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

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended March 31, 2013

or

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

For the transition period from to

Commission File Number: 001-14965

The Goldman Sachs Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware	13-4019460
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
200 West Street, New York, N.Y.	10282
(Address of principal executive offices)	(Zip Code)

(212) 902-1000

(Registrant s telephone number, including area code)

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.

x 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).

x 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 x 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 x No

APPLICABLE ONLY TO CORPORATE ISSUERS

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

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THE GOLDMAN SACHS GROUP, INC.

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

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Earnings

(Unaudited)

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

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

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

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income

(Unaudited)

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

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

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Financial Condition

(Unaudited)

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

Unsecured long-term borrowings (includes $12,248 and $12,593 at fair value as of March 2013 and December 2012, respectively)	**167,008**	167,305
Other liabilities and accrued expenses (includes $11,842 and $12,043 at fair value as of March 2013 and December 2012, respectively)	**38,553**	42,395
Total liabilities	**881,995**	862,839
Commitments, contingencies and guarantees		
Shareholders equity		
Preferred stock, par value $0.01 per share; aggregate liquidation preference of $6,200 as of both March 2013 and December 2012	**6,200**	6,200
Common stock, par value $0.01 per share; 4,000,000,000 shares authorized, 822,358,425 and 816,807,400 shares issued as of March 2013 and December 2012, respectively, and 460,782,218 and 465,148,387 shares outstanding as of March 2013 and December 2012, respectively	**8**	8
Restricted stock units and employee stock options	**3,679**	3,298
Nonvoting common stock, par value $0.01 per share; 200,000,000 shares authorized, no shares issued and outstanding		
Additional paid-in capital	**48,732**	48,030
Retained earnings	**67,164**	65,223
Accumulated other comprehensive loss	**(208)**	(193)
Stock held in treasury, at cost, par value $0.01 per share; 361,576,209 and 351,659,015 shares as of March 2013 and December 2012, respectively	**(48,347)**	(46,850)
Total shareholders equity	**77,228**	75,716
Total liabilities and shareholders equity	**$959,223**	$938,555

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

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Changes in Shareholders   Equity

(Unaudited)

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

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

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

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(Unaudited)

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

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

SUPPLEMENTAL DISCLOSURES:

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

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

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

THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Note 1. Description of Business

Note 1.

Description of Business

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

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

Investment Banking

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

Institutional Client Services

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

Investing & Lending

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

Investment Management

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

Note 2. Basis of Presentation

Note 2.

Basis of Presentation

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

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

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

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

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Note 3. Significant Accounting Policies

Note 3.

Significant Accounting Policies

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

Financial Instruments Owned, at Fair Value and Financial Instruments Sold, But Not Yet Purchased, at Fair Value	Note 4
Fair Value Measurements	Note 5
Cash Instruments	Note 6
Derivatives and Hedging Activities	Note 7
Fair Value Option	Note 8
Collateralized Agreements and Financings	Note 9
Securitization Activities	Note 10
Variable Interest Entities	Note 11
Other Assets	Note 12
Goodwill and Identifiable Intangible Assets	Note 13
Deposits	Note 14
Short-Term Borrowings	Note 15
Long-Term Borrowings	Note 16
Other Liabilities and Accrued Expenses	Note 17
Commitments, Contingencies and Guarantees	Note 18
Shareholders Equity	Note 19
Regulation and Capital Adequacy	Note 20

Consolidation

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

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

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

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

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

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

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

Use of Estimates

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

Revenue Recognition

Financial Assets and Financial Liabilities at Fair Value. Financial instruments owned, at fair value and Financial instruments sold, but not yet purchased, at fair value are recorded at fair value either under the fair value option or in accordance with other U.S. GAAP. In addition, the firm has elected to account for certain of its other financial assets and financial liabilities at fair value by electing the fair value option. The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Financial assets are marked to bid prices and financial liabilities are marked to offer prices. Fair value measurements do not include transaction costs. Fair value gains or losses are generally included in Market making for positions in Institutional Client Services and Other principal transactions for positions in Investing & Lending. See Notes 5 through 8 for further information about fair value measurements.

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

THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

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

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

Transfers of Assets

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

Receivables from Customers and Counterparties

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

Payables to Customers and Counterparties

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

Receivables from and Payables to Brokers, Dealers and Clearing Organizations

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

THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Offsetting Assets and Liabilities

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

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

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

Insurance Activities

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

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

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

Share-based Compensation

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

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

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

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Foreign Currency Translation

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

Cash and Cash Equivalents

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

Recent Accounting Developments

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

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

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

Note 4.

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

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

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

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

Loans and securities backed by residential real estate	**7,570**	**2**	8,216	4
Bank loans and bridge loans	**22,467**	**1,479** [3]	22,407	1,779 [3]
Corporate debt securities	**20,442**	**6,874**	20,981	5,761
State and municipal obligations	**2,219**	**7**	2,477	1
Other debt obligations	**2,481**		2,251	
Equities and convertible debentures	**89,278**	**24,381**	96,454	20,406
Commodities [1]	**7,695**		11,696	
Derivatives [2]	**68,040**	**52,347**	71,176	50,427
Total	**$387,393**	**$153,749**	$407,011	$126,644

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

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

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

THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

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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.

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

Note 5. Fair Value Measurements

Note 5.

Fair Value Measurements

The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Financial assets are marked to bid prices and financial liabilities are marked to offer prices. Fair value measurements do not include transaction costs. The firm measures certain financial assets and financial liabilities as a portfolio (i.e., based on its net exposure to market and/or credit risks).

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

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

The fair value hierarchy is as follows:

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

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

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

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

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

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

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

Total level 3 financial liabilities as a percentage of Total financial liabilities at fair value	**6.4%**	6.8%

1. Represents the impact on derivatives of cash collateral, and counterparty netting across levels of the fair value hierarchy. Netting among positions classified in the same level is included in that level.

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

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

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Note 6. Cash Instruments

Note 6.

Cash Instruments

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

Level 1 Cash Instruments

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

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

Level 2 Cash Instruments

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

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

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

Level 3 Cash Instruments

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

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Valuation Techniques and Significant Inputs

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

Level 3 Cash Instruments	Valuation Techniques and Significant Inputs
Loans and securities backed by commercial real estate Collateralized by a single commercial real estate property or a portfolio of properties May include tranches of varying levels of subordination	Valuation techniques vary by instrument, but are generally based on discounted cash flow techniques. Significant inputs are generally determined based on relative value analyses and include: Transaction prices in both the underlying collateral and instruments with the same or similar underlying collateral and the basis, or price difference, to such prices 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) 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 Timing of expected future cash flows (duration)
Loans and securities backed by residential real estate Collateralized by portfolios of residential real estate	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 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: Transaction prices in both the underlying collateral and instruments with the same or similar underlying collateral

May include tranches of varying levels of subordination	Market yields implied by transactions of similar or related assets Cumulative loss expectations, driven by default rates, home price projections, residential property liquidation timelines and related costs Duration, driven by underlying loan prepayment speeds and residential property liquidation timelines
Bank loans and bridge loans	Valuation techniques vary by instrument, but are generally based on discounted cash flow techniques. Significant inputs are generally determined based on relative value analyses, which incorporate comparisons both to prices of credit default swaps that reference the same or similar underlying instrument or entity and to other debt instruments for the same issuer for which observable prices or broker quotations are available. Significant inputs include: Market yields implied by transactions of similar or related assets and/or current levels and trends of market indices such as CDX and LCDX (indices that track the performance of corporate credit and loans, respectively) Current performance and recovery assumptions and, where the firm uses credit default swaps to value the related cash instrument, the cost of borrowing the underlying reference obligation Duration
Non-U.S. government and agency obligations Corporate debt securities State and municipal obligations Other debt obligations	Valuation techniques vary by instrument, but are generally based on discounted cash flow techniques. Significant inputs are generally determined based on relative value analyses, which incorporate comparisons both to prices of credit default swaps that reference the same or similar underlying instrument or entity and to other debt instruments for the same issuer for which observable prices or broker quotations are available. Significant inputs include: 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) 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 (including private equity investments and investments in real estate entities)	Recent third-party completed or pending transactions (e.g., merger proposals, tender offers, debt restructurings) are considered to be the best evidence for any change in fair value. When these are not available, the following valuation methodologies are used, as appropriate: Industry multiples (primarily EBITDA multiples) and public comparables Transactions in similar instruments Discounted cash flow techniques Third-party appraisals The firm also considers changes in the outlook for the relevant industry and financial performance of the issuer as compared to projected performance. Significant inputs include: Market and transaction multiples Discount rates, long-term growth rates, earnings compound annual growth rates and capitalization rates For equity instruments with debt-like features: market yields implied by transactions of similar or related assets, current performance and recovery assumptions, and duration

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Significant Unobservable Inputs

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

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

Level 3 Cash Instruments	**Level 3 Assets as of March 2013** *(in millions)*	**Significant Unobservable Inputs by Valuation Technique**	**Range of Significant Unobservable Inputs (Weighted Average [1]) as of March 2013**
Loans and securities backed by commercial real estate	**$3,164**	Discounted cash flows:	
		Yield	3.6% to 27.9% (8.6%)
Collateralized by a single commercial real estate property or a portfolio of properties			
		Recovery rate[3]	36.0% to 98.3% (71.4%)
May include tranches of varying levels of subordination		Duration (years)[4]	0.6 to 7.0 (2.9)
		Basis	(19) points to 16 points (3 points)
Loans and securities backed by residential real estate	**$1,683**	Discounted cash flows:	
		Yield	3.6% to 16.9% (9.1%)
Collateralized by portfolios of residential real estate			

May include tranches of varying levels of subordination		Cumulative loss rate	0.0% to 61.8% (29.6%)
		Duration (years)[4]	1.4 to 8.7 (3.5)
Bank loans and bridge loans	**$11,688**	Discounted cash flows:	
		Yield	0.4% to 36.5% (8.6%)
		Recovery rate[3]	28.1% to 85.0% (59.5%)
		Duration (years)[4]	0.4 to 4.6 (2.2)
Non-U.S. government and agency obligations	**$3,678**	Discounted cash flows:	
Corporate debt securities		Yield	0.5% to 35.3% (7.8%)
State and municipal obligations		Recovery rate[3]	0.0% to 70.0% (64.9%)
Other debt obligations		Duration (years)[4]	0.4 to 14.6 (4.0)
Equities and convertible debentures (including private equity investments and investments in real estate entities)	**$15,224** [2]	Comparable multiples:	
		Multiples	0.7x to 25.7x (7.0x)
		Discounted cash flows:	
		Discount rate	10.0% to 25.0% (13.9%)
		Long-term growth rate/compound annual growth rate	0.7% to 25.0% (9.0%)
		Capitalization rate	3.3% to 11.4% (6.9%)

1. Weighted averages are calculated by weighting each input by the relative fair value of the respective financial instruments.

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

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

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

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Level 3 Cash Instruments	Level 3 Assets as of December 2012 (*in millions*)	Significant Unobservable Inputs by Valuation Technique	Range of Significant Unobservable Inputs (Weighted Average [1]) as of December 2012
Loans and securities backed by commercial real estate	$3,389	Discounted cash flows:	
Collateralized by a single commercial real estate property or a portfolio of properties		Yield	4.0% to 43.3% (9.8%)
		Recovery rate[3]	37.0% to 96.2% (81.7%)
May include tranches of varying levels of subordination		Duration (years)[4]	0.1 to 7.0 (2.6)
		Basis	(13) points to 18 points (2 points)
Loans and securities backed by residential real estate	$1,619	Discounted cash flows:	
Collateralized by portfolios of residential real estate		Yield	3.1% to 17.0% (9.7%)
		Cumulative loss rate	0.0% to 61.6% (31.6%)
May include tranches of varying levels of subordination		Duration (years)[4]	1.3 to 5.9 (3.7)
Bank loans and bridge loans	$11,235	Discounted cash flows:	
		Yield	0.3% to 34.5% (8.3%)

		Recovery rate[3]	16.5% to 85.0% (56.0%)
		Duration (years)[4]	0.2 to 4.4 (1.9)
Non-U.S. government and agency obligations Corporate debt securities State and municipal obligations Other debt obligations	$4,651	Discounted cash flows:	
		Yield	0.6% to 33.7% (8.6%)
		Recovery rate[3]	0.0% to 70.0% (53.4%)
		Duration (years)[4]	0.5 to 15.5 (4.0)
Equities and convertible debentures (including private equity investments and investments in real estate entities)	$14,855 [2]	Comparable multiples:	
		Multiples	0.7x to 21.0x (7.2x)
		Discounted cash flows:	
		Discount rate	10.0% to 25.0% (14.3%)
		Long-term growth rate/ compound annual growth rate	0.7% to 25.0% (9.3%)
		Capitalization rate	3.9% to 11.4% (7.3%)

1. Weighted averages are calculated by weighting each input by the relative fair value of the respective financial instruments.

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

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

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

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

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

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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.

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

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

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

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

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

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

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

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

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

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

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

Transfers Between Levels of the Fair Value Hierarchy

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

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

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Level 3 Rollforward

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

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

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

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

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

in millions	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 and agency obligations	$ 26	$ 3	$ 2	$ 28	$ (9)	$ (1)	$ 1	$ (3)	$ 47
Mortgage and other asset-backed loans and securities:									
Loans and securities backed by commercial real estate	3,389	36	91	50	(249)	(277)	318	(194)	3,164
Loans and securities backed by residential real estate	1,619	38	25	268	(172)	(56)	104	(143)	1,683
Bank loans and bridge loans	11,235	153	97	1,460	(543)	(1,361)	1,688	(1,041)	11,688
Corporate debt securities	2,821	116	157	301	(728)	(141)	116	(200)	2,442
State and municipal obligations	619	2	1	19	(269)	(1)		(37)	334

Other debt obligations	**1,185**	**19**	**21**	**192**	**(210)**	**(201)**	**61**	**(212)**	**855**
Equities and convertible debentures	**14,855**	**70**	**481**	**185**	**(378)**	**(543)**	**1,000**	**(446)**	**15,224**
Total	**$35,749**	**$437 [2]**	**$875 [2]**	**$2,503**	**$(2,558)**	**$(2,581)**	**$3,288**	**$(2,276)**	**$35,437**

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

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

1. Includes both originations and secondary market purchases.

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

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

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

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

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Level 3 Cash Instrument Assets at Fair Value for the Three Months Ended March 2012

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

Level 3 Cash Instrument Liabilities at Fair Value for the Three Months Ended March 2012

in millions	Balance, beginning of period	Net realized (gains)/ losses	Net unrealized (gains)/losses relating to instruments still held at period-end	Purchases [1]	Sales	Settlements	Transfers into level 3	Transfers out of level 3	Balance, end of period
Total	$ 905	$ (34)	$ (68)	$ (326)	$ 87	$ 195	$ 102	$ (114)	$ 747

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

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

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

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

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

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

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

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

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

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

Note 7. Derivatives and Hedging Activities

Note 7.

Derivatives and Hedging Activities

Derivative Activities

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

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

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

The firm enters into various types of derivatives, including:

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

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

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

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

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

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

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

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

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

OTC-cleared	**31**	**40**	**874**	26	23	327
Bilateral OTC	**16,724**	**17,072**	**422,622**	17,934	19,287	428,965
Equities	**51,672**	**48,082**	**1,339,285**	49,483	43,681	1,202,181
Exchange-traded	**9,636**	**9,606**	**495,994**	9,409	8,864	441,494
Bilateral OTC	**42,036**	**38,476**	**843,291**	40,074	34,817	760,687
Subtotal	**743,143**	**686,959**	**45,927,765**	815,331	749,371	44,316,930
Derivatives accounted for as hedges						
Interest rates	**20,825**	**180**	**132,886**	23,772	66	128,302
OTC-cleared	**9**		**66**			
Bilateral OTC	**20,816**	**180**	**132,820**	23,772	66	128,302
Currencies	**37**	**39**	**8,427**	21	86	8,452
OTC-cleared			**84**			3
Bilateral OTC	**37**	**39**	**8,343**	21	86	8,449
Subtotal	**20,862**	**219**	**141,313**	23,793	152	136,754
Gross fair value/notional amount of derivatives	**$ 764,005** [1]	**$ 687,178** [1]	**$46,069,078**	$ 839,124 [1]	$ 749,523 [1]	$44,453,684
Amounts that have been offset in the condensed consolidated statements of financial condition						
Counterparty netting	**(607,096)**	**(607,096)**		(668,460)	(668,460)	
Exchange-traded	**(10,803)**	**(10,803)**		(11,075)	(11,075)	
OTC-cleared	**(17,146)**	**(17,146)**		(11,507)	(11,507)	
Bilateral OTC	**(579,147)**	**(579,147)**		(645,878)	(645,878)	
Cash collateral	**(88,869)**	**(27,735)**		(99,488)	(30,636)	
OTC-cleared	**(335)**	**(2,028)**		(468)	(2,160)	
Bilateral OTC	**(88,534)**	**(25,707)**		(99,020)	(28,476)	
Fair value included in financial instruments owned/financial instruments sold, but not yet purchased	**$ 68,040**	**$ 52,347**		$ 71,176	$ 50,427	
Amounts that have not been offset in the condensed consolidated statements of financial condition						
Cash collateral received/posted	**(937)**	**(3,706)**		(812)	(2,994)	
Securities collateral received/posted	**(16,172)**	**(14,384)**		(17,225)	(14,262)	
Total	**$ 50,931**	**$ 34,257**		$ 53,139	$ 33,171	

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

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Valuation Techniques for Derivatives

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

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

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

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

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

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

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

Level 1 Derivatives

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

Level 2 Derivatives

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

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

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

Level 3 Derivatives

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

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

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

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

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

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

Valuation Adjustments

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

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

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Significant Unobservable Inputs

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

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

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

		Recovery rates	20% to 88% (53% / 50%)
Currencies	**$(289)**	Correlation [2]	65% to 84% (75% / 77%)
Commodities	**$(27)**	Volatility	9% to 56% (23% / 23%)
		Spread per million British Thermal units (MMBTU) of natural gas	$(0.71) to $3.80 ($(0.02) / $(0.01))
		Price per megawatt hour of power	$17.26 to $60.18 ($36.21 / $35.82)
		Price per barrel of oil	$88.68 to $103.73 ($94.06 / $94.31)
Equities	**$(1,135)**	Correlation [2]	29% to 98% (55% / 53%)
		Volatility	9% to 67% (27% / 25%)

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

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

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

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

		Spread per MMBTU of natural gas	$(0.61) to $6.07 ($0.02 / $0.00)
		Price per megawatt hour of power	$17.30 to $57.39 ($33.17 / $32.80)
		Price per barrel of oil	$86.64 to $98.43 ($92.76 / $93.62)
Equities	$(1,248)	Correlation [2]	48% to 98% (68% / 67%)
		Volatility	15% to 73% (31% / 30%)

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

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

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

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Range of Significant Unobservable Inputs

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

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

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

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

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

Sensitivity of Fair Value Measurement to Changes in Significant Unobservable Inputs

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

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

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

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

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

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Fair Value of Derivatives by Level

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

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

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

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

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

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

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

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

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

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

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

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

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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Level 3 Rollforward

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

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

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

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

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

The tables below present changes in fair value for all derivatives categorized as level 3 as of the end of the period.

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

in millions	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
Interest rates net	$ (355)	$ (6)	$ 30	$ 5	$	$ 51	$ (14)	$ (16)	$ (305)
Credit net	6,228	(3)	18	75	(46)	(527)	230	(93)	5,882
Currencies net	35	(8)	(329)	2	(3)	26	40	(52)	(289)
Commodities net	(304)	22	167	38	(21)	(22)	19	74	(27)
Equities net	(1,248)	(32)	(170)	39	(488)	141	(51)	674	(1,135)
Total derivatives net	**$ 4,356**	**$(27) [1]**	**$(284) [1, 2]**	**$159**	**$(558)**	**$(331)**	**$224**	**$587**	**$ 4,126**

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

2. Principally resulted from changes in level 2 inputs.

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

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

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

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

in millions	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
Interest rates net	$ (371)	$(63)	$ 32	$ 3	$ (1)	$ 164	$ 8	$ (12)	$ (240)
Credit net	6,300	10	(308)	75	(73)	(553)	1,332	(281)	6,502
Currencies net	842	(6)	(266)	1	(7)	(234)	2	58	390
Commodities net	(605)	40	206	99	(99)	41	100	119	(99)
Equities net	(432)	(25)	(277)	73	(100)	306	15	(80)	(520)
Total derivatives net	$5,734	$(44) [1]	$(613) [1, 2]	$251	$(280)	$(276)	$1,457	$(196)	$6,033

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

2. Principally resulted from changes in level 2 inputs.

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

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

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

Impact of Credit Spreads on Derivatives

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

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

Bifurcated Embedded Derivatives

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

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

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

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

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

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

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

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

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

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

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

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Derivatives with Credit-Related Contingent Features

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

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

Credit Derivatives

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

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

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

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

Credit Indices, Baskets and Tranches. Credit derivatives may reference a basket of single-name credit default swaps or a broad-based index. If a credit event occurs in one of the underlying reference obligations, the protection seller pays the protection buyer. The payment is typically a pro-rata portion of the transaction s total notional amount based on the underlying defaulted reference obligation. In certain transactions, the credit risk of a basket or index is separated into various portions (tranches), each having different levels of subordination. The most junior tranches cover initial defaults and once losses exceed the notional amount of these junior tranches, any excess loss is covered by the next most senior tranche in the capital structure.

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

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

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

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

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

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

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

	Maximum Payout/Notional Amount of Written Credit Derivatives by Tenor				Maximum Payout/Notional Amount of Purchased Credit Derivatives		Fair Value of Written Credit Derivatives		
$ in millions	0 - 12 Months	1 - 5 Years	5 Years or Greater	Total	Offsetting Purchased Credit Derivatives [1]	Other Purchased Credit Derivatives [2]	Asset	Liability	Net Asset/ (Liability)
As of March 2013									
Credit spread on underlying (basis points)									
0-250	**$364,116**	**$ 990,658**	**$118,650**	**$1,473,424**	**$1,353,367**	**$203,517**	**$29,211**	**$ 7,923**	**$21,288**
251-500	**12,780**	**143,576**	**37,314**	**193,670**	**174,983**	**19,548**	**4,290**	**8,350**	**(4,060)**
501-1,000	**5,061**	**42,215**	**5,520**	**52,796**	**50,663**	**5,137**	**440**	**3,326**	**(2,886)**
Greater than 1,000	**10,214**	**40,936**	**2,936**	**54,086**	**47,216**	**8,291**	**520**	**20,588**	**(20,068)**
Total	**$392,171**	**$1,217,385**	**$164,420**	**$1,773,976**	**$1,626,229**	**$236,493**	**$34,461**	**$40,187**	**$ (5,726)**
As of December 2012									
Credit spread on underlying									

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

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

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

Hedge Accounting

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

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

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Interest Rate Hedges

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

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

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

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

	Three Months Ended March	
in millions	**2013**	2012
Interest rate hedges	**$(1,843)**	$(2,238)
Hedged borrowings and bank deposits	**1,393**	1,778
Hedge ineffectiveness [1]	**$ (450)**	$ (460)

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

Net Investment Hedges

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

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

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

in millions	Three Months Ended March 2013	2012
Currency hedges	**$220**	$(212)
Foreign currency-denominated debt hedges	**220**	221

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

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

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

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

- repurchase agreements and substantially all resale agreements;

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

- substantially all other secured financings, including transfers of assets accounted for as financings rather than sales;
- certain unsecured short-term borrowings, consisting of all promissory notes and commercial paper and certain hybrid financial instruments;
- certain unsecured long-term borrowings, including certain prepaid commodity transactions and certain hybrid financial instruments;
- certain insurance and reinsurance contract assets and liabilities and certain guarantees;
- certain receivables from customers and counterparties, including transfers of assets accounted for as secured loans rather than purchases and certain margin loans;
- certain time deposits issued by the firm s bank subsidiaries (deposits with no stated maturity are not eligible for a fair value option election), including structured certificates of deposit, which are hybrid financial instruments; and
- certain subordinated liabilities issued by consolidated VIEs.

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

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

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

As of March 2013:

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

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

As of December 2012:

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

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

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

See Note 9 for further information about collateralized agreements.

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

As of March 2013:

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

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

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

As of December 2012:

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

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

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

See Note 9 for further information about collateralized financings.

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

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

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

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As of March 2013:

- Funding spreads: 33 bps to 49 bps (weighted average: 40 bps)
- Yield: 3.6% to 11.3% (weighted average: 6.2%)
- Duration: 7.6 to 10.5 years (weighted average: 9.1 years)

As of December 2012:

- Funding spreads: 39 bps to 61 bps (weighted average: 49 bps)
- Yield: 4.4% to 15.1% (weighted average: 6.2%)
- Duration: 5.3 to 8.8 years (weighted average: 7.6 years)

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

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

As of March 2013:

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

As of December 2012:

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

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

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

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

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

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(Unaudited)

Fair Value of Other Financial Assets and Financial Liabilities by Level

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

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

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

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

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

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

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

4. Includes $873 million of liabilities classified as held for sale related to the firm s reinsurance business accounted for at fair value under the fair value option.

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

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

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

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

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

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

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Transfers Between Levels of the Fair Value Hierarchy

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

Level 3 Rollforward

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

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

Level 3 Other Financial Assets at Fair Value for the Three Months Ended March 2013

in millions	Balance, beginning of period	Net realized gains/ (losses)	Net unrealized gains/(losses) relating to instruments still held at period-end	Purchases	Sales	Issuances	Settlements	Transfers into level 3	Transfers out of level 3	Balance, end of period
Securities purchased under agreements to resell	$ 278	$ 1	$	$	$	$	$ (16)	$	$(159)	$ 104
Receivables from customers and counterparties	641		(8)							633
Other assets	507		4	7				47		565
Total	$ 1,426	$ 1 [1]	$ (4) [1]	$ 7	$	$	$ (16)	$ 47	$(159)	$ 1,302

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

Level 3 Other Financial Liabilities at Fair Value for the Three Months Ended March 2013

in millions	Balance, beginning of period	Net realized (gains)/	Net unrealized (gains)/losses relating to instruments	Purchases	Sales	Issuances	Settlements	Transfers	Transfers out of level 3	Balance, end of period

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

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

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

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

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

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

Level 3 Other Financial Assets at Fair Value for the Three Months Ended March 2012

in millions	Balance, beginning of period	Net realized gains/ (losses)	Net unrealized gains/(losses) relating to instruments still held at period-end	Purchases	Sales	Issuances	Settlements	Transfers into level 3	Transfers out of level 3	Balance, end of period
Securities purchased under agreements to resell	$ 557	$ 1	$ 30	$535	$	$	$(167)	$	$	$ 956
Receivables from customers and counterparties	795		9						(373)	431
Total	$ 1,352	$ 1 [1]	$ 39 [1]	$535	$	$	$(167)	$	$(373)	$ 1,387

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

Level 3 Other Financial Liabilities at Fair Value for the Three Months Ended March 2012

in millions	Balance, beginning of period	Net realized (gains)/ losses	Net unrealized (gains)/losses relating to instruments still held at period-end	Purchases	Sales	Issuances	Settlements	Transfers into level 3	Transfers out of level 3	Balance, end of period
Deposits	$ 13	$	$ (6)	$	$	$ 89	$	$	$	$ 96
Securities sold under agreements to repurchase, at fair value	2,181						(133)			2,048
Other secured financings	1,752	1	(1)			24	(465)	14	(43)	1,282

Unsecured short-term borrowings	3,294	(16)	152	(13)		129	(118)	167	(220)	3,375
Unsecured long-term borrowings	2,191	11	176			155	(116)	134	(241)	2,310
Other liabilities and accrued expenses	8,996	4	50				(85)			8,965
Total	$18,427	$ [1]	$371 [1]	$ (13)	$	$397	$(917)	$315	$(504)	$18,076

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

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

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

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

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

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(Unaudited)

Gains and Losses on Financial Assets and Financial Liabilities
Accounted for at Fair Value Under the Fair Value Option

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

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

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

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

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

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

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

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

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

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

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

THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

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

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

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

Long-term Debt Instruments

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

Impact of Credit Spreads on Loans and Lending Commitments

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

Impact of Credit Spreads on Borrowings

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

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

THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Note 9. Collateralized Agreements and Financings

Note 9.

Collateralized Agreements and Financings

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

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

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

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

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

2.

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

Resale and Repurchase Agreements

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

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

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

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

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

Securities Borrowed and Loaned Transactions

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

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

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

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

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

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

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(Unaudited)

Offsetting Arrangements

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

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

	As of March 2013			
	Assets		Liabilities	
in millions	Securities purchased under agreements to resell	Securities borrowed	Securities sold under agreements to repurchase	Securities loaned
Amounts included in the condensed consolidated statements of financial condition				
Gross carrying value	**$ 202,217**	**$ 182,905**	**$ 194,714**	**$ 30,894**
Counterparty netting	**(39,162)**	**(10,225)**	**(39,162)**	**(10,225)**
Total	**163,055** [1, 2]	**172,680** [1]	**155,552** [2]	**20,669**
Amounts that have not been offset in the condensed consolidated statements of financial condition				
Counterparty netting	**(15,014)**	**(4,797)**	**(15,014)**	**(4,797)**
Collateral	**(134,711)**	**(143,812)**	**(105,163)**	**(14,077)**
Total	**$ 13,330**	**$ 24,071**	**$ 35,375**	**$ 1,795**

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

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

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

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

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Other Secured Financings

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

- liabilities of consolidated VIEs;
- transfers of assets accounted for as financings rather than sales (primarily collateralized central bank financings, pledged commodities, bank loans and mortgage whole loans); and
- other structured financing arrangements.

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

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

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

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

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

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

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

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

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

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

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

4. Primarily real estate and cash.

The table below presents other secured financings by maturity.

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

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

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Collateral Received and Pledged

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

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

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

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

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

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

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

Other assets pledged to counterparties that:		
Did not have the right to deliver or repledge	**1,148**	2,031

Note 10. Securitization Activities

Note 10.

Securitization Activities

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

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

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

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

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

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

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Notes to Condensed Consolidated Financial Statements

(Unaudited)

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

	Three Months Ended March	
in millions	**2013**	2012
Residential mortgages	**$7,387**	$10,989
Commercial mortgages	**2,352**	
Total	**$9,739**	$10,989
Cash flows on retained interests	**$ 165**	$ 147

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

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

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

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

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

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

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

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

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

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

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

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(Unaudited)

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

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

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

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

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

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

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

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

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Note 11. Variable Interest Entities

Note 11.

Variable Interest Entities

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

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

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

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

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

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

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

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

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

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VIE Consolidation Analysis

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

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

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

- which variable interest holder has the power to direct the activities of the VIE that most significantly impact the VIE s economic performance;
- which variable interest holder has the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE;
- the VIE s purpose and design, including the risks the VIE was designed to create and pass through to its variable interest holders;
- the VIE s capital structure;
- the terms between the VIE and its variable interest holders and other parties involved with the VIE; and
- related-party relationships.

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

Nonconsolidated VIEs

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

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

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

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

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

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

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

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

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	Nonconsolidated VIEs As of March 2013						
in millions	**Mortgage-backed**	**Corporate CDOs and CLOs**	**Real estate, credit-related and other investing**	**Other asset-backed**	**Power-related**	**Investment funds**	**Total**
Assets in VIE	**$86,199** [2]	**$21,037**	**$6,900**	**$3,373**	**$110**	**$1,840**	**$119,459**
Carrying Value of the Firm s Variable Interests							
Assets	**7,027**	**1,107**	**1,695**	**280**	**49**	**4**	**10,162**
Liabilities		**9**	**1**	**37**			**47**
Maximum Exposure to Loss in Nonconsolidated VIEs							
Retained interests	**5,079**	**71**		**1**			**5,151**
Purchased interests	**1,596**	**576**		**263**			**2,435**
Commitments and guarantees [1]		**1**	**414**		**111**	**1**	**527**
Derivatives [1]	**1,487**	**5,666**		**854**			**8,007**
Loans and investments	**38**		**1,695**		**49**	**4**	**1,786**
Total	**$ 8,200** [2]	**$ 6,314**	**$2,109**	**$1,118**	**$160**	**$ 5**	**$ 17,906**

	Nonconsolidated VIEs As of December 2012						
in millions	Mortgage-backed	Corporate CDOs and CLOs	Real estate, credit-related and other investing	Other asset-backed	Power-related	Investment funds	Total
Assets in VIE	$79,171 [2]	$23,842	$9,244	$3,510	$147	$1,898	$117,812
Carrying Value of the Firm s Variable Interests							
Assets	6,269	1,193	1,801	220	32	4	9,519
Liabilities		12		30			42
Maximum Exposure to Loss in Nonconsolidated VIEs							
Retained interests	4,761	51					4,812
Purchased interests	1,162	659		204			2,025
Commitments and guarantees [1]		1	438			1	440

Derivatives [1]	1,574	6,761		952			9,287
Loans and investments	39		1,801		32	4	1,876
Total	$ 7,536 [2]	$ 7,472	$2,239	$1,156	$ 32	$ 5	$ 18,440

1. The aggregate amounts include $3.08 billion and $3.25 billion as of March 2013 and December 2012, respectively, related to guarantees and derivative transactions with VIEs to which the firm transferred assets.

2. Assets in VIE and maximum exposure to loss include $4.48 billion and $1.80 billion, respectively, as of March 2013, and $3.57 billion and $1.72 billion, respectively, as of December 2012, related to CDOs backed by mortgage obligations.

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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.

	Consolidated VIEs As of March 2013			
in millions	Real estate, credit-related and other investing	CDOs, mortgage-backed and other asset-backed	Principal-protected notes	Total
Assets				
Cash and cash equivalents	$ 336	$245	$ 1	$ 582
Cash and securities segregated for regulatory and other purposes	62		92	154
Receivables from brokers, dealers and clearing organizations	49			49
Financial instruments owned, at fair value	2,188	494	348	3,030
Other assets	903			903
Total	$3,538	$739	$ 441	$4,718
Liabilities				
Other secured financings	$ 484	$578	$ 301	$1,363
Financial instruments sold, but not yet purchased, at fair value		87		87

Unsecured short-term borrowings, including the current portion of unsecured long-term borrowings			**1,466**	**1,466**
Unsecured long-term borrowings	**4**		**310**	**314**
Other liabilities and accrued expenses	**1,096**			**1,096**
Total	**$1,584**	**$665**	**$2,077**	**$4,326**

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	Consolidated VIEs As of December 2012			
in millions	Real estate, credit-related and other investing	CDOs, mortgage-backed and other asset-backed	Principal-protected notes	Total
Assets				
Cash and cash equivalents	$ 236	$107	$	$ 343
Cash and securities segregated for regulatory and other purposes	134		92	226
Receivables from brokers, dealers and clearing organizations	5			5
Financial instruments owned, at fair value	2,958	763	124	3,845
Other assets	1,080			1,080
Total	$4,413	$870	$ 216	$5,499
Liabilities				
Other secured financings	$ 594	$699	$ 301	$1,594
Financial instruments sold, but not yet purchased, at fair value		107		107
Unsecured short-term borrowings, including the current portion of unsecured long-term borrowings			1,584	1,584
Unsecured long-term borrowings	4		334	338
Other liabilities and accrued expenses	1,478			1,478
Total	$2,076	$806	$2,219	$5,101

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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.

	As of	
	March	December
in millions	**2013**	2012
Property, leasehold improvements and equipment [1]	**$ 7,960**	$ 8,217
Goodwill and identifiable intangible assets [2]	**4,683**	5,099
Income tax-related assets [3]	**5,345**	5,620
Equity-method investments [4]	**455**	453
Miscellaneous receivables and other [5]	**20,045**	20,234
Total	**$38,488**	$39,623

1. Net of accumulated depreciation and amortization of $8.66 billion and $9.05 billion as of March 2013 and December 2012, respectively.

2. Includes $152 million and $149 million of intangible assets classified as held for sale as of March 2013 and December 2012, respectively. 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 $5.08 billion and $5.54 billion as of March 2013 and December 2012, 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.

5. Includes $16.65 billion and $16.77 billion of assets related to the firm s reinsurance business which were classified as held for sale as of March 2013 and December 2012, respectively.

Assets Held for Sale

In the fourth quarter of 2012, the firm classified its reinsurance business within its Institutional Client Services segment as held for sale. Assets related to this business of $16.80 billion and $16.92 billion, as of March 2013 and December 2012, respectively, consisting primarily of available-for-sale securities and separate account assets at fair value, are included in Other assets. Liabilities related to this business of $14.52 billion and $14.62 billion, as of March 2013 and December 2012, respectively, are included in Other liabilities and accrued expenses. See Note 8 for further information about insurance-related assets and liabilities held for sale at fair value.

The firm completed the sale of a majority stake in its reinsurance business in April 2013 and, as a result, the firm will no longer consolidate this business.

Property, Leasehold Improvements and Equipment

Property, leasehold improvements and equipment included $6.07 billion and $6.20 billion as of March 2013 and December 2012, 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

The firm tests property, leasehold improvements and equipment, intangible assets and other assets for impairment in accordance with ASC 360. To the extent the carrying value of an asset exceeds the projected undiscounted cash flows over the estimated remaining useful life of the asset, the firm determines the asset is impaired and records an impairment loss. In addition, the firm will recognize an impairment loss prior to the sale of an asset if the carrying value of the asset exceeds its estimated fair value.

During the first quarter of 2012, as a result of a decline in the market conditions in which certain of the firm s consolidated investments operated, the firm determined certain 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.

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Notes to Condensed Consolidated Financial Statements

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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.

	Goodwill As of	
	March	December
in millions	**2013**	2012
Investment Banking:		
Financial Advisory	**$ 98**	$ 98
Underwriting	**183**	183
Institutional Client Services:		
Fixed Income, Currency and Commodities Client Execution	**269**	269
Equities Client Execution	**2,402**	2,402
Securities Services	**105**	105
Investing & Lending	**59**	59
Investment Management	**586**	586
Total	**$3,702**	$3,702

	Identifiable Intangible Assets As of	
	March	December
in millions	**2013**	2012
Investment Banking:		

Financial Advisory	**$**	$ 1
Institutional Client Services:		
Fixed Income, Currency and Commodities Client Execution [1]	**45**	421
Equities Client Execution	**556**	565
Investing & Lending	**260**	281
Investment Management	**120**	129
Total	**$ 981**	$1,397

1. The decrease from December 2012 to March 2013 is related to the sale of the firm s television broadcast royalties in the first quarter of 2013.

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.

Goodwill is assessed annually in the fourth quarter 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 2012 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 an allocation of total shareholders equity and represents the estimated amount of shareholders equity required to support the activities of the reporting unit under guidelines issued by the Basel Committee on Banking Supervision (Basel Committee) in December 2010.

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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.

		As of		
$ in millions		**March 2013**	Weighted Average Remaining Lives *(years)*	December 2012
Customer lists	Gross carrying amount	**$ 1,099**		$ 1,099
	Accumulated amortization	**(659)**		(643)
	Net carrying amount	**440**	**8**	456
Commodities-related intangibles [1]	Gross carrying amount	**508**		513
	Accumulated amortization	**(242)**		(226)
	Net carrying amount	**266**	**10**	287
Television broadcast royalties [2]	Gross carrying amount			560
	Accumulated amortization			(186)
	Net carrying amount		**N/A** [2]	374
	Gross carrying amount	**380**		380

Insurance-related intangibles [3]				
	Accumulated amortization	**(228)**		(231)
	Net carrying amount	**152**	**N/A** [3]	149
Other [4]	Gross carrying amount	**941**		950
	Accumulated amortization	**(818)**		(819)
	Net carrying amount	**123**	**12**	131
Total	**Gross carrying amount**	**2,928**		3,502
	Accumulated amortization	**(1,947)**		(2,105)
	Net carrying amount	**$ 981**	**9**	$ 1,397

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

2. These assets were sold in the first quarter of 2013 and total proceeds received approximated carrying value.

3. Related to the firm s reinsurance business, which is classified as held for sale. See Note 12 for further information.

4. Primarily includes the firm s 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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The tables below present amortization expense for identifiable intangible assets for the three months ended March 2013 and March 2012, and the estimated future amortization expense through 2018 for identifiable intangible assets as of March 2013.

	Three Months Ended March	
in millions	**2013**	2012
Amortization expense	**$42**	$70

	As of March 2013
in millions	
Estimated future amortization expense:	
Remainder of 2013	**$121**
2014	**128**
2015	**95**
2016	**93**
2017	**91**
2018	**82**

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 of which were interest-bearing. Substantially all U.S. deposits were held at Goldman Sachs Bank USA (GS Bank USA) as of March 2013 and December 2012. Substantially all non-U.S. deposits were held at Goldman Sachs International Bank (GSIB) as of March 2013 and held at Goldman Sachs Bank (Europe) plc (GS Bank Europe) and GSIB as of December 2012. On

January 18, 2013, GS Bank Europe surrendered its banking license to the Central Bank of Ireland after transferring its deposits to GSIB and subsequently changed its name to Goldman Sachs Ireland Finance plc.

	As of	
	March	December
in millions	**2013**	2012
U.S. offices	**$63,424**	$62,377
Non-U.S. offices	**9,261**	7,747
Total	**$72,685** [1]	$70,124 [1]

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

	As of March 2013		
in millions	**U.S.**	**Non-U.S.**	**Total**
Remainder of 2013	**$ 4,760**	**$4,025**	**$ 8,785**
2014	**4,023**	**130**	**4,153**
2015	**4,054**		**4,054**
2016	**1,919**		**1,919**
2017	**2,502**		**2,502**
2018	**1,421**		**1,421**
2019 - thereafter	**4,096**		**4,096**
Total	**$22,775** [2]	**$4,155** [3]	**$26,930** [1]

1. Includes $7.07 billion and $5.10 billion as of March 2013 and December 2012, respectively, of time deposits accounted for at fair value under the fair value option. See Note 8 for further information about deposits accounted for at fair value.

2. Includes $40 million greater than $100,000, of which $24 million matures within three months, $6 million matures within three to six months, $6 million matures within six to twelve months, and $4 million matures after twelve months.

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

As of March 2013 and December 2012, savings and demand deposits, which represent deposits with no stated maturity, were $45.76 billion and $46.51 billion, respectively, which were 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, $19.86 billion and $18.52 billion as of March 2013 and December 2012, respectively, of time deposits were effectively converted from fixed-rate obligations to floating-rate obligations and were recorded at amounts that generally approximate fair value. While these savings and 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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Note 15. Short-Term Borrowings

Note 15.

Short-Term Borrowings

Short-term borrowings were comprised of the following:

	As of	
	March	December
in millions	**2013**	2012
Other secured financings (short-term)	**$20,497**	$23,045
Unsecured short-term borrowings	**40,980**	44,304
Total	**$61,477**	$67,349

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. The carrying value of unsecured short-term borrowings that are not recorded at fair value generally approximates fair value due to the short-term nature of the obligations. While these unsecured 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 2013 and December 2012.

The table below presents unsecured short-term borrowings.

As of

$ in millions	**March 2013**	December 2012
Current portion of unsecured long-term borrowings	**$23,053**	$25,344
Hybrid financial instruments	**12,531**	12,295
Promissory notes	**356**	260
Commercial paper	**999**	884
Other short-term borrowings	**4,041**	5,521
Total	**$40,980**	$44,304
Weighted average interest rate [1]	**1.56%**	1.57%

1. 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
in millions	**2013**	2012
Other secured financings (long-term)	**$ 8,971**	$ 8,965
Unsecured long-term borrowings	**167,008**	167,305
Total	**$175,979**	$176,270

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.

	As of March 2013			As of December 2012		
	U.S.	**Non-U.S.**		U.S.	Non-U.S.	
in millions	**Dollar**	**Dollar**	**Total**	Dollar	Dollar	Total
Fixed-rate obligations [1]	**$ 91,305**	**$34,911**	**$126,216**	$ 88,561	$36,869	$125,430
Floating-rate obligations [2]	**21,110**	**19,682**	**40,792**	20,794	21,081	41,875
Total	**$112,415**	**$54,593**	**$167,008**	$109,355	$57,950	$167,305

1.

Interest rates on U.S. dollar-denominated debt ranged from 0.20% to 10.04% (with a weighted average rate of 5.02%) and 0.20% to 10.04% (with a weighted average rate of 5.48%) as of March 2013 and December 2012, respectively. Interest rates on non-U.S. dollar-denominated debt ranged from 0.10% to 14.85% (with a weighted average rate of 4.47%) and 0.10% to 14.85% (with a weighted average rate of 4.66%) as of March 2013 and December 2012, 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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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 holders 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.

in millions	**As of March 2013**
2014	**$ 15,154**
2015	**21,967**
2016	**21,594**
2017	**20,675**
2018	**17,443**
2019 - thereafter	**70,175**
Total [1]	**$167,008**

1. Includes $9.84 billion related to interest rate hedges on certain unsecured long-term borrowings, by year of maturity as follows: $487 million in 2014, $443 million in 2015, $1.01 billion in 2016, $1.30 billion in 2017, $1.36 billion in 2018 and $5.24 billion in 2019 and thereafter.

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 2013 and December 2012. See Note 7 for further information about hedging activities. 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 an increase of less than 2% in the carrying value of total unsecured long-term borrowings as of both March 2013 and December 2012. As these borrowings 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 borrowings been included in the firm s fair value hierarchy, substantially all would have been classified in level 2 as of March 2013 and December 2012.

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.

	As of	
	March	December
in millions	**2013**	2012
Fixed-rate obligations		
At fair value	**$ 153**	$ 122
At amortized cost [1]	**20,225**	24,547
Floating-rate obligations		
At fair value	**12,095**	12,471
At amortized cost [1]	**134,535**	130,165
Total	**$167,008**	$167,305

1. The weighted average interest rates on the aggregate amounts were 2.36% (5.25% related to fixed-rate obligations and 1.96% related to floating-rate obligations) and 2.47% (5.26% related to fixed-rate obligations and 1.98% related to floating-rate obligations) as of March 2013 and December 2012, respectively. These rates exclude financial instruments accounted for at fair value under the fair value option.

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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 2013 and December 2012, subordinated debt had maturities ranging from 2015 to 2038. The table below presents subordinated borrowings.

	As of March 2013			As of December 2012		
	Par	**Carrying**		Par	Carrying	
$ in millions	**Amount**	**Amount**	**Rate [1]**	Amount	Amount	Rate [1]
Subordinated debt	**$14,270**	**$17,106**	**4.19%**	$14,409	$17,358	4.24%
Junior subordinated debt	**2,835**	**4,135**	**3.01%**	2,835	4,228	3.16%
Total subordinated borrowings	**$17,105**	**$21,241**	**3.99%**	$17,244	$21,586	4.06%

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 Held by 2012 Trusts. In 2012, the Vesey Street Investment Trust I (Vesey Street Trust) and the Murray Street Investment Trust I (Murray Street Trust) (together, the 2012 Trusts) issued an aggregate of $2.25 billion of senior guaranteed trust securities to third parties. The proceeds of that offering were used to fund purchases of $1.75 billion of junior subordinated debt securities issued by Group Inc. that pay interest semi-annually at a fixed annual rate of 4.647% and mature on March 9, 2017, and $500 million of junior subordinated debt securities issued by Group Inc. that pay interest semi-annually at a fixed annual rate of 4.404% and mature on September 1, 2016.

The 2012 Trusts purchased the junior subordinated debt from Goldman Sachs Capital II and Goldman Sachs Capital III (APEX Trusts). The APEX Trusts used the proceeds from such sales to purchase shares of Group Inc. s Perpetual Non-Cumulative Preferred Stock, Series E (Series E Preferred Stock) and Perpetual Non-Cumulative Preferred Stock, Series F (Series F Preferred Stock). See Note 19 for more information about the Series E and Series F Preferred stock.

The 2012 Trusts are required to pay distributions on their senior guaranteed trust securities in the same amounts and on the same dates that they are scheduled to receive interest on the junior subordinated debt they hold, and are required to redeem their respective senior guaranteed trust securities upon the maturity or earlier redemption of the junior subordinated debt they hold.

The firm has the right to defer payments on the junior subordinated debt, subject to limitations. During any such deferral period, the firm will not be permitted to, among other things, pay dividends on or make certain repurchases of its common or preferred stock. However, as Group Inc. fully and unconditionally guarantees the payment of the distribution and redemption amounts when due on a senior basis on the senior guaranteed trust securities issued by the 2012 Trusts, if the 2012 Trusts are 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. As such, the $2.25 billion of junior subordinated debt held by the 2012 Trusts for the benefit of investors is not classified as junior subordinated debt.

The APEX Trusts and the 2012 Trusts are Delaware statutory trusts sponsored by the firm and wholly-owned finance subsidiaries of the firm for regulatory and legal purposes but are not consolidated for accounting purposes.

The firm has covenanted in favor of the holders of Group Inc. s 6.345% Junior Subordinated Debentures due February 15, 2034, that, subject to certain exceptions, the firm will not redeem or purchase the capital securities issued by the APEX Trusts or shares of Group Inc s Series E or Series F Preferred Stock prior to specified dates in 2022 for a price that exceeds a maximum amount determined by reference to the net cash proceeds that the firm has received from the sale of qualifying securities.

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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.

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.

	As of	
	March	December
in millions	**2013**	2012
Compensation and benefits	**$ 4,898**	$ 8,292
Insurance-related liabilities [1]	**10,178**	10,274
Noncontrolling interests [2]	**432**	508
Income tax-related liabilities [3]	**3,086**	2,724
Employee interests in consolidated funds	**245**	246
Subordinated liabilities issued by consolidated VIEs	**993**	1,360
Accrued expenses and other [4]	**18,721**	18,991

Total	**$38,553**	$42,395

1. Represents liabilities for future benefits and unpaid claims carried at fair value under the fair value option as of March 2013 and December 2012, respectively.

2. Includes $367 million and $419 million related to consolidated investment funds as of March 2013 and December 2012, respectively.

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

4. Includes $14.52 billion and $14.62 billion of liabilities related to the firm s reinsurance business which were classified as held for sale as of March 2013 and December 2012, respectively. See Note 12 for further information.

Note 18. Commitments, Contingencies and Guarantees

Note 18.

Commitments, Contingencies and Guarantees

Commitments

The table below presents the firm s commitments.

	Commitment Amount by Period of Expiration as of March 2013				Total Commitments as of	
in millions	**Remainder of 2013**	**2014-2015**	**2016-2017**	**2018-Thereafter**	**March 2013**	December 2012
Commitments to extend credit [1]						
Commercial lending:						
Investment-grade	**$ 6,301**	**$11,203**	**$30,997**	**$ 5,702**	**$ 54,203**	$ 53,736
Non-investment-grade	**1,603**	**5,086**	**8,976**	**3,450**	**19,115**	21,102
Warehouse financing	**259**	**524**			**783**	784
Total commitments to extend credit	**8,163**	**16,813**	**39,973**	**9,152**	**74,101**	75,622
Contingent and forward starting resale and securities borrowing agreements [2]	**72,068**				**72,068**	47,599
Forward starting repurchase and secured lending agreements [2]	**13,268**				**13,268**	6,144
Letters of credit [3]	**533**	**179**		**15**	**727**	789
Investment commitments	**1,627**	**1,908**	**239**	**3,608**	**7,382**	7,339
Other	**3,483**	**80**	**27**	**69**	**3,659**	4,624
Total commitments	**$99,142**	**$18,980**	**$40,239**	**$12,844**	**$171,205**	$142,117

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

2. These agreements generally settle within three business days.

3. 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.

As of March 2013 and December 2012, approximately $18.55 billion and $16.09 billion, respectively, of the firm s lending commitments were held for investment and were accounted for on an accrual basis. The carrying value and the estimated fair value of such lending commitments were liabilities of $78 million and $624 million, respectively, as of March 2013, and $63 million and $523 million, respectively, as of December 2012. 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 2013 and December 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 $30.95 billion and $32.41 billion as of March 2013 and December 2012, 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 2013 and December 2012. The firm also uses other financial instruments to mitigate credit risks related to certain commitments not covered by SMFG. These instruments primarily include credit default swaps that reference the same or similar underlying instrument or entity or credit default swaps that reference a market index.

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 and counterparties 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 $1.04 billion and $872 million as of March 2013 and December 2012, respectively, related to real estate private investments and $6.34 billion and $6.47 billion as of March 2013 and December 2012, respectively, related to corporate and other private investments. Of these amounts, $5.96 billion and $6.21 billion as of March 2013 and December 2012, 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.

in millions	**As of March 2013**
Remainder of 2013	**$ 304**
2014	**393**
2015	**337**

2016	**288**
2017	**270**
2018	**219**
2019 - thereafter	**1,144**
Total	**$2,955**

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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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 2013 and December 2012, the outstanding balance of the loans transferred to trusts and other mortgage securitization vehicles during the period 2005 through 2008 was approximately $33 billion and $35 billion, respectively. This amount reflects paydowns and cumulative losses of approximately $92 billion ($21 billion of which are cumulative losses) as of March 2013 and approximately $90 billion ($20 billion of which are cumulative losses) as of December 2012. A small number of these Goldman Sachs-issued securitizations with an outstanding principal balance of $520 million and total paydowns and cumulative losses of $1.54 billion ($516 million of which are cumulative losses) as of March 2013, and an outstanding principal balance of $540 million and total paydowns and cumulative losses of $1.52 billion ($508 million of which are cumulative losses) as of December 2012, 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.

The firm has received repurchase claims for residential mortgage loans based on alleged breaches of representations, from government-sponsored enterprises, other third parties, trusts and other mortgage securitization vehicles, which have not been significant. During the three months ended March 2013 and March 2012, 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 2013 and March 2012.

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 under 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 2013, claims under these indemnities, and payments made in connection with these claims, were not material to the firm.

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. The firm has entered into a settlement with the Board of Governors of the Federal Reserve System (Federal Reserve Board) relating to foreclosure and servicing matters as described below.

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 government-sponsored enterprises, 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 government-sponsored enterprises. 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 Federal Reserve Board relating to the servicing of residential mortgage loans. The terms of the Order were 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 set forth various allegations of improper conduct in servicing by Litton, requires that Group Inc. and GS Bank USA cease and desist such conduct, and required that Group Inc. and GS Bank USA, and their boards of directors, take various affirmative steps. The Order required (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.

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On January 16, 2013, Group Inc. and GS Bank USA entered into a settlement in principle with the Federal Reserve Board relating to the servicing of residential mortgage loans and foreclosure processing. This settlement in principle amends the Order which is described above, provides for the termination of the independent foreclosure review under the Order and calls for Group Inc. and GS Bank USA collectively to: (i) make cash payments into a settlement fund for distribution to eligible borrowers; and (ii) provide other assistance for foreclosure prevention and loss mitigation over the next two years. The other provisions of the Order will remain in effect. On February 28, 2013, Group Inc. and GS Bank USA entered into final documentation with the Federal Reserve Board relating to the settlement.

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, central clearing 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 enforceable credit support agreements.

		As of March 2013				
		Maximum Payout/Notional Amount by Period of Expiration				
in millions	Carrying Value of Net Liability	Remainder of 2013	2014-2015	2016-2017	2018-Thereafter	Total
Derivatives [1]	**$8,083**	**$318,426**	**$275,467**	**$53,158**	**$58,370**	**$705,421**
Securities lending indemnifications [2]		**30,360**				**30,360**
Other financial guarantees [3]	**142**	**751**	**455**	**1,268**	**1,028**	**3,502**

1. 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 2012, the carrying value of the net liability and the notional amount related to derivative guarantees were $8.58 billion and $663.15 billion, respectively.

2. Collateral held by the lenders in connection with securities lending indemnifications was $31.24 billion as of March 2013. 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. As of December 2012, the maximum payout and collateral held related to securities lending indemnifications were $27.12 billion and $27.89 billion, respectively.

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 2012, the carrying value of the net liability and the maximum payout related to other financial guarantees were $152 million and $3.48 billion, respectively.

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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 Trusts, 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 Trusts.

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 may also be liable to some clients for losses caused by acts or omissions of third-party service providers, including sub-custodians and third-party brokers. 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 2013 or December 2012.

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 2013 or December 2012.

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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 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, Group Inc. s liabilities as guarantor are not separately disclosed.

Note 19. Shareholders' Equity

Note 19.

Shareholders Equity

Common Equity

On April 15, 2013, Group Inc. declared a dividend of $0.50 per common share to be paid on June 27, 2013 to common shareholders of record on May 30, 2013.

The firm s share repurchase program is intended to help maintain the appropriate level of common equity. 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), 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 2013, the firm repurchased 10.1 million shares of its common stock at an average cost per share of $150.53, for a total cost of $1.52 billion, 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 withholding requirements. Under these plans, during the three months ended March 2013, employees remitted 70,754 shares with a total value of $10 million and the firm cancelled 3.2 million of RSUs with a total value of $458 million.

On March 25, 2013, the firm amended its warrant agreement with Berkshire Hathaway Inc. and certain of its subsidiaries (collectively, Berkshire Hathaway) to require net share settlement and to specify the exercise date as October 1, 2013. Under the amended agreement, the firm will deliver to Berkshire Hathaway the number of shares of common stock equal in value to the difference between the average closing price of the firm s common stock over the 10 trading days preceding October 1, 2013 and the exercise price of $115.00 multiplied by the number of shares of common stock (43.5 million) covered by the warrant.

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Preferred Equity

The table below presents perpetual preferred stock issued and outstanding as of March 2013.

Series	Shares Authorized	Shares Issued	Shares Outstanding	Dividend Rate	Redemption Value *(in millions)*
A	50,000	30,000	29,999	3 month LIBOR + 0.75%, with floor of 3.75% per annum	$ 750
B	50,000	32,000	32,000	6.20% per annum	800
C	25,000	8,000	8,000	3 month LIBOR + 0.75%, with floor of 4.00% per annum	200
D	60,000	54,000	53,999	3 month LIBOR + 0.67%, with floor of 4.00% per annum	1,350
E	17,500	17,500	17,500	3 month LIBOR + 0.77%, with floor of 4.00% per annum	1,750
F	5,000	5,000	5,000	3 month LIBOR + 0.77%, with floor of 4.00% per annum	500
I	34,500	34,000	34,000	5.95% per annum	850
	242,000	180,500	180,498		$6,200

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 depositary shares and is redeemable at the firm s option, at a redemption price equal to $25,000 plus declared and unpaid dividends.

Each share of non-cumulative Series E and Series F Preferred Stock issued and outstanding has a par value of $0.01, has a liquidation preference of $100,000 and is redeemable at the option of the firm at any time subject to 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, at a redemption price equal to $100,000 plus declared and unpaid dividends. See Note 16 for further information about the replacement capital covenants applicable to the Series E and Series F Preferred Stock.

Each share of non-cumulative Series I Preferred Stock issued and outstanding has a par value of $0.01, has a liquidation preference of $25,000, is represented by 1,000 depositary shares and is redeemable at the firm s option beginning November 10, 2017 at a redemption price equal to $25,000 plus accrued and unpaid dividends.

Any redemption of preferred stock by the firm requires the approval of the Federal Reserve Board. 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.

On April 25, 2013, Group Inc. issued 40,000 shares of perpetual 5.50% Fixed-to-Floating Rate Non-Cumulative Preferred Stock, Series J, par value $0.01 per share (Series J Preferred Stock), out of a total of 46,000 shares of Series J Preferred Stock authorized for issuance. Each share of Series J Preferred Stock issued and outstanding has a liquidation preference of $25,000, is represented by 1,000 depositary shares and is redeemable at the firm s option beginning May 10, 2023, at a redemption price equal to $25,000 plus accrued and unpaid dividends. Dividends on Series J Preferred Stock, if declared, will be payable quarterly at a fixed rate per annum of 5.50% from the issuance date to, but excluding, May 10, 2023, and thereafter at a rate per annum equal to three-month LIBOR plus 3.64%.

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The table below presents preferred dividends declared on preferred stock.

	Three Months Ended March			
	2013		2012	
	per share	*in millions*	*per share*	*in millions*
Series A	**$234.38**	**$ 7**	$239.58	$ 7
Series B	**387.50**	**12**	387.50	12
Series C	**250.00**	**2**	255.56	2
Series D	**250.00**	**14**	255.56	14
Series E	**977.78**	**17**		
Series F	**977.78**	**5**		
Series I	**437.99**	**15**		
Total		**$72**		$35

Accumulated Other Comprehensive Income/(Loss)

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

	As of March 2013			
in millions	**Currency translation adjustment, net of tax**	**Pension and postretirement liability adjustments, net of tax**	**Net unrealized gains/(losses) on available-for-sale securities, net of tax**	**Accumulated other comprehensive income/(loss), net of tax**
Balance, beginning of year	**$(314)**	**$(206)**	**$327**	**$(193)**
Other comprehensive income/(loss)	**(26)**	**(4)**	**15**	**(15)**
Balance, end of period	**$(340)**	**$(210)**	**$342** [1]	**$(208)**

	As of December 2012			
in millions	Currency translation adjustment, net of tax	Pension and postretirement	Net unrealized gains/(losses) on available-for-sale securities, net of tax	Accumulated other comprehensive income/(loss),

		liability adjustments, net of tax		net of tax
Balance, beginning of year	$(225)	$(374)	$ 83	$(516)
Other comprehensive income/(loss)	(89)	168	244	323
Balance, end of year	$(314)	$(206)	$327 [1]	$(193)

1. Substantially all consists of net unrealized gains on securities held by the firm s insurance subsidiaries as of both March 2013 and December 2012.

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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 under the Bank Holding Company Act of 1956 (BHC Act) and a financial holding company under amendments to the BHC Act effected by the U.S. Gramm-Leach-Bliley Act of 1999. As a bank holding company, the firm is subject to consolidated regulatory capital requirements that are computed in accordance with the Federal Reserve Board s risk-based capital regulations (which are based on the Basel 1 Capital Accord of the Basel Committee) reflecting the Federal Reserve Board s revised market risk regulatory capital requirements which became effective on January 1, 2013. 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 U.S. 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 U.S. 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 under Basel 1, as implemented by the Federal Reserve Board. The information as of March 2013 reflects the revised market risk regulatory capital requirements, which became effective on January 1, 2013. The information as of December 2012 is prior to the implementation of these revised market risk regulatory capital requirements.

	As of	
$ in millions	**March 2013**	December 2012
Tier 1 capital	**$ 69,371**	$ 66,977
Tier 2 capital	**$ 13,445**	$ 13,429
Total capital	**$ 82,816**	$ 80,406
Risk-weighted assets	**$480,080**	$399,928
Tier 1 capital ratio	**14.4%**	16.7%
Total capital ratio	**17.3%**	20.1%
Tier 1 leverage ratio	**7.5%**	7.3%

Changes to the market risk regulatory capital requirements referenced above introduced a new methodology for determining RWAs for market risk and are designed to implement the new market risk framework of the Basel Committee, as well as the prohibition on the use of external credit ratings, as required by the Dodd-Frank Act. These revised market risk regulatory capital requirements are a significant part of the regulatory capital changes that will ultimately be reflected in the firm s capital ratios under the guidelines issued by the Basel Committee in December 2010 (Basel 3).

RWAs under the Federal Reserve Board s risk-based capital requirements are calculated based on measures of credit risk and market risk. 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 exposures are then assigned a risk weight depending on, among other things, whether the counterparty is a sovereign, bank or a qualifying securities firm or other entity (or if collateral is held, depending on the nature of the collateral).

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Under Basel 1, prior to the implementation of the revised market risk regulatory capital requirements outlined above, RWAs for market risk were determined by reference to the firm s Value-at-Risk (VaR) model, supplemented by the standardized measurement method used to determine RWAs for specific risk for certain positions. Under the Federal Reserve Board s revised market risk regulatory capital requirements, which became effective on January 1, 2013, the methodology for calculating the RWAs for market risk was changed. RWAs for market risk are now determined using VaR, stressed VaR, incremental risk, comprehensive risk and a standardized measurement method for specific risk.

Tier 1 leverage ratio is defined as Tier 1 capital 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).

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 (Basel 2), as applicable to Group Inc. as a bank holding company and as an advanced approach banking organization. These requirements 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. Basel 2, among other things, revises the regulatory capital framework for credit risk and equity investments, and introduces a new operational risk capital requirement. The firm will implement Basel 2 once approved to do so by regulators following the completion of a parallel run period. Based on the parallel run calculations, the firm currently meets the minimum capital requirements calculated in accordance with Basel 2, including the revised market risk regulatory capital requirements. The firm s capital adequacy ratio will also be impacted by the further changes outlined below under Basel 3 and provisions of the Dodd-Frank Act.

The Collins Amendment of the Dodd-Frank Act requires advanced approach banking organizations to continue, upon adoption of Basel 2, to calculate risk-based capital ratios under both Basel 2 and Basel 1 (in each case reflecting the Federal Reserve Board s revised market risk regulatory

capital requirements). 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 such advanced approach banking organizations meet their minimum risk-based capital requirements. Furthermore, the June 2012 proposals described below include provisions which, if enacted as proposed, would modify these minimum risk-based capital requirements.

In June 2012, the U.S. federal bank regulatory agencies (Agencies) proposed further modifications to their capital adequacy regulations to address aspects of both the Dodd-Frank Act and Basel 3. If enacted as proposed, the most significant changes that would impact the firm include (i) revisions to the definition of Tier 1 capital, including new deductions from Tier 1 capital, (ii) higher minimum capital and leverage ratios, (iii) a new minimum ratio of Tier 1 common equity to RWAs, (iv) new capital conservation and counter-cyclical capital buffers, (v) an additional leverage ratio that includes measures of off-balance sheet exposures, (vi) revisions to the methodology for calculating RWAs, particularly for credit risk capital requirements for derivatives and (vii) a new standardized approach to the calculation of RWAs that would replace the Federal Reserve Board s current Basel 1 risk-based capital framework in 2015, including for purposes of calculating the requisite capital floor under the Collins Amendment. In November 2012, the Agencies announced that the proposed effective date of January 1, 2013 for these modifications would be deferred, but have not indicated a revised effective date. These proposals incorporate the phase-out of Tier 1 capital treatment for the firm s junior subordinated debt issued to trusts; such capital would instead be eligible as Tier 2 capital under the proposals. Under the Collins Amendment, this phase-out was scheduled to begin on January 1, 2013. Due to the aforementioned deferral of the effective date of the proposed capital rules, the required application of this phase-out remains uncertain at this time. However, beginning on January 1, 2013, the firm has begun the phase-out of the firm s Tier 1 capital treatment of its junior subordinated debt issued to trusts. The firm has assumed a phase-out period allowing for only 75% of the capital instrument to be included in additional Tier 1 capital in calendar year 2013 reflecting the Federal Reserve Board s proposed capital rules. Phased-out amounts that are no longer eligible as Tier 1 capital treatment are eligible for Tier 2 capital treatment.

THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

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(Unaudited)

In November 2011, the Basel Committee 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 banking institution that increases its systemic footprint (e.g., by increasing total assets). In November 2012, the Financial Stability Board (established at the direction of the leaders of the Group of 20) indicated that the firm, based on its 2011 financial data, would be required to hold an additional 1.5% of Tier 1 common equity as a globally systemically important banking institution under the Basel Committee s methodology. The final determination of the amount of additional Tier 1 common equity that the firm will be required to hold will be based on the firm s 2013 financial data and the manner and timing of the U.S. banking regulators implementation of the Basel Committee s methodology. The Basel Committee indicated that globally systemically important banking institutions will be required to meet the capital surcharges on a phased-in basis from 2016 through 2019.

In October 2012, the Basel Committee published its final provisions for calculating incremental capital requirements for domestic systemically important banking institutions. The provisions are complementary to the framework outlined above for global systemically important banking institutions, but are more principles-based in order to provide an appropriate degree of national discretion. The impact of these provisions on the regulatory capital requirements of GS Bank USA and the firm s other subsidiaries, including Goldman Sachs International (GSI), will depend on how they are implemented by the banking and non-banking regulators in the United States and other jurisdictions.

The Basel Committee has released other consultation papers that may result in further changes to the regulatory capital requirements, including a Fundamental review of the trading book and Revisions to the Basel Securitization Framework. In addition, the Basel Committee has issued other proposals on regulatory changes including a Supervisory framework for measuring and controlling large exposures. The full impact of these developments on the firm will not be known with certainty until after any resulting rules are finalized.

The Dodd-Frank Act contains provisions that require the registration of all swap dealers, major swap participants, security-based swap dealers and major security-based swap participants. The firm has registered certain subsidiaries as swap dealers under the U.S. Commodity Futures Trading Commission (CFTC) rules, including GS&Co., GS Bank USA, GSI and J. Aron & Company. These entities and other entities that would require registration under the CFTC or SEC rules will be subject to regulatory capital requirements, which have not yet been finalized by the CFTC and SEC.

The interaction among the Dodd-Frank Act, other reform initiatives contemplated by the Agencies, the Basel Committee s proposed and announced changes and other proposed or announced changes from other governmental entities and regulators (including the European Union (EU) and the U.K. s Financial Services Authority (FSA)) adds further uncertainty to the firm s future capital and liquidity requirements and those of the firm s subsidiaries. The EU has recently finalized legislation which implements Basel 3 and it is expected to be in force for the European Union on January 1, 2014. As of April 1, 2013, GSI is regulated by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) which replaced the FSA.

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(Unaudited)

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, the New York State Department of Financial Services and the Consumer Financial Protection Bureau, 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 requirements currently applicable to state member banks, which are based on Basel 1 reflecting the revised market risk regulatory capital requirements 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 maintain 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 2013 and December 2012.

The table below presents information regarding GS Bank USA s regulatory capital ratios under Basel 1, as implemented by the Federal Reserve Board. The information as of March 2013 reflects the revised market risk regulatory capital requirements, which became effective on January 1, 2013. These changes resulted in increased regulatory capital requirements for market risk. The information as of December 2012 is prior to the implementation of these revised market risk regulatory capital requirements.

	As of	
$ in millions	**March 2013**	December 2012
Tier 1 capital [1]	**$ 19,089**	$ 20,704
Tier 2 capital	**$ 56**	$ 39
Total capital	**$ 19,145**	$ 20,743
Risk-weighted assets	**$120,010**	$109,669
Tier 1 capital ratio	**15.9%**	18.9%
Total capital ratio	**16.0%**	18.9%
Tier 1 leverage ratio	**16.1%**	17.6%

1. The decrease from December 2012 to March 2013 is related to GS Bank USA s $2.00 billion dividend to Group Inc. in the first quarter of 2013.

GS Bank USA is also currently working to implement the Basel 2 framework, as implemented by the Federal Reserve Board. GS Bank USA will implement Basel 2 once approved to do so by regulators following the completion of a parallel run period. Based on the parallel run calculations, GS Bank USA currently meets the minimum capital requirements calculated in accordance with Basel 2, including the revised market risk regulatory requirements.

In addition, the capital requirements for GS Bank USA are expected to be impacted by the June 2012 proposed modifications to the Agencies capital adequacy regulations outlined above, including the requirements of a floor to the advanced risk-based capital ratios. If enacted as proposed, these proposals would also change the regulatory framework for prompt corrective action that is applicable to GS Bank USA by, among other things, introducing a common equity Tier 1 ratio requirement, increasing the minimum Tier 1 capital ratio requirement and introducing a supplementary leverage ratio as a component of the prompt corrective action analysis. GS Bank USA will also be impacted by aspects of the Dodd-Frank Act, including new stress tests.

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 $49.64 billion and $58.67 billion as of March 2013 and December 2012, respectively, which exceeded required reserve amounts by $49.54 billion and $58.59 billion as of March 2013 and December 2012, 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 credit extensions from GS Bank USA) that may take place and generally require those transactions to be on market terms or better to GS Bank USA.

The firm s principal non-U.S. bank subsidiary, GSIB, is a wholly-owned credit institution, which was regulated by the FSA through March 2013, and is subject to minimum capital requirements. As of April 1, 2013, GSIB is regulated by the PRA and the FCA, which replaced the FSA. As of March 2013 and December 2012, GSIB was in compliance with all regulatory capital requirements.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

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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 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 2013 and December 2012, GS&Co. had regulatory net capital, as defined by Rule 15c3-1, of $14.80 billion and $14.12 billion, respectively, which exceeded the amount required by $12.85 billion and $12.42 billion, respectively. As of March 2013 and December 2012, GSEC had regulatory net capital, as defined by Rule 15c3-1, of $2.05 billion and $2.02 billion, respectively, which exceeded the amount required by $1.94 billion and $1.92 billion, respectively.

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 2013 and December 2012, 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. were regulated by the FSA through March 2013. As of April 1, 2013, such entities are regulated by the PRA and the FCA, which replaced the FSA. Additionally, certain other non-U.S. insurance subsidiaries are regulated by the Bermuda Monetary Authority. The firm s insurance subsidiaries were in compliance with all regulatory capital requirements as of March 2013 and December 2012.

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, was subject to the capital requirements imposed by the FSA through March 2013. As of April 1, 2013, GSI is regulated by the PRA and the FCA, which replaced 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 2013 and December 2012, 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 2013 and December 2012, 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 2013 and December 2012, Group Inc. was required to maintain approximately $30.48 billion and $31.01 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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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

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(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	
in millions, except per share amounts	**2013**	2012
Numerator for basic and diluted EPS net earnings applicable to common shareholders	**$2,188**	$2,074
Denominator for basic EPS weