union (EU) and the U.K.'s Financial Services Authority (FSA), have also proposed or announced changes that will result in increased capital requirements for financial institutions.

As a consequence of these developments, the firm expects minimum capital ratios required to be maintained under Federal Reserve Board regulations will be increased and changes in the prescribed calculation methodology are expected to result in higher RWAs and lower capital ratios than those currently computed.

The capital and liquidity requirements of several of the firm's subsidiaries will also be impacted in the future by the various developments arising from the Basel Committee, the Dodd-Frank Act, and other governmental entities and regulators.

Bank Subsidiaries

GS Bank USA, an FDIC-insured, New York State-chartered bank and a member of the Federal Reserve System, is supervised and regulated by the Federal Reserve Board, the FDIC and the New York State Department of Financial Services and is subject to minimum capital requirements (described below) that are calculated in a manner similar to those applicable to bank holding companies. GS Bank USA computes its capital ratios in accordance with the regulatory capital guidelines currently applicable to state member banks, which are based on Basel 1 as implemented by the Federal Reserve Board, for purposes of assessing the adequacy of its capital. Under the regulatory framework for prompt corrective action that is applicable to GS Bank USA, in order to be considered a well-capitalized depository institution, GS Bank USA must maintain a Tier 1 capital ratio of at least 6%, a total capital ratio of at least 10% and a Tier 1 leverage ratio of at least 5%. GS Bank USA has agreed with the Federal Reserve Board to minimum capital ratios in excess of these well-capitalized levels. Accordingly, for a period of time, GS Bank USA is expected to maintain a Tier 1 capital ratio of at least 8%, a total capital ratio of at least 11% and a Tier 1 leverage ratio of at least 6%. As noted in the table below, GS Bank USA was in compliance with these minimum capital requirements as of March 2012 and December 2011.

The table below presents information regarding GS Bank USA's regulatory capital ratios under Basel 1 as implemented by the Federal Reserve Board.

	March	As of December
<i>\$ in millions</i>	2012	2011
Tier 1 capital	\$ 19,769	\$ 19,251
Tier 2 capital	\$ 12	\$ 6
Total capital	\$ 19,781	\$ 19,257
Risk-weighted assets	\$ 103,900	\$ 112,824
Tier 1 capital ratio	19.0%	17.1%
Total capital ratio	19.0%	17.1%
Tier 1 leverage ratio	18.5%	18.5%

GS Bank USA is currently working to implement the Basel 2 framework, as implemented by the Federal Reserve Board. Similar to the firm's requirement as a bank holding company, GS Bank USA is required to adopt Basel 2, once approved to do so by regulators. In addition, the capital requirements for GS Bank USA are expected to be impacted by changes to the Basel Committee's capital guidelines, as outlined above. Furthermore, the firm expects that GS Bank USA will be impacted by aspects of the Dodd-Frank Act, including stress test and resolution plan requirements.

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The deposits of GS Bank USA are insured by the FDIC to the extent provided by law. The Federal Reserve Board requires depository institutions to maintain cash reserves with a Federal Reserve Bank. The amount deposited by the firm's depository institution held at the Federal Reserve Bank was approximately \$43.05 billion and \$40.06 billion as of March 2012 and December 2011, respectively, which exceeded required reserve amounts by \$42.46 billion and \$39.51 billion as of March 2012 and December 2011, respectively.

Transactions between GS Bank USA and its subsidiaries and Group Inc. and its subsidiaries and affiliates (other than, generally, subsidiaries of GS Bank USA) are regulated by the Federal Reserve Board. These regulations generally limit the types and amounts of transactions (including loans to and borrowings from GS Bank USA) that may take place and generally require those transactions to be on an arm's-length basis.

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Goldman Sachs International Bank, a wholly-owned credit institution, regulated by the FSA, and GS Bank Europe, a wholly-owned credit institution, regulated by the Central Bank of Ireland, are both subject to minimum capital requirements. As of March 2012 and December 2011, Goldman Sachs International Bank and GS Bank Europe were in compliance with all regulatory capital requirements.

Broker-Dealer Subsidiaries

The firm's U.S. regulated broker-dealer subsidiaries include GS&Co. and GSEC. GS&Co. and GSEC are registered U.S. broker-dealers and futures commission merchants, and are subject to regulatory capital requirements, including those imposed by the SEC, the U.S. Commodity Futures Trading Commission (CFTC), Chicago Mercantile Exchange, the Financial Industry Regulatory Authority, Inc. (FINRA) and the National Futures Association. Rule 15c3-1 of the SEC and Rule 1.17 of the CFTC specify uniform minimum net capital requirements, as defined, for their registrants, and also effectively require that a significant part of the registrants' assets be kept in relatively liquid form. GS&Co. and GSEC have elected to compute their minimum capital requirements in accordance with the Alternative Net Capital Requirement as permitted by Rule 15c3-1.

As of March 2012, GS&Co. had regulatory net capital, as defined by Rule 15c3-1, of \$12.51 billion, which exceeded the amount required by \$10.68 billion. As of March 2012, GSEC had regulatory net capital, as defined by Rule 15c3-1, of \$2.12 billion, which exceeded the amount required by \$1.98 billion.

In addition to its alternative minimum net capital requirements, GS&Co. is also required to hold tentative net capital in excess of \$1 billion and net capital in excess of \$500 million in accordance with the market and credit risk standards of Appendix E of Rule 15c3-1. GS&Co. is also required to notify the SEC in the event that its tentative net capital is less than \$5 billion. As of March 2012 and December 2011, GS&Co. had tentative net capital and net capital in excess of both the minimum and the notification requirements.

Insurance Subsidiaries

The firm has U.S. insurance subsidiaries that are subject to state insurance regulation and oversight in the states in which they are domiciled and in the other states in which they are licensed. In addition, certain of the firm's insurance subsidiaries outside of the U.S. are regulated by the FSA and certain are regulated by the Bermuda Monetary Authority. The firm's insurance subsidiaries were in compliance with all regulatory capital requirements as of March 2012 and December 2011.

Other Non-U.S. Regulated Subsidiaries

The firm's principal non-U.S. regulated subsidiaries include GSI and Goldman Sachs Japan Co., Ltd. (GSJCL). GSI, the firm's regulated U.K. broker-dealer, is subject to the capital requirements imposed by the FSA. GSJCL, the firm's regulated Japanese broker-dealer, is subject to the capital requirements imposed by Japan's Financial Services Agency. As of March 2012 and December 2011, GSI and GSJCL were in compliance with their local capital adequacy requirements. Certain other non-U.S. subsidiaries of the firm are also subject to capital adequacy requirements promulgated by authorities of the countries in which they operate. As of March 2012 and December 2011, these subsidiaries were in compliance with their local capital adequacy requirements.

Restrictions on Payments

The regulatory requirements referred to above restrict Group Inc.'s ability to withdraw capital from its regulated subsidiaries. As of March 2012 and December 2011, Group Inc. was required to maintain approximately \$32.52 billion and \$25.53 billion, respectively, of minimum equity capital in these regulated subsidiaries. This minimum equity capital requirement includes certain restrictions imposed by federal and state laws as to the payment of dividends to Group Inc. by its regulated subsidiaries. In addition to limitations on the payment of dividends imposed by federal and state laws, the Federal Reserve Board, the FDIC and the New York State Department of Financial Services have authority to prohibit or to limit the payment of dividends by the banking organizations they supervise (including GS Bank USA) if, in the relevant regulator's opinion,

payment of a dividend would constitute an unsafe or unsound practice in the light of the financial condition of the banking organization.

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

Note 21. Earnings Per Common Share

Note 21.**Earnings Per Common Share**

Basic earnings per common share (EPS) is calculated by dividing net earnings applicable to common shareholders by the weighted average number of common shares outstanding. Common shares outstanding includes common stock and RSUs for which no future service is required as a condition to the delivery of the underlying common stock. Diluted EPS includes the determinants of

basic EPS and, in addition reflects the dilutive effect of the common stock deliverable for stock warrants and options and for RSUs for which future service is required as a condition to the delivery of the underlying common stock.

The table below presents the computations of basic and diluted EPS.

	Three Months	
	Ended March	
<i>in millions, except per share amounts</i>	2012	2011
Numerator for basic and diluted EPS net earnings applicable to common shareholders	\$2,074	\$ 908
Denominator for basic EPS weighted average number of common shares	510.8	540.6
Effect of dilutive securities:		
RSUs	9.2	12.5
Stock options and warrants	9.2	29.9
Dilutive potential common shares	18.4	42.4
Denominator for diluted EPS weighted average number of common shares and dilutive potential common shares	\$29.2	583.0
Basic EPS	\$ 4.05	\$ 1.66
Diluted EPS	3.92	1.56

In the table above, unvested share-based payment awards that have non-forfeitable rights to dividends or dividend equivalents are treated as a separate class of securities in calculating EPS. The impact of applying this methodology was a reduction in basic EPS of \$0.01 and \$0.02 for the three months ended March 2012 and March 2011, respectively.

The diluted EPS computations in the table above do not include the following:

<i>in millions</i>	Three Months Ended March	
	2012	2011
Number of antidilutive RSUs and common shares underlying antidilutive stock options and warrants	52.5	6.3

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

Note 22. Transactions with Affiliated Funds

Note 22.**Transactions with Affiliated Funds**

The firm has formed numerous nonconsolidated investment funds with third-party investors. The firm generally acts as the investment manager for these funds and, as such, is entitled to receive management fees and, in certain cases, advisory fees or incentive fees from these funds. Additionally, the firm invests alongside the third-party investors in certain funds.

The tables below present fees earned from affiliated funds, fees receivable from affiliated funds and the aggregate carrying value of the firm's interests in affiliated funds.

	Three Months	
	Ended March	
<i>in millions</i>	2012	2011
Fees earned from affiliated funds	\$594	\$753

	As of	
	March	December
<i>in millions</i>	2012	2011
Fees receivable from funds	\$ 649	\$ 721
Aggregate carrying value of interests in funds	15,984	14,960

The firm has provided voluntary financial support to certain of its funds that have experienced significant reductions in capital and liquidity or had limited access to the debt markets during the financial crisis. As of March 2012 and December 2011, the firm had exposure to these funds in the form of loans and guarantees of \$291 million and \$289 million, respectively, primarily related to certain real estate funds. In addition, as of March 2012 and December 2011, the firm had no outstanding commitments to extend credit to these funds.

The firm may provide additional voluntary financial support to these funds if they were to experience significant financial distress; however, such amounts are not expected to be material to the firm. In the ordinary course of business, the firm may also engage in other activities with these funds, including, among others, securities lending, trade execution, market making, custody, and acquisition and bridge financing. See Note 18 for the firm's investment commitments related to these funds.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

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

Note 23. Interest Income and Interest Expense

Note 23.**Interest Income and Interest Expense**

Interest income is recorded on an accrual basis based on contractual interest rates. The table below presents the sources of interest income and interest expense.

<i>in millions</i>	Three Months Ended March	
	2012	2011
Interest income		
Deposits with banks	\$ 38	\$ 29
Securities borrowed, securities purchased under agreements to resell and federal funds sold	(14)	169
Financial instruments owned, at fair value	2,442	2,515
Other interest ¹	367	394
Total interest income	2,833	3,107
Interest expense		
Deposits	91	72
Securities loaned and securities sold under agreements to repurchase	211	201
Financial instruments sold, but not yet purchased, at fair value	525	496
Short-term borrowings ²	168	129
Long-term borrowings ²	1,009	786
Other interest ³	(152)	65
Total interest expense	1,852	1,749
Net interest income	\$ 981	\$1,358

1. Primarily includes interest income on customer debit balances and other interest-earning assets.

2. Includes interest on unsecured borrowings and other secured financings.

3. Primarily includes interest expense on customer credit balances and other interest-bearing liabilities.

Note 24. Income Taxes

Note 24.

Income Taxes

Provision for Income Taxes

Income taxes are provided for using the asset and liability method under which deferred tax assets and liabilities are recognized for temporary differences between the financial reporting and tax bases of assets and liabilities. The firm reports interest expense related to income tax matters in Provision for taxes and income tax penalties in Other expenses.

Deferred Income Taxes

Deferred income taxes reflect the net tax effects of temporary differences between the financial reporting and tax bases of assets and liabilities. These temporary differences result in taxable or deductible amounts in future years and are measured using the tax rates and laws that will be in effect when such differences are expected to reverse. Valuation allowances are established to reduce deferred tax assets to the amount that more likely than not will be realized. Tax assets and liabilities are presented as a component of Other assets and Other liabilities and accrued expenses, respectively.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements**(Unaudited)****Unrecognized Tax Benefits**

The firm recognizes tax positions in the financial statements only when it is more likely than not that the position will be sustained on examination by the relevant taxing authority based on the technical merits of the position. A position that meets this standard is measured at the largest amount of benefit that will more likely than not be realized on settlement. A liability is established for differences between positions taken in a tax return and amounts recognized in the financial statements.

Regulatory Tax Examinations

The firm is subject to examination by the U.S. Internal Revenue Service (IRS) and other taxing authorities in jurisdictions where the firm has significant business operations, such as the United Kingdom, Japan, Hong Kong, Korea and various states, such as New York. The tax years under examination vary by jurisdiction. The firm believes that during 2012, certain audits have a reasonable possibility of being completed. The firm does not expect completion of these audits to have a material impact on the firm's financial condition but it may be material to operating results for a particular period, depending, in part, on the operating results for that period.

The table below presents the earliest tax years that remain subject to examination by major jurisdiction.

	As of
Jurisdiction	March 2012
U.S. Federal ¹	2005
New York State and City ²	2004
United Kingdom	2007
Japan ³	2008
Hong Kong	2005
Korea	2008

1. IRS examination of fiscal 2008 through calendar 2010 began during 2011. IRS examination of fiscal 2005, 2006 and 2007 began during 2008. IRS examination of fiscal 2003 and 2004 has been completed, but the liabilities for those years are not yet final.

2. New York State and City examination of fiscal 2004, 2005 and 2006 began in 2008.

3. Japan National Tax Agency examination of fiscal 2005 through 2009 began during the first quarter of 2010. The examinations have been completed, but the liabilities for 2008 and 2009 are not yet final.

All years subsequent to the above remain open to examination by the taxing authorities. The firm believes that the liability for unrecognized tax benefits it has established is adequate in relation to the potential for additional assessments.

Note 25. Business Segments

Note 25.

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Business Segments

Basis of Presentation

In reporting segments, certain of the firm's business lines have been aggregated where they have similar economic characteristics and are similar in each of the following areas: (i) the nature of the services they provide, (ii) their methods of distribution, (iii) the types of clients they serve and (iv) the regulatory environments in which they operate.

The cost drivers of the firm taken as a whole—compensation, headcount and levels of business activity—are broadly similar in each of the firm's business segments. Compensation and benefits expenses in the firm's segments reflect, among other factors, the overall performance of the firm as well as the performance of individual businesses. Consequently, pre-tax margins in one segment of the firm's business may be significantly affected by the performance of the firm's other business segments.

The firm allocates revenues and expenses among the four reportable business segments. Due to the integrated nature of these segments, estimates and judgments are made in allocating certain revenue and expense items. Transactions between segments are based on specific criteria or approximate third-party rates. Total operating expenses include corporate items that have not been allocated to individual business segments. The allocation process is based on the manner in which management views the business of the firm.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

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Management believes that the following information provides a reasonable representation of each segment's contribution to consolidated pre-tax earnings and total assets.

<i>in millions</i>		For the Three Months Ended	
		or as of March	
		2012	2011
Investment Banking	Net revenues	\$ 1,154	\$ 1,269
	Operating expenses	866	923
	Pre-tax earnings	\$ 288	\$ 346
	Segment assets	\$ 1,743	\$ 1,775
Institutional Client Services	Net revenues ¹	\$ 5,709	\$ 6,647
	Operating expenses	3,883	4,584
	Pre-tax earnings	\$ 1,826	\$ 2,063
	Segment assets	\$862,695	\$840,970
Investing & Lending	Net revenues	\$ 1,911	\$ 2,705
	Operating expenses	958	1,231
	Pre-tax earnings	\$ 953	\$ 1,474
	Segment assets	\$ 77,328	\$ 79,996
Investment Management	Net revenues	\$ 1,175	\$ 1,273
	Operating expenses	990	1,067
	Pre-tax earnings	\$ 185	\$ 206
	Segment assets	\$ 9,166	\$ 10,548
Total	Net revenues	\$ 9,949	\$ 11,894
	Operating expenses	6,768	7,854
	Pre-tax earnings	\$ 3,181	\$ 4,040
	Total assets	\$950,932	\$933,289

1. Includes \$29 million for both the three months ended March 2012 and March 2011, of realized gains on available-for-sale securities held in the firm's insurance subsidiaries.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

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

Total operating expenses in the table above include the following expenses that have not been allocated to the firm's segments:

net provisions for a number of litigation and regulatory proceedings of \$59 million and \$24 million for the three months ended March 2012 and March 2011, respectively; and

charitable contributions of \$12 million and \$25 million for the three months ended March 2012 and March 2011, respectively.

The tables below present the amounts of net interest income or interest expense included in net revenues, and the amounts of depreciation and amortization expense included in pre-tax earnings.

<i>in millions</i>	2012	Three Months Ended March	2011
Investment Banking	\$ (6)		\$
Institutional Client Services	971		1,214
Investing & Lending	(27)		93
Investment Management	43		51
Total net interest	\$ 981		\$1,358

<i>in millions</i>	2012	Three Months Ended March	2011
Investment Banking	\$ 42		\$ 51
Institutional Client Services	166		331
Investing & Lending	183		168
Investment Management	42		44
Total depreciation and amortization	\$ 433		\$ 594

Geographic Information

Due to the highly integrated nature of international financial markets, the firm manages its businesses based on the profitability of the enterprise as a whole. The methodology for allocating profitability to geographic regions is dependent on estimates and management judgment because a significant portion of the firm's activities require cross-border coordination in order to facilitate the needs of the firm's clients.

Geographic results are generally allocated as follows:

Investment Banking: location of the client and investment banking team.

Institutional Client Services: Fixed Income, Currency and Commodities Client Execution, and Equities (excluding Securities Services): location of the market-making desk; Securities Services: location of the primary market for the underlying security.

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Investing & Lending: Investing: location of the investment; Lending: location of the client.

Investment Management: location of the sales team.

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

The table below presents the total net revenues and pre-tax earnings of the firm by geographic region allocated based on the methodology referred to above, as well as the

percentage of total net revenues and pre-tax earnings (excluding Corporate) for each geographic region.

<i>\$ in millions</i>	Three Months Ended March			
	2012		2011	
Net revenues				
Americas ¹	\$5,787	58%	\$ 6,839	58%
EMEA ²	2,708	27	2,874	24
Asia ³	1,454	15	2,181	18
Total net revenues	\$9,949	100%	\$11,894	100%
Pre-tax earnings				
Americas ¹	\$1,727	53%	\$ 2,273	55%
EMEA ²	1,062	33	1,088	27
Asia ³	463	14	728	18
Subtotal	3,252	100%	4,089	100%
Corporate ⁴	(71)		(49)	
Total pre-tax earnings	\$3,181		\$ 4,040	

1. Substantially all relates to the U.S.

2. EMEA (Europe, Middle East and Africa).

3. Asia also includes Australia and New Zealand.

4. Consists of net provisions for a number of litigation and regulatory proceedings of \$59 million and \$24 million for the three months ended March 2012 and March 2011, respectively; and charitable contributions of \$12 million and \$25 million for the three months ended March 2012 and March 2011, respectively.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

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

Note 26. Credit Concentrations

Note 26.**Credit Concentrations**

Credit concentrations may arise from market making, client facilitation, investing, underwriting, lending and collateralized transactions and may be impacted by changes in economic, industry or political factors. The firm seeks to mitigate credit risk by actively monitoring exposures and obtaining collateral from counterparties as deemed appropriate.

While the firm's activities expose it to many different industries and counterparties, the firm routinely executes a high volume of transactions with asset managers, investment funds, commercial banks, brokers and dealers, clearing houses and exchanges, which results in significant credit concentrations.

In the ordinary course of business, the firm may also be subject to a concentration of credit risk to a particular counterparty, borrower or issuer, including sovereign issuers, or to a particular clearing house or exchange.

The table below presents the credit concentrations in assets held by the firm. As of March 2012 and December 2011, the firm did not have credit exposure to any other counterparty that exceeded 2% of total assets.

<i>\$ in millions</i>	March 2012	As of December 2011
U.S. government and federal agency obligations ¹	\$109,659	\$103,468
% of total assets	11.5%	11.2%
Other sovereign obligations ^{1, 2}	\$ 60,619	\$ 49,025
% of total assets	6.4%	5.3%

1. Included in Financial instruments owned, at fair value and Cash and securities segregated for regulatory and other purposes.

2. Principally consisting of securities issued by the governments of Germany, Japan and the United Kingdom as of both March 2012 and December 2011. To reduce credit exposures, the firm may enter into agreements with counterparties that permit the firm to offset receivables and payables with such counterparties and/or enable the firm to obtain collateral on an upfront or contingent basis. Collateral obtained by the firm related to derivative assets is principally cash and is held by the firm or a third-party custodian. Collateral obtained by the firm related to resale agreements and securities borrowed transactions is primarily U.S. government and federal agency obligations and other sovereign obligations. See Note 9 for further information about collateralized agreements and financings.

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The table below presents U.S. government and federal agency obligations, and other sovereign obligations that collateralize resale agreements and securities borrowed transactions (including those in Cash and securities segregated for regulatory and other purposes). Because the firm's primary credit exposure on such transactions is to the counterparty to the transaction, the firm would be exposed to the collateral issuer only in the event of counterparty default.

<i>in millions</i>	March	As of December
	2012	2011
U.S. government and federal agency obligations	\$ 94,712	\$ 94,603
Other sovereign obligations ¹	120,570	110,178

1. Principally consisting of securities issued by the governments of Germany and France.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Note 27. Legal Proceedings

Note 27.

Legal Proceedings

The firm is involved in a number of judicial, regulatory and arbitration proceedings (including those described below) concerning matters arising in connection with the conduct of the firm's businesses. Many of these proceedings are in early stages, and many of these cases seek an indeterminate amount of damages.

Under ASC 450 an event is "reasonably possible" if the chance of the future event or events occurring is more than remote but less than likely and an event is "remote" if the chance of the future event or events occurring is slight. Thus, references to the upper end of the range of reasonably possible loss for cases in which the firm is able to estimate a range of reasonably possible loss mean the upper end of the range of loss for cases for which the firm believes the risk of loss is more than slight. The amounts reserved against such matters are not significant as compared to the upper end of the range of reasonably possible loss.

With respect to proceedings described below for which management has been able to estimate a range of reasonably possible loss where (i) plaintiffs have claimed an amount of money damages, (ii) the firm is being sued by purchasers in an underwriting and is not being indemnified by a party that the firm believes will pay any judgment, or (iii) the purchasers are demanding that the firm repurchase securities, management has estimated the upper end of the range of reasonably possible loss as being equal to (a) in the case of (i), the amount of money damages claimed, (b) in the case of (ii), the amount of securities that the firm sold in the underwritings and (c) in the case of (iii), the price that purchasers paid for the securities less the estimated value, if any, as of March 2012 of the relevant securities, in each of cases (i), (ii) and (iii), taking into account any factors believed to be relevant to the particular proceeding. As of the date hereof, the firm has estimated the aggregate amount of reasonably possible losses for such proceedings and for any other proceedings described below where management has been able to estimate a range of reasonably possible loss to be approximately \$2.7 billion.

Management is generally unable to estimate a range of reasonably possible loss for proceedings other than those included in the estimate above, including where (i) plaintiffs have not claimed an amount of money damages, unless management can otherwise determine an appropriate amount, (ii) the proceedings are in early stages, (iii) there is uncertainty as to the likelihood of a class being certified or the ultimate size of the class, (iv) there is uncertainty as to the outcome of pending appeals or motions, (v) there are significant factual issues to be resolved, and/or (vi) there are novel legal issues presented. However, for these cases, management does not believe, based on currently available information, that the outcomes of such proceedings will have a material adverse effect on the firm's financial condition, though the outcomes could be material to the firm's operating results for any particular period, depending, in part, upon the operating results for such period.

IPO Process Matters. Group Inc. and GS&Co. are among the numerous financial services companies that have been named as defendants in a variety of lawsuits alleging improprieties in the process by which those companies participated in the underwriting of public offerings in recent years.

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GS&Co. is among numerous underwriting firms named as defendants in a number of complaints filed commencing October 3, 2007, in the U.S. District Court for the Western District of Washington alleging violations of Section 16 of the Exchange Act in connection with offerings of securities for 15 issuers during 1999 and 2000. The complaints generally assert that the underwriters, together with each issuer's directors, officers and principal shareholders, entered into purported agreements to tie allocations in the offerings to increased brokerage commissions and aftermarket purchase orders. The complaints further allege that, based upon these and other purported agreements, the underwriters violated the reporting provisions of, and are subject to short-swing profit recovery under, Section 16 of the Exchange Act. The district court granted defendants' motions to dismiss on the grounds that the plaintiff's demands were inadequate with respect to certain actions and that the remaining actions were time-barred. On December 2, 2010, the appellate court affirmed in part and reversed in part, upholding the dismissal of seven of the actions in which GS&Co. is a defendant that were dismissed based on the deficient demands but remanding the remaining eight actions in which GS&Co. is a defendant that were dismissed as time-barred for consideration of other bases for dismissal. On June 27, 2011, the U.S. Supreme Court granted the defendants' petition for review of whether the actions that were remanded are time-barred and, on March 26, 2012, vacated the appellate court's determination that the actions were timely and remanded the actions to determine if the claims were subject to equitable tolling in further proceedings consistent with the Supreme Court's opinion.

GS&Co. has been named as a defendant in an action commenced on May 15, 2002 in New York Supreme Court, New York County, by an official committee of unsecured creditors on behalf of eToys, Inc., alleging that the firm intentionally underpriced eToys, Inc.'s initial public offering. The action seeks, among other things, unspecified compensatory damages resulting from the alleged lower amount of offering proceeds. On appeal from rulings on GS&Co.'s motion to dismiss, the New York Court of Appeals dismissed claims for breach of contract, professional malpractice and unjust enrichment, but permitted claims for breach of fiduciary duty and fraud to continue. On remand, the lower court granted GS&Co.'s motion for summary judgment and, on December 8, 2011, the appellate court affirmed the lower court's decision. On

January 9, 2012, the creditors moved for permission either to reargue the appellate decision or to appeal further to the New York Court of Appeals.

Group Inc. and certain of its affiliates have, together with various underwriters in certain offerings, received subpoenas and requests for documents and information from various governmental agencies and self-regulatory organizations in connection with investigations relating to the public offering process. Goldman Sachs has cooperated with these investigations.

World Online Litigation. In March 2001, a Dutch shareholders' association initiated legal proceedings for an unspecified amount of damages against GSI and others in Amsterdam District Court in connection with the initial public offering of World Online in March 2000, alleging misstatements and omissions in the offering materials and that the market was artificially inflated by improper public statements and stabilization activities. Goldman Sachs and ABN AMRO Rothschild served as joint global coordinators of the approximately \$2.9 billion offering. GSI underwrote 20,268,846 shares and GS&Co. underwrote 6,756,282 shares for a total offering price of approximately \$1.16 billion.

The district court rejected the claims against GSI and ABN AMRO, but found World Online liable in an amount to be determined. On appeal, the Netherlands Court of Appeals affirmed in part and reversed in part the decision of the district court, holding that certain of the alleged disclosure deficiencies were actionable as to GSI and ABN AMRO. On further appeal, the Netherlands Supreme Court affirmed the rulings of the Court of Appeals, except that it found certain additional aspects of the offering materials actionable and held that individual investors could potentially hold GSI and ABN AMRO responsible for certain public statements and press releases by World Online and its former CEO. The parties entered into a definitive settlement agreement, dated July 15, 2011, and GSI has paid the full amount of its proposed contribution, approximately \$48 million, into an escrow account. In the first quarter of 2012, GSI entered into a settlement agreement, subject to certain conditions, with respect to a claim filed by another shareholders' association relating to approximately \$4 million of World Online shares. Other shareholders have made demands for compensation of alleged damages.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

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

Research Matters. Group Inc. and certain of its affiliates are subject to a number of investigations and reviews by various governmental and regulatory bodies and self-regulatory organizations relating to research practices, including, among other things, research analysts' methods for obtaining receipt and distribution of information and communications among research analysts, sales and trading personnel and clients. On June 9, 2011, pursuant to a settlement, a consent order was entered by the Massachusetts Securities Division pursuant to which GS&Co. paid a \$10 million civil penalty and agreed to various undertakings regarding certain of its research practices. On April 12, 2012, the SEC and FINRA issued orders in connection with GS&Co.'s settlement of charges relating to matters similar to those involved in the Massachusetts settlement. Pursuant to these settlements, GS&Co. paid \$11 million to each of the SEC and FINRA and agreed to various undertakings with regard to its policies and procedures.

Adelphia Communications Fraudulent Conveyance Litigation. GS&Co. is named a defendant in two adversary proceedings commenced in the U.S. Bankruptcy Court for the Southern District of New York, one on July 6, 2003 by a creditors committee, and the second on or about July 31, 2003 by an equity committee of Adelphia Communications, Inc. Those proceedings were consolidated in a single amended complaint filed by the Adelphia Recovery Trust on October 31, 2007. The complaint seeks, among other things, to recover, as fraudulent conveyances, approximately \$62.9 million allegedly paid to GS&Co. by Adelphia Communications, Inc. and its affiliates in respect of margin calls made in the ordinary course of business on accounts owned by members of the family that formerly controlled Adelphia Communications, Inc. The district court assumed jurisdiction over the action and, on April 8, 2011, granted GS&Co.'s motion for summary judgment. The plaintiff appealed on May 6, 2011.

Specialist Matters. Spear, Leeds & Kellogg Specialists LLC (SLKS) and certain affiliates have received requests for information from various governmental agencies and self-regulatory organizations as part of an industry-wide investigation relating to activities of floor specialists in recent years. Goldman Sachs has cooperated with the requests.

On March 30, 2004, certain specialist firms on the NYSE, including SLKS, without admitting or denying the allegations, entered into a final global settlement with the SEC and the NYSE covering certain activities during the years 1999 through 2003. The SLKS settlement involves, among other things, (i) findings by the SEC and the NYSE that SLKS violated certain federal securities laws and NYSE rules, and in some cases failed to supervise certain individual specialists, in connection with trades that allegedly disadvantaged customer orders, (ii) a cease and desist order against SLKS, (iii) a censure of SLKS, (iv) SLKS' agreement to pay an aggregate of \$45.3 million in disgorgement and a penalty to be used to compensate customers, (v) certain undertakings with respect to SLKS' systems and procedures, and (vi) SLKS' retention of an independent consultant to review and evaluate certain of SLKS' compliance systems, policies and procedures. Comparable findings were made and sanctions imposed in the settlements with other specialist firms. The settlement did not resolve the related private civil actions against SLKS and other firms or regulatory investigations involving individuals or conduct on other exchanges. On May 26, 2011, the SEC issued an order directing the undistributed settlement funds to be transferred to the U.S. Treasury; the funds will accordingly not be allocated to any settlement fund for the civil actions described below.

SLKS, Spear, Leeds & Kellogg, L.P. and Group Inc. are among numerous defendants named in purported class actions brought beginning in October 2003 on behalf of investors in the U.S. District Court for the Southern District of New York alleging violations of the federal securities laws and state common law in connection with NYSE floor specialist activities. The actions, which have been consolidated, seek unspecified compensatory damages, restitution and disgorgement on behalf of purchasers and sellers of unspecified securities between October 17, 1998 and October 15, 2003. By a decision dated March 14, 2009, the district court granted plaintiffs' motion for class certification. The defendants' petition with the U.S. Court of Appeals for the Second Circuit seeking review of the certification ruling was denied, and the specialist defendants' petition for a rehearing and/or rehearing en banc was denied on February 24, 2010. On December 5, 2011, the parties reached a settlement in principle, subject to documentation and court approval. The firm has reserved the full amount of its proposed contribution to the settlement.

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Fannie Mae Litigation. GS&Co. was added as a defendant in an amended complaint filed on August 14, 2006 in a purported class action pending in the U.S. District Court for the District of Columbia. The complaint asserts violations of the federal securities laws generally arising from allegations concerning Fannie Mae's accounting practices in connection with certain Fannie Mae-sponsored REMIC transactions that were allegedly arranged by GS&Co. The complaint does not specify a dollar amount of damages. The other defendants include Fannie Mae, certain of its past and present officers and directors, and accountants. By a decision dated May 8, 2007, the district court granted GS&Co.'s motion to dismiss the claim against it. The time for an appeal will not begin to run until disposition of the claims against other defendants. A motion to stay the action filed by the Federal Housing Finance Agency (FHFA), which took control of the foregoing action following Fannie Mae's conservatorship, was denied on November 14, 2011.

Beginning in September 2006, Group Inc. and/or GS&Co. were named as defendants in four Fannie Mae shareholder derivative actions in the U.S. District Court for the District of Columbia. The complaints generally allege that the Goldman Sachs defendants aided and abetted a breach of fiduciary duty by Fannie Mae's directors and officers in connection with certain Fannie Mae-sponsored REMIC transactions, and one of the complaints also asserts a breach of contract claim. The complaints also name as defendants certain former officers and directors of Fannie Mae as well as an outside accounting firm. The complaints seek, inter alia, unspecified damages. The Goldman Sachs defendants were dismissed without prejudice from the first filed of these actions, and the remaining claims in that action were dismissed for failure to make a demand on Fannie Mae's board of directors. That dismissal has been affirmed on appeal. The district court dismissed the remaining three actions on July 28, 2010. One action was dismissed without prejudice, and the other two were dismissed with prejudice on motions to dismiss by Fannie Mae. The plaintiffs filed motions for reconsideration, which were denied on October 22, 2010, and have revised their notices of appeal in these actions. On January 20, 2011, the appellate court consolidated all actions on appeal. On March 30, 2012, the appellate court affirmed the district court's substitution of Fannie Mae's conservator, FHFA, for plaintiffs, reversed the district court's denial of FHFA's motion for voluntary dismissal in two of the three actions, and remanded with instructions to dismiss those two actions without prejudice. The appellate court vacated as moot the district court's dismissal of those two actions on other grounds.

Compensation-Related Litigation. On January 17, 2008, Group Inc., its Board, executive officers and members of its management committee were named as defendants in a purported shareholder derivative action in the U.S. District Court for the Eastern District of New York predicting that the firm's 2008 Proxy Statement would violate the federal securities laws by undervaluing certain stock option awards and alleging that senior management received excessive compensation for 2007. The complaint seeks, among other things, an equitable accounting for the allegedly excessive compensation. Plaintiff's motion for a preliminary injunction to prevent the 2008 Proxy Statement from using options valuations that the plaintiff alleges are incorrect and to require the amendment of SEC Form 4s filed by certain of the executive officers named in the complaint to reflect the stock option valuations alleged by the plaintiff was denied, and plaintiff's appeal from this denial was dismissed. On February 13, 2009, the plaintiff filed an amended complaint, which added purported direct (i.e., non-derivative) claims based on substantially the same theory. The plaintiff filed a further amended complaint on March 24, 2010, and the defendants' motion to dismiss this further amended complaint was granted on the ground that dismissal of the shareholder plaintiff's prior action relating to the firm's 2007 Proxy Statement based on the failure to make a demand to the Board precluded relitigation of demand futility. On December 19, 2011, the appellate court vacated the order of dismissal, holding only that preclusion principles did not mandate dismissal and remanding for consideration of the alternative grounds for dismissal. On April 18, 2012, plaintiff disclosed that he no longer is a Group Inc. shareholder and thus lacks standing to continue to prosecute the action, as well as the New York state action described below, but that he intends to file a motion seeking attorneys' fees.

On March 24, 2009, the same plaintiff filed an action in New York Supreme Court, New York County against Group Inc., its directors and certain senior executives alleging violation of Delaware statutory and common law in connection with substantively similar allegations regarding stock option awards. On January 7, 2011, the plaintiff filed an amended complaint. Defendants moved to dismiss the amended complaint, and the parties subsequently agreed to stay the state court action pending the final resolution of the appeal from the dismissal of the federal court action in respect of the firm's 2008 Proxy Statement described above, as well as any remanded proceedings further adjudicating defendants' motion to dismiss.

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Purported shareholder derivative actions were commenced in New York Supreme Court, New York County and the Delaware Court of Chancery beginning on December 14, 2009, alleging that the Board breached its fiduciary duties in connection with setting compensation levels for the year 2009 and that such levels were excessive. The complaints name as defendants Group Inc., the Board and certain senior executives. The complaints sought, *inter alia*, unspecified damages, restitution of certain compensation paid, and an order requiring the firm to adopt corporate reforms. In the actions in New York state court, on April 8, 2010, the plaintiffs filed a motion indicating that they no longer intend to pursue their claims but are seeking an award of attorneys' fees in connection with bringing the suit, which the defendants opposed. By a decision dated September 21, 2011, the New York court dismissed plaintiffs' claims as moot and denied plaintiffs' application for attorneys' fees. On October 25, 2011, plaintiffs appealed from the denial of a fee award. In the actions brought in the Delaware Court of Chancery, the defendants moved to dismiss, and the plaintiffs amended their complaint on April 28, 2010 to include, among other things, the allegations included in the SEC's action described in the Mortgage-Related Matters section below. The plaintiffs amended the complaint a second time on January 20, 2011, the defendants moved to dismiss the second amended complaint and, by a decision dated October 12, 2011, the Delaware court dismissed plaintiffs' second amended complaint. Plaintiffs appealed on November 9, 2011 and the Delaware Supreme Court affirmed the dismissal on May 3, 2012.

Group Inc. and certain of its affiliates are subject to a number of investigations and reviews from various governmental agencies and self-regulatory organizations regarding the firm's compensation processes. The firm is cooperating with the investigations and reviews.

Mortgage-Related Matters. On April 16, 2010, the SEC brought an action (SEC Action) under the U.S. federal securities laws in the U.S. District Court for the Southern District of New York against GS&Co. and Fabrice Tourre, one of its employees, in connection with a CDO offering made in early 2007 (ABACUS 2007-AC1 transaction), alleging that the defendants made materially false and misleading statements to investors and seeking, among other things, unspecified monetary penalties. Investigations of GS&Co. by FINRA and of GSI by the FSA were subsequently initiated, and Group Inc. and certain of its affiliates have received subpoenas and requests for information from other regulators, regarding CDO offerings, including the ABACUS 2007-AC1 transaction, and related matters.

On July 14, 2010, GS&Co. entered into a consent agreement with the SEC, settling all claims made against GS&Co. in the SEC Action (SEC Settlement), pursuant to which GS&Co. paid \$550 million of disgorgement and civil penalties, and which was approved by the U.S. District Court for the Southern District of New York on July 20, 2010.

On January 6, 2011, ACA Financial Guaranty Corp. filed an action against GS&Co. in respect of the ABACUS 2007-AC1 transaction in New York Supreme Court, New York County. The complaint includes allegations of fraudulent inducement, fraudulent concealment and unjust enrichment and seeks at least \$30 million in compensatory damages, at least \$90 million in punitive damages and unspecified disgorgement. On March 8, 2011, GS&Co. filed a motion to compel arbitration and/or to dismiss the complaint. On April 25, 2011, the plaintiff filed an amended complaint and, on June 3, 2011, GS&Co. moved to dismiss the amended complaint. By a decision dated April 23, 2012, the court granted the motion to dismiss as to the unjust enrichment claim and denied the motion as to the other claims.

Since April 22, 2010, a number of putative shareholder derivative actions have been filed in New York Supreme Court, New York County, and the U.S. District Court for the Southern District of New York against Group Inc., the Board and certain officers and employees of Group Inc. and its affiliates in connection with mortgage-related matters between 2004 and 2007, including the ABACUS 2007-AC1 transaction and other CDO offerings. These derivative complaints generally include allegations of breach of fiduciary duty, corporate waste, abuse of control, mismanagement, unjust enrichment, misappropriation of information, securities fraud and insider trading, and challenge the accuracy and adequacy of Group Inc.'s disclosure. These derivative complaints seek, among other things, declaratory relief, unspecified compensatory damages, restitution and certain corporate governance reforms. In addition, as described in the Compensation-Related Litigation section above, the plaintiffs in the compensation-related Delaware Court of Chancery actions twice amended their complaint, including to assert allegations similar to those in the derivative claims referred to above, the Delaware court granted the defendants' motion to dismiss the second amended complaint, plaintiffs appealed on November 9, 2011, and the Delaware Supreme Court affirmed the dismissal on May 3, 2012.

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The federal court cases have been consolidated, plaintiffs filed a consolidated amended complaint on August 1, 2011, and, on October 6, 2011, the defendants moved to dismiss the action. On December 8, 2011, the parties to the federal court action stipulated that (i) if the dismissal of the Delaware action is affirmed, the parties will submit a proposed order dismissing the federal court action with prejudice and (ii) if the Delaware action is remanded, the federal court action will be reinstated. The New York Supreme Court has consolidated the two actions pending in that court, the defendants moved to dismiss on December 2, 2011, and the cases have been stayed pending the outcome of the appeal in the Delaware action.

Since July 1, 2011, two putative shareholder derivative actions have been filed in the U.S. District Court for the Southern District of New York against Group Inc., the Board and certain officers and employees of Group Inc. and Litton in connection with the servicing of residential mortgage loans and other mortgage-related activities beginning in January 2009. The complaints generally include allegations of breach of fiduciary duty, waste, abuse of control, and mismanagement and seek, among other things, declaratory relief, unspecified damages and certain governance reforms. The district court consolidated the actions, and, on December 20, 2011, the plaintiffs filed a consolidated amended complaint. On January 31, 2012, the defendants moved to dismiss.

In addition, in October 2011, the Board received a books and records demand from a shareholder for materials relating to, among other subjects, the firm's mortgage servicing and foreclosure activities, participation in federal programs providing assistance to financial institutions and homeowners and loan sales to Fannie Mae and Freddie Mac.

Since April 23, 2010, the Board has received letters from shareholders demanding that the Board take action to address alleged misconduct by GS&Co., the Board and certain officers and employees of Group Inc. and its affiliates. The demands generally allege misconduct in connection with the firm's securitization practices, including the ABACUS 2007-AC1 transaction, the alleged failure by Group Inc. to adequately disclose the SEC investigation that led to the SEC Action, and Group Inc.'s 2009 compensation practices. The demands include a letter from a Group Inc. shareholder, which previously made a demand that the Board investigate and take action in connection with auction products matters, and expanded its demand to address the foregoing matters. The Board has rejected these demands. In August 2011, the shareholder made a books and records demand for materials related to the Board's rejection of the shareholder's demand letter in connection with auction products matters.

In addition, beginning April 26, 2010, a number of purported securities law class actions have been filed in the U.S. District Court for the Southern District of New York challenging the adequacy of Group Inc.'s public disclosure of, among other things, the firm's activities in the CDO market and the SEC investigation that led to the SEC Action. The purported class action complaints, which name as defendants Group Inc. and certain officers and employees of Group Inc. and its affiliates, have been consolidated, generally allege violations of Sections 10(b) and 20(a) of the Exchange Act and seek unspecified damages. Plaintiffs filed a consolidated amended complaint on July 25, 2011. On October 6, 2011, the defendants moved to dismiss.

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GS&Co., Goldman Sachs Mortgage Company (GSMC) and GS Mortgage Securities Corp. (GSMSC) and three current or former Goldman Sachs employees are defendants in a putative class action commenced on December 11, 2008 in the U.S. District Court for the Southern District of New York brought on behalf of purchasers of various mortgage pass-through certificates and asset-backed certificates issued by various securitization trusts established by the firm and underwritten by GS&Co. in 2007. The complaint generally alleges that the registration statement and prospectus supplements for the certificates violated the federal securities laws, and seeks unspecified compensatory damages and rescission or rescissionary damages. The defendants' motion to dismiss the second amended complaint was granted with leave to replead certain claims. On March 31, 2010, the plaintiff filed a third amended complaint relating to two offerings, which the defendants moved to dismiss. This motion to dismiss was denied as to the plaintiff's Section 12(a)(2) claims and granted as to the plaintiff's Section 11 claims, and the plaintiff's motion for reconsideration was denied. The plaintiff filed a motion for entry of final judgment or certification of an interlocutory appeal as to plaintiff's Section 11 claims, which was denied. The plaintiff then filed a motion for leave to amend to reinstate the damages claims based on allegations that it had sold its securities, which was denied. On May 5, 2011, the court granted plaintiff's motion for entry of a final judgment dismissing all its claims. The plaintiff has appealed the dismissal with respect to all of the offerings included in its original complaint. On June 3, 2010, another investor (who had unsuccessfully sought to intervene in the action) filed a separate putative class action asserting substantively similar allegations relating to an additional offering pursuant to the 2007 registration statement. The defendants moved to dismiss this separate action, and the district court dismissed the action, with leave to replead. Plaintiff filed an amended complaint on October 20, 2011, and, on December 16, 2011, defendants moved to dismiss. These trusts issued, and GS&Co. underwrote, approximately \$785 million principal amount of certificates to all purchasers in the offering at issue in this amended complaint.

Group Inc., GS&Co., GSMC and GSMSC are among the defendants in a separate putative class action commenced on February 6, 2009 in the U.S. District Court for the Southern District of New York brought on behalf of purchasers of various mortgage pass-through certificates and asset-backed certificates issued by various securitization trusts established by the firm and underwritten by GS&Co. in 2006. The other original defendants include three current or former Goldman Sachs employees and various rating agencies. The second amended complaint generally alleges that the registration statement and prospectus supplements for the certificates violated the federal securities laws, and seeks unspecified compensatory and rescissionary damages. Defendants moved to dismiss the second amended complaint. On January 12, 2011, the district court granted the motion to dismiss with respect to offerings in which plaintiff had not purchased securities as well as all claims against the rating agencies, but denied the motion to dismiss with respect to a single offering in which the plaintiff allegedly purchased securities. These trusts issued, and GS&Co. underwrote, approximately \$698 million principal amount of certificates to all purchasers in the offerings at issue in the complaint (excluding those offerings for which the claims have been dismissed). On February 2, 2012, the district court granted the plaintiff's motion for class certification and on February 16, 2012, defendants filed a petition to review that ruling with the U.S. Court of Appeals for the Second Circuit.

On September 30, 2010, a putative class action was filed in the U.S. District Court for the Southern District of New York against GS&Co., Group Inc. and two former GS&Co. employees on behalf of investors in \$821 million of notes issued in 2006 and 2007 by two synthetic CDOs (Hudson Mezzanine 2006-1 and 2006-2). The complaint, which was amended on February 4, 2011, asserts federal securities law and common law claims, and seeks unspecified compensatory, punitive and other damages. The defendants moved to dismiss on April 5, 2011, and the motion was granted as to plaintiff's claim of market manipulation and denied as to the remainder of plaintiff's claims by a decision dated March 21, 2012.

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GS&Co., GSMC and GSMSC are among the defendants in a lawsuit filed in August 2011 by CIFG Assurance of North America, Inc. (CIFG) in the New York Supreme Court. The complaint alleges that CIFG was fraudulently induced to provide credit enhancement for a 2007 securitization sponsored by GSMC, and seeks, among other things, the repurchase of \$24.7 million in aggregate principal amount of mortgages that CIFG had previously stated to be non-conforming, an accounting for any proceeds associated with mortgages discharged from the securitization and unspecified compensatory damages. On October 17, 2011, the Goldman Sachs defendants moved to dismiss. By a decision dated May 1, 2012, the court dismissed the fraud and accounting claims but denied the motion as to certain breach of contract claims that were also alleged.

Various alleged purchasers of, and counterparties involved in transactions relating to, mortgage pass-through certificates, CDOs and other mortgage-related products (including certain Allstate affiliates, Asset Management Fund and related entities, Basis Yield Alpha Fund (Master), Cambridge Place Investment Management Inc., the Charles Schwab Corporation, the Federal Home Loan Banks of Boston, Chicago, Indianapolis and Seattle, the FHFA (as conservator for Fannie Mae and Freddie Mac), Heungkuk Life Insurance Co. Limited (Heungkuk), Landesbank Baden-Württemberg, Massachusetts Mutual Life Insurance Company, MoneyGram Payment Systems, Inc., the National Credit Union Administration, Stichting Pensioenfond ABP, The Union Central Life Insurance Company, Ameritas Life Insurance Corp., Acacia Life Insurance Company, Watertown Savings Bank, and The Western and Southern Life Insurance Co.) have filed complaints in state and federal court or initiated arbitration proceedings against firm affiliates, generally alleging that the offering documents for the securities that they purchased contained untrue statements of material facts and material omissions and generally seeking rescission and/or damages. Certain of these complaints allege fraud and seek punitive damages. Certain of these complaints also name other firms as defendants.

A number of other entities (including American International Group, Inc. (AIG), Bayerische Landesbank, Deutsche Bank National Trust Company, Deutsche

Zentral-Genossenschaftsbank, Erste Abwicklungsanstalt and related parties, HSH Nordbank, IKB Deutsche Industriebank AG, John Hancock and related parties, M&T Bank, Norges Bank Investment Management, Prudential Insurance Company of America and related parties, and Sealink Funding Limited) have threatened to assert claims of various types against the firm in connection with various mortgage-related transactions, and the firm has entered into agreements with a number of these entities to toll the relevant statute of limitations.

As of the date hereof, the aggregate notional amount of mortgage-related securities sold to plaintiffs in active cases brought against the firm where those plaintiffs are seeking rescission of such securities was approximately \$16.5 billion (which does not reflect adjustment for any subsequent paydowns or distributions or any residual value of such securities). This amount does not include the threatened claims noted above or potential claims by other purchasers in the same or other mortgage-related offerings that have not actually brought claims against the firm, or claims that have been dismissed (including claims by Landesbank Baden-Württemberg, which were dismissed pursuant to a judgment of the district court that was affirmed on appeal by a summary order dated April 19, 2012).

In June 2011, Heungkuk filed a criminal complaint against certain past and present employees of the firm in South Korea relating to its purchase of a CDO securitization from Goldman Sachs. The filing does not represent any judgment by a governmental entity, but starts a process whereby the prosecutor investigates the complaint and determines whether to take action.

On September 1, 2011, Group Inc. and GS Bank USA entered into a Consent Order with the Federal Reserve Board relating to the servicing of residential mortgage loans. In addition, on September 1, 2011, GS Bank USA entered into an Agreement on Mortgage Servicing Practices with the New York State Department of Financial Services, Litton and Ocwen, in connection with which Group Inc. agreed to forgive 25% of the unpaid principal balance on certain delinquent first lien residential mortgage loans owned by Group Inc. or a subsidiary, totaling approximately \$13 million in principal forgiveness. See Note 18 for further information about these settlements.

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Group Inc., GS&Co. and GSMC are among the numerous financial services firms named as defendants in a *qui tam* action originally filed by a relator on April 7, 2010 purportedly on behalf of the City of Chicago and State of Illinois in Cook County, Illinois Circuit Court asserting claims under the Illinois Whistleblower Reward and Protection Act and Chicago False Claims Act, based on allegations that defendants had falsely certified compliance with various Illinois laws, which were purportedly violated in connection with mortgage origination and servicing activities. The complaint, which was originally filed under seal, seeks treble damages and civil penalties. Plaintiff filed an amended complaint on December 28, 2011, naming GS&Co. and GSMC, among others, as additional defendants and a second amended complaint on February 8, 2012. On March 12, 2012, the action was removed to the U.S. District Court for the Northern District of Illinois, and on April 4, 2012, plaintiff filed a motion to remand to state court.

The firm has also received, and continues to receive, requests for information and/or subpoenas from federal, state and local regulators and law enforcement authorities, relating to the mortgage-related securitization process, subprime mortgages, CDOs, synthetic mortgage-related products, particular transactions involving these products, and servicing and foreclosure activities, and is cooperating with these regulators and other authorities, including in some cases agreeing to the tolling of the relevant statute of limitations. See also Financial Crisis-Related Matters below.

On February 24, 2012, the firm received a Wells notice from the staff of the SEC with respect to the disclosures contained in the offering documents used in connection with a late 2006 offering of approximately \$1.3 billion of subprime residential mortgage-backed securities underwritten by GS&Co. The firm has made a submission to, and intends to continue to engage in a dialogue with, the SEC staff seeking to address their concerns.

The firm expects to be the subject of additional putative shareholder derivative actions, purported class actions, rescission and put back claims and other litigation, additional investor and shareholder demands, and additional regulatory and other investigations and actions with respect to mortgage-related offerings, loan sales, CDOs, and servicing and foreclosure activities. See Note 18 for further information regarding mortgage-related contingencies.

Auction Products Matters. On August 21, 2008, GS&Co. entered into a settlement in principle with the Office of the Attorney General of the State of New York and the Illinois Securities Department (on behalf of the North American Securities Administrators Association) regarding auction rate securities. Under the agreement, Goldman Sachs agreed, among other things, (i) to offer to repurchase at par the outstanding auction rate securities that its private wealth management clients purchased through the firm prior to February 11, 2008, with the exception of those auction rate securities where auctions were clearing, (ii) to continue to work with issuers and other interested parties, including regulatory and governmental entities, to expeditiously provide liquidity solutions for institutional investors, and (iii) to pay a \$22.5 million fine. The settlement is subject to definitive documentation and approval by the various states. On June 2, 2009, GS&Co. entered into an Assurance of Discontinuance with the New York State Attorney General. On March 19, 2010, GS&Co. entered into an Administrative Consent Order with the Illinois Secretary of State, Securities Department, which had conducted an investigation on behalf of states other than New York. GS&Co. has entered into similar consent orders with most states and is in the process of doing so with the remaining states.

On September 4, 2008, Group Inc. was named as a defendant, together with numerous other financial services firms, in two complaints filed in the U.S. District Court for the Southern District of New York alleging that the defendants engaged in a conspiracy to manipulate the auction securities market in violation of federal antitrust laws. The actions were filed, respectively, on behalf of putative classes of issuers of and investors in auction rate securities and seek, among other things, treble damages in an unspecified amount. Defendants' motion to dismiss was granted on January 26, 2010. On March 1, 2010, the plaintiffs appealed from the dismissal of their complaints.

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Beginning in February 2012, GS&Co. was named as respondent in three FINRA arbitrations filed, respectively, by the cities of Houston, Texas and Reno, Nevada and a California school district, based on GS&Co.'s role as underwriter and broker-dealer of the claimants' issuances of an aggregate of over \$1.7 billion of auction rate securities from 2004 through 2007 (in the Houston arbitration, two other financial services firms were named as respondents as well). Each claimant alleges that GS&Co. failed to disclose that it had a practice of placing cover bids on auctions, and failed to offer the claimant the option of a formulaic maximum rate (rather than a fixed maximum rate), and that, as a result, the claimant was forced to engage in a series of expensive refinancing and conversion transactions after the failure of the auction market (at an estimated cost, in the case of Houston, of approximately \$90 million). Houston and Reno also allege that GS&Co. advised them to enter into interest rate swaps in connection with their auction rate securities issuances, causing them to incur additional losses (including, in the case of Reno, a swap termination obligation of over \$8 million). The claimants assert claims for breach of fiduciary duty, fraudulent concealment, negligent misrepresentation, breach of contract, violations of the Exchange Act and state securities laws, and breach of duties under the rules of the Municipal Securities Rulemaking Board and the NASD, and seek unspecified damages.

Private Equity-Sponsored Acquisitions Litigation. Group Inc. and GS Capital Partners are among numerous private equity firms and investment banks named as defendants in a federal antitrust action filed in the U.S. District Court for the District of Massachusetts in December 2007. As amended, the complaint generally alleges that the defendants have colluded to limit competition in bidding for private equity-sponsored acquisitions of public companies, thereby resulting in lower prevailing bids and, by extension, less consideration for shareholders of those companies in violation of Section 1 of the U.S. Sherman Antitrust Act and common law. The complaint seeks, among other things, treble damages in an unspecified amount. Defendants moved to dismiss on August 27, 2008. The district court dismissed claims relating to certain transactions that were the subject of releases as part of the settlement of shareholder actions challenging such transactions, and by an order dated December 15, 2008 otherwise denied the motion to dismiss. On April 26, 2010, the plaintiffs moved for leave to proceed with a second phase of discovery encompassing additional transactions. On August 18, 2010, the court permitted discovery on eight additional transactions, and the plaintiffs filed a fourth amended complaint on October 7, 2010. The defendants filed a motion to dismiss certain aspects of the fourth amended complaint on October 21, 2010, and the court granted that motion on January 13, 2011. On January 21, 2011, certain defendants, including Group Inc., filed a motion to dismiss another claim of the fourth amended complaint on the grounds that the transaction was the subject of a release as part of the settlement of a shareholder action challenging the transaction. The court granted that motion on March 1, 2011. On July 11, 2011, the plaintiffs moved for leave to file a fifth amended complaint encompassing additional transactions and to take discovery concerning those transactions. On September 7, 2011, the district court denied the plaintiffs' motion, without prejudice, insofar as it sought leave to file a fifth amended complaint, but permitted an additional six-month phase of discovery with respect to the additional transactions.

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IndyMac Pass-Through Certificates Litigation. GS&Co. is among numerous underwriters named as defendants in a putative securities class action filed on May 14, 2009 in the U.S. District Court for the Southern District of New York. As to the underwriters, plaintiffs allege that the offering documents in connection with various securitizations of mortgage-related assets violated the disclosure requirements of the federal securities laws. The defendants include IndyMac-related entities formed in connection with the securitizations, the underwriters of the offerings, certain ratings agencies which evaluated the credit quality of the securities, and certain former officers and directors of IndyMac affiliates. On November 2, 2009, the underwriters moved to dismiss the complaint. The motion was granted in part on February 17, 2010 to the extent of dismissing claims based on offerings in which no plaintiff purchased, and the court reserved judgment as to the other aspects of the motion. By a decision dated June 21, 2010, the district court formally dismissed all claims relating to offerings in which no named plaintiff purchased certificates (including all offerings underwritten by GS&Co.), and both granted and denied the defendants' motions to dismiss in various other respects. On May 17, 2010, four additional investors filed a motion seeking to intervene in order to assert claims based on additional offerings (including two underwritten by GS&Co.). On July 6, 2010 and August 19, 2010, two additional investors filed motions to intervene in order to assert claims based on additional offerings (none of which were underwritten by GS&Co.). The defendants opposed the motions on the ground that the putative intervenors' claims were time-barred and, on June 21, 2011, the court denied the motions to intervene with respect to, among others, the claims based on the offerings underwritten by GS&Co. Certain of the putative intervenors (including those seeking to assert claims based on two offerings underwritten by GS&Co.) have appealed.

GS&Co. underwrote approximately \$751 million principal amount of securities to all purchasers in the offerings at issue in the May 2010 offering. On July 11, 2008, IndyMac Bank was placed under an FDIC receivership, and on July 31, 2008, IndyMac Bancorp, Inc. filed for Chapter 7 bankruptcy in the U.S. Bankruptcy Court in Los Angeles, California.

MF Global Securities Litigation. GS&Co. is among numerous underwriters named as defendants in class action complaints filed in the U.S. District Court for the Southern District of New York commencing November 18, 2011. These complaints generally allege that the offering materials for two offerings of MF Global Holdings Ltd. convertible notes (aggregating approximately \$575 million in principal amount) in February 2011 and July 2011 failed to, among other things, describe adequately the extent of MF Global's exposure to European sovereign debt, in violation of the disclosure requirements of the federal securities laws. GS&Co. underwrote an aggregate principal amount of approximately \$214 million of the notes. On October 31, 2011, MF Global Holdings Ltd. filed for Chapter 11 bankruptcy in the U.S. Bankruptcy Court in Manhattan, New York.

GS&Co. has also received inquiries from various governmental and regulatory bodies and self-regulatory organizations concerning certain transactions with MF Global prior to its bankruptcy filing. Goldman Sachs is cooperating with all such inquiries.

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(Unaudited)

Employment-Related Matters. On May 27, 2010, a putative class action was filed in the U.S. District Court for the Southern District of New York by several contingent technology workers who were employees of third-party vendors. The plaintiffs sought overtime pay for alleged hours worked in excess of 40 per work week. The complaint alleged that the plaintiffs were de facto employees of GS&Co. and that GS&Co. is responsible for the overtime pay under federal and state overtime laws. The complaint sought class action status and unspecified damages. On March 21, 2011, the parties agreed to the terms of a settlement in principle and on February 10, 2012, the court approved the terms of the settlement and the time to appeal has run. The firm has paid the full amount of the settlement.

On September 15, 2010, a putative class action was filed in the U.S. District for the Southern District of New York by three former female employees alleging that Group Inc. and GS&Co. have systematically discriminated against female employees in respect of compensation, promotion, assignments, mentoring and performance evaluations. The complaint alleges a class consisting of all female employees employed at specified levels by Group Inc. and GS&Co. since July 2002, and asserts claims under federal and New York City discrimination laws. The complaint seeks class action status, injunctive relief and unspecified amounts of compensatory, punitive and other damages. Group Inc. and GS&Co. filed a motion to stay the claims of one of the named plaintiffs and to compel individual arbitration with that individual, based on an arbitration provision contained in an employment agreement between Group Inc. and the individual. On April 28, 2011, the magistrate judge to whom the district judge assigned the motion denied the motion. On July 7, 2011, the magistrate judge denied Group Inc. s and GS&Co. s motion for reconsideration of the magistrate judge s decision, and on July 21, 2011 Group Inc. and GS&Co. appealed the magistrate judge s decision to the district court, which affirmed the decision on November 15, 2011. Group Inc. and GS&Co. have appealed that decision to the U.S. Court

of Appeals for the Second Circuit. On June 13, 2011, Group Inc. and GS&Co. moved to strike the class allegations of one of the three named plaintiffs based on her failure to exhaust administrative remedies. On September 29, 2011, the magistrate judge recommended denial of the motion to strike and Group Inc. and GS&Co. filed their objections to that recommendation with the district judge presiding over the case on October 11, 2011. By a decision dated January 10, 2012, the district court denied the motion to strike. On July 22, 2011, Group Inc. and GS&Co. moved to strike all of the plaintiffs class allegations, and for partial summary judgment as to plaintiffs disparate impact claims. By a decision dated January 19, 2012, the magistrate judge recommended that defendants motion be denied as premature. The defendants have filed their objections to that recommendation with the district judge.

Hellenic Republic (Greece) Matters. Group Inc. and certain of its affiliates have been subject to a number of investigations and reviews by various governmental and regulatory bodies and self-regulatory organizations in connection with the firm s transactions with the Hellenic Republic (Greece), including financing and swap transactions, as well as trading and research activities with respect to Greek sovereign debt. Goldman Sachs has cooperated with the investigations and reviews.

Investment Management Services. Group Inc. and certain of its affiliates are parties to various civil litigation and arbitration proceedings and other disputes with clients relating to losses allegedly sustained as a result of the firm s investment management services. These claims generally seek, among other things, restitution or other compensatory damages and, in some cases, punitive damages. In addition, Group Inc. and its affiliates are subject from time to time to investigations and reviews by various governmental and regulatory bodies and self-regulatory organizations in connection with the firm s investment management services. Goldman Sachs is cooperating with all such investigations and reviews.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Financial Advisory Services. Group Inc. and certain of its affiliates are parties to various civil litigation and arbitration proceedings and other disputes with clients and third parties relating to the firm's financial advisory activities. These claims generally seek, among other things, compensatory damages and, in some cases, punitive damages, and in certain cases allege that the firm did not appropriately disclose or deal with conflicts of interest. In addition, Group Inc. and its affiliates are subject from time to time to investigations and reviews by various governmental and regulatory bodies and self-regulatory organizations in connection with conflicts of interest. Goldman Sachs is cooperating with all such investigations and reviews.

Group Inc., GS&Co. and The Goldman, Sachs & Co. L.L.C. are defendants in an action brought by the founders and former majority shareholders of Dragon Systems, Inc. (Dragon) on November 18, 2008, alleging that the plaintiffs incurred losses due to GS&Co.'s financial advisory services provided in connection with the plaintiffs' exchange of their purported \$300 million interest in Dragon for stock of Lernout & Hauspie Speech Products, N.V. (L&H) in 2000. L&H filed for Chapter 11 bankruptcy in the U.S. Bankruptcy Court in Wilmington, Delaware on November 29, 2000. The action is pending in the United States District Court for the District of Massachusetts. The complaint, which was amended in November 2011 following the 2009 dismissal of certain of the plaintiffs' initial claims, seeks unspecified compensatory, punitive and other damages, and alleges breach of fiduciary duty, breach of contract, breach of implied covenant of good faith and fair dealing, violation of state unfair trade practices laws, negligence, negligent and intentional misrepresentation, gross negligence, willful misconduct and bad faith. On April 27, 2012 and April 30, 2012, the majority shareholder plaintiffs and the defendants each moved for summary judgment on various claims. Former minority shareholders of Dragon have brought a similar action against GS&Co. with respect to their purported \$49 million interest in Dragon, and this action has been consolidated with the action described above for purposes of discovery.

Sales, Trading and Clearance Practices. Group Inc. and certain of its affiliates are subject to a number of investigations and reviews, certain of which are industry-wide, by various governmental and regulatory bodies and self-regulatory organizations relating to the sales, trading and clearance of corporate and government securities and other financial products, including compliance with the SEC's short sale rule, algorithmic and quantitative trading, futures trading, transaction reporting, securities lending practices, trading and clearance of credit derivative instruments, commodities trading, private placement practices and compliance with the U.S. Foreign Corrupt Practices Act.

The European Commission announced in April 2011 that it is initiating proceedings to investigate further numerous financial services companies, including Group Inc., in connection with the supply of data related to credit default swaps and in connection with profit sharing and fee arrangements for clearing of credit default swaps, including potential anti-competitive practices. These proceedings are ongoing. The firm has received civil investigative demands from the U.S. Department of Justice (DOJ) for information on similar matters.

Goldman Sachs is cooperating with the investigations and reviews.

On March 13, 2012, GSEC entered into a consent order with the CFTC to settle charges that GSEC had failed to diligently supervise the handling of accounts and investigate questionable behavior of a broker-dealer client to which GSEC provided clearing services. Under this consent order, GSEC paid \$7 million to the CFTC and represented that it had implemented enhanced supervision policies, procedures and training.

Insider Trading Investigations. From time to time, the firm and its employees are the subject of or otherwise involved in regulatory investigations relating to insider trading, the potential misuse of material nonpublic information and the effectiveness of the firm's insider trading controls and information barriers. It is the firm's practice to fully cooperate with any such investigations.

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(Unaudited)

EU Price-Fixing Matter. On July 5, 2011, the European Commission issued a Statement of Objections to Group Inc. raising allegations of an industry-wide conspiracy to fix prices for power cables including by an Italian cable company in which certain Goldman Sachs-affiliated investment funds held ownership interests from 2005 to 2009. The Statement of Objections proposes to hold Group Inc. jointly and severally liable for some or all of any fine levied against the cable company under the concept of parental liability under EU competition law.

Municipal Securities Matters. Group Inc. and certain of its affiliates are subject to a number of investigations and reviews by various governmental and regulatory bodies and self-regulatory organizations relating to transactions involving municipal securities, including wall-cross procedures and conflict of interest disclosure with respect to state and municipal clients, the trading and structuring of municipal derivative instruments in connection with municipal offerings, political contribution rules, underwriting of Build America Bonds and the possible impact of credit default swap transactions on municipal issuers. Goldman Sachs is cooperating with the investigations and reviews.

Group Inc., Goldman Sachs Mitsui Marine Derivative Products, L.P. (GSMMDP) and GS Bank USA are among numerous financial services firms that have been named as defendants in numerous substantially identical individual antitrust actions filed beginning on November 12, 2009 that have been coordinated with related antitrust class action litigation and individual actions, in which no Goldman Sachs affiliate is named, for pre-trial proceedings in the U.S. District Court for the Southern District of New York. The plaintiffs include individual California municipal entities and three New York non-profit entities.

All of these complaints against Group Inc., GSMMDP and GS Bank USA generally allege that the Goldman Sachs defendants participated in a conspiracy to arrange bids, fix prices and divide up the market for derivatives used by municipalities in refinancing and hedging transactions from 1992 to 2008. The complaints assert claims under the federal antitrust laws and either California's Cartwright Act or New York's Donnelly Act, and seek, among other things, treble damages under the antitrust laws in an unspecified amount and injunctive relief. On April 26, 2010, the Goldman Sachs defendants' motion to dismiss complaints filed by several individual California municipal plaintiffs was denied. On August 19, 2011, Group Inc., GSMMDP and GS Bank USA were voluntarily dismissed without prejudice from all actions except one brought by a California municipal entity.

Financial Crisis-Related Matters. Group Inc. and certain of its affiliates are subject to a number of investigations and reviews by various governmental and regulatory bodies and self-regulatory organizations and litigation relating to the 2008 financial crisis, including the establishment and unwind of credit default swaps between Goldman Sachs and AIG and other transactions with, and in the securities of, AIG, The Bear Stearns Companies Inc., Lehman Brothers Holdings Inc. and other firms. Goldman Sachs is cooperating with the investigations and reviews.

In the second quarter of 2011, a Staff Report of the Senate Permanent Subcommittee on Investigations concerning the key causes of the financial crisis was issued. Goldman Sachs and another financial institution were used as case studies with respect to the role of investment banks. The report was referred to the DOJ and the SEC for review. The firm is cooperating with the investigations arising from this referral, which are ongoing.

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and the Shareholders of

The Goldman Sachs Group, Inc.:

We have reviewed the accompanying condensed consolidated statement of financial condition of The Goldman Sachs Group, Inc. and its subsidiaries (the Company) as of March 31, 2012, the related condensed consolidated statements of earnings for the three months ended March 31, 2012 and 2011, the condensed consolidated statements of comprehensive income for the three months ended March 31, 2012 and 2011, the condensed consolidated statement of changes in shareholders' equity for the three months ended March 31, 2012, and the condensed consolidated statements of cash flows for the three months ended March 31, 2012 and 2011. These condensed consolidated interim financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying condensed consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statement of financial condition as of December 31, 2011, and the related consolidated statements of earnings, changes in shareholders' equity, cash flows and comprehensive income for the year then ended (not presented herein), and in our report dated February 28, 2012, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated statement of financial condition as of December 31, 2011, and the condensed consolidated statement of changes in shareholders' equity for the year ended December 31, 2011, is fairly stated in all material respects in relation to the consolidated financial statements from which it has been derived.

/s/ PRICEWATERHOUSECOOPERS LLP

New York, New York

May 9, 2012

Table of Contents**Statistical Disclosures****Distribution of Assets, Liabilities and Shareholders' Equity**

The table below presents a summary of consolidated average balances and interest rates.

	0000000000	0000000000	0000000000	0000000000	0000000000	0000000000
	2012			Three Months Ended March		2011
<i>in millions, except rates</i>	Average balance	Interest	Average Rate (annualized)	Average balance	Interest	Average Rate (annualized)
Assets						
Deposits with banks	\$ 48,029	\$ 38	0.32%	\$ 34,094	\$ 29	0.34%
U.S.	43,939	29	0.27	29,814	22	0.30
Non-U.S.	4,090	9	0.89	4,280	7	0.66
Securities borrowed, securities purchased under agreements to resell, at fair value, and federal funds sold	348,873	(14)	(0.02)	345,021	169	0.20
U.S.	200,486	(112)	(0.22)	225,247		
Non-U.S.	148,387	98	0.27	119,774	169	0.57
Financial instruments owned, at fair value ^{1, 2}	294,257	2,442	3.34	284,548	2,515	3.58
U.S.	181,376	1,590	3.53	184,064	1,814	4.00
Non-U.S.	112,881	852	3.04	100,484	701	2.83
Other interest-earning assets ³	133,707	367	1.10	137,437	394	1.16
U.S.	87,609	236	1.08	94,839	203	0.87
Non-U.S.	46,098	131	1.14	42,598	191	1.82
Total interest-earning assets	824,866	2,833	1.38	801,100	3,107	1.57
Cash and due from banks	6,770			4,134		
Other non-interest-earning assets ²	110,222			112,904		
Total assets	\$941,858			\$918,138		
Liabilities						
Interest-bearing deposits	\$ 48,096	\$ 91	0.76%	\$ 38,775	\$ 72	0.75%
U.S.	40,571	81	0.80	32,652	65	0.81
Non-U.S.	7,525	10	0.53	6,123	7	0.46
Securities loaned and securities sold under agreements to repurchase, at fair value	176,115	211	0.48	169,094	201	0.48
U.S.	121,092	84	0.28	110,953	87	0.32
Non-U.S.	55,023	127	0.93	58,141	114	0.80
Financial instruments sold, but not yet purchased ^{1, 2}	91,587	525	2.31	95,388	496	2.11
U.S.	40,292	162	1.62	49,231	223	1.84
Non-U.S.	51,295	363	2.85	46,157	273	2.40
Commercial paper	1,288	1	0.28	1,444	1	0.18
U.S.	261		0.60	51		0.16
Non-U.S.	1,027	1	0.20	1,393	1	0.18
Other borrowings ^{4, 5}	74,079	167	0.91	69,915	128	0.74
U.S.	49,630	136	1.10	45,418	120	1.07
Non-U.S.	24,449	31	0.51	24,497	8	0.13
Long-term borrowings ^{5, 6}	182,239	1,009	2.23	185,509	786	1.72
U.S.	175,006	947	2.18	179,082	734	1.66
Non-U.S.	7,233	62	3.45	6,427	52	3.28
Other interest-bearing liabilities ⁷	204,166	(152)	(0.30)	194,388	65	0.14
U.S.	150,736	(251)	(0.67)	143,293	(54)	(0.15)
Non-U.S.	53,430	99	0.75	51,095	119	0.94
Total interest-bearing liabilities	777,570	1,852	0.96	754,513	1,749	0.94
Non-interest-bearing deposits	184			119		

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Other non-interest-bearing liabilities ²	93,280		87,454	
Total liabilities	871,034		842,086	
Shareholders' equity				
Preferred stock	3,100		5,993	
Common stock	67,724		70,059	
Total shareholders' equity	70,824		76,052	
Total liabilities, preferred stock and shareholders' equity	\$941,858		\$918,138	
Interest rate spread		0.42%		0.63%
Net interest income and net yield on interest-earning assets	\$ 981	0.48	\$1,358	0.69
U.S.	584	0.46	864	0.66
Non-U.S.	397	0.51	494	0.75
Percentage of interest-earning assets and interest-bearing liabilities attributable to non-U.S. operations ⁸				
Assets		37.76%		33.35%
Liabilities		25.72		25.69

Table of Contents**Statistical Disclosures**

1. Consists of cash financial instruments, including equity securities and convertible debentures.
2. Derivative instruments and commodities are included in other non-interest-earning assets and other non-interest-bearing liabilities.
3. Primarily consists of cash and securities segregated for regulatory and other purposes and certain receivables from customers and counterparties.
4. Consists of short-term other secured financings and unsecured short-term borrowings, excluding commercial paper.
5. Interest rates include the effects of interest rate swaps accounted for as hedges.
6. Consists of long-term secured financings and unsecured long-term borrowings.
7. Primarily consists of certain payables to customers and counterparties.
8. Assets, liabilities and interest are attributed to U.S. and non-U.S. based on the location of the legal entity in which the assets and liabilities are held.

Ratios

The table below presents selected financial ratios.

	Three Months	
	Ended March	
	2012	2011
Annualized net earnings to average assets	0.9%	1.2%
Annualized return on average common shareholders' equity ¹	12.2	12.2 ⁴
Annualized return on average total shareholders' equity ²	11.9	14.4
Total average equity to average assets	7.5	8.3
Dividend payout ratio ³	8.9	22.4

1. Based on annualized net earnings applicable to common shareholders divided by average monthly common shareholders' equity.
2. Based on annualized net earnings divided by average monthly total shareholders' equity.
3. Dividends declared per common share as a percentage of diluted earnings per common share.
4. The \$1.64 billion Series G Preferred Stock dividend was not annualized in the calculation of annualized net earnings applicable to common shareholders since it has no impact on other quarters in the year.

Table of Contents**Statistical Disclosures****Cross-border Outstandings**

Cross-border outstandings are based on the Federal Financial Institutions Examination Council's (FFIEC) regulatory guidelines for reporting cross-border information and represent the amounts that the firm may not be able to obtain from a foreign country due to country-specific events, including unfavorable economic and political conditions, economic and social instability, and changes in government policies.

Credit exposure represents the potential for loss due to the default or deterioration in credit quality of a counterparty or an issuer of securities or other instruments the firm holds and is measured based on the potential loss in an event of non-payment by a counterparty. Credit exposure is reduced through the effect of risk mitigants, such as netting agreements with counterparties that permit the firm to offset receivables and payables with such counterparties or obtaining collateral from counterparties. The tables below do not include all the effects of such risk mitigants and do not represent the firm's credit exposure.

Claims in the tables below include cash, receivables, securities purchased under agreements to resell, securities borrowed and cash financial instruments, but exclude derivative instruments and commitments. Securities purchased under agreements to resell and securities borrowed are presented gross, without reduction for related securities collateral held, based on the domicile of the counterparty. Margin loans (included in receivables) are presented based on the amount of collateral advanced by the counterparty.

The tables below present cross-border outstandings for each country in which cross-border outstandings exceed 0.75% of consolidated assets in accordance with the FFIEC guidelines.

<i>in millions</i>	As of March 2012			
	Banks	Governments	Other	Total
Country				
France	\$37,858 ¹	\$ 3,461	\$ 4,134	\$45,453
Germany	7,075	18,639	14,184	39,898
Cayman Islands	4		31,857	31,861
Japan	14,264	2	11,658	25,924
China	7,232	964	3,162	11,358
United Kingdom	2,428	2,581	5,788	10,797
Italy	623	8,220 ²	1,135	9,978
Switzerland	3,353	44	6,486	9,883
Canada	480	1,410	6,639	8,529

<i>in millions</i>	As of December 2011			
	Banks	Governments	Other	Total
Country				
France	\$33,916 ¹	\$ 2,859	\$ 3,776	\$40,551
Cayman Islands			33,742	33,742
Japan	18,745	31	6,457	25,233
Germany	5,458	16,089	3,162	24,709
United Kingdom	2,111	3,349	5,243	10,703
Italy	6,143	3,054	841	10,038 ⁴
Ireland	1,148	63	8,801 ³	10,012
China	6,722	38	2,908	9,668
Switzerland	3,836	40	5,112	8,988
Canada	676	1,019	6,841	8,536
Australia	1,597	470	5,209	7,276

1. Primarily comprised of secured lending transactions with a clearing house which are secured by collateral.

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2. Primarily comprised of short-term Italian government obligations.

3. Primarily comprised of interests in and receivables from funds domiciled in Ireland, but whose underlying investments are primarily located outside of Ireland, and secured lending transactions which are secured by U.S. government obligations.

4. Primarily comprised of secured lending transactions which are primarily secured by German government obligations.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Management's Discussion and Analysis

Introduction

The Goldman Sachs Group, Inc. (Group Inc.) is a leading global investment banking, securities and investment management firm that provides a wide range of financial services to a substantial and diversified client base that includes corporations, financial institutions, governments and high-net-worth individuals. Founded in 1869, the firm is headquartered in New York and maintains offices in all major financial centers around the world.

We report our activities in four business segments: Investment Banking, Institutional Client Services, Investing & Lending and Investment Management. See Results of Operations below for further information about our business segments.

This Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2011. References to our Annual Report on Form 10-K are to our Annual Report on Form 10-K for the year ended December 31, 2011.

When we use the terms Goldman Sachs, the firm, we, us and our, we mean Group Inc., a Delaware corporation, and its consolidated subsidiaries.

References to this Form 10-Q are to our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2012. All references to March 2012 and March 2011 refer to our periods ended, or the dates, as the context requires, March 31, 2012 and March 31, 2011, respectively. All references to December 2011 refer to the date December 31, 2011. 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.

Executive Overview

The firm generated net earnings of \$2.11 billion for the first quarter of 2012, compared with \$2.74 billion for the first quarter of 2011. Our diluted earnings per common share were \$3.92 for the first quarter of 2012, compared with \$1.56¹ for the first quarter of 2011. Annualized return on average common shareholders' equity (ROE)² was 12.2% for the first quarter of 2012, compared with 12.2%¹ for the first quarter of 2011.

Book value per common share was \$134.48 and tangible book value per common share³ was \$123.94 as of March 2012, both approximately 3% higher compared with the end of 2011. Our Tier 1 capital ratio under Basel 1 was 14.7% and our Tier 1 common ratio under Basel 1⁴ was 12.9% as of March 2012, up from 13.8% and 12.1%, respectively, as of the end of 2011. In April 2012, the Board of Directors of Group, Inc. (Board) increased the firm's quarterly dividend to \$0.46 per common share from \$0.35 per common share.

The firm generated net revenues of \$9.95 billion for the first quarter of 2012, compared with \$11.89 billion for the first quarter of 2011. These results reflected lower net revenues in each of our business segments compared with the first quarter of 2011. An overview of net revenues for each of our business segments is provided below.

1. Excluding the impact of the preferred dividend of \$1.64 billion related to the redemption of our Series G Preferred Stock (calculated as the difference between the carrying value and the redemption value of the preferred stock), diluted earnings per common share were \$4.38 and annualized ROE was 14.5% for the first quarter of 2011. We believe that presenting our results for the first quarter of 2011 excluding this dividend is meaningful, as it increases the comparability of period-to-period results. Diluted earnings per common share and ROE excluding this dividend are non-GAAP measures and may not be comparable to similar non-GAAP measures used by other companies. See Results of Operations Financial Overview below for further information about our calculation of diluted earnings per common share and ROE excluding the impact of this dividend.

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2. See Results of Operations Financial Overview below for further information about our calculation of ROE.

3. Tangible book value per common share is a non-GAAP measure and may not be comparable to similar non-GAAP measures used by other companies. See Equity Capital Other Capital Metrics below for further information about our calculation of tangible book value per common share.

4. Tier 1 common ratio is a non-GAAP measure and may not be comparable to similar non-GAAP measures used by other companies. See Equity Capital Consolidated Regulatory Capital Ratios below for further information about our Tier 1 common ratio.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Management's Discussion and Analysis

Investment Banking

Net revenues in Investment Banking decreased compared with the first quarter of 2011 as significantly higher net revenues in Financial Advisory were more than offset by significantly lower net revenues in our Underwriting business. Net revenues in equity underwriting were significantly lower than the first quarter of 2011, primarily reflecting a decline in industry-wide activity. Net revenues in debt underwriting were lower compared with a strong first quarter of 2011, primarily reflecting a decline in leveraged finance activity.

Institutional Client Services

Net revenues in Institutional Client Services decreased compared with the first quarter of 2011. The decrease primarily reflected significantly lower net revenues in Fixed Income, Currency and Commodities Client Execution compared with a solid first quarter of 2011, as higher net revenues in interest rate products were more than offset by lower net revenues in the other major businesses. During the first quarter of 2012, Fixed Income, Currency and Commodities Client Execution operated in an environment generally characterized by tighter credit spreads and improved activity levels compared with the fourth quarter of 2011.

Net revenues in Equities decreased slightly compared with the first quarter of 2011, as higher net revenues in equities client execution, reflecting an increase in derivatives, were more than offset by lower commissions and fees, consistent with lower market volumes. Securities services net revenues were essentially unchanged compared with the first quarter of 2011. During the first quarter of 2012, Equities operated in an environment generally characterized by an increase in global equity prices and lower volatility levels compared with the fourth quarter of 2011.

Investing & Lending

Net revenues in Investing & Lending were \$1.91 billion for the first quarter of 2012, compared with \$2.71 billion for the first quarter of 2011. During the first quarter of 2012, an increase in global equity prices and tighter credit spreads contributed to positive results in Investing & Lending. These results included a gain of \$169 million from our investment in the ordinary shares of Industrial and Commercial Bank of China Limited (ICBC), net gains of \$891 million from other investments in equities (with public and private equities each contributing approximately one-half of the net gains), net gains and net interest of \$585 million from debt securities and loans, and other net revenues of \$266 million, principally related to our consolidated entities held for investment purposes.

Investment Management

Net revenues in Investment Management decreased compared with the first quarter of 2011, primarily due to lower management and other fees and lower transaction revenues. During the quarter, assets under management decreased \$4 billion to \$824 billion, reflecting net outflows of \$26 billion, including net outflows in money market assets and, to a lesser extent, equity and alternative investment assets. This decrease was partially offset by net market appreciation of \$22 billion, primarily in equity and fixed income assets.

Our business, by its nature, does not produce predictable earnings. Our results in any given period can be materially affected by conditions in global financial markets, economic conditions generally and other factors. For a further discussion of the factors that may affect our future operating results, see **Certain Risk Factors That May Affect Our Businesses** below, as well as **Risk Factors** in Part I, Item 1A of our Annual Report on Form 10-K.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES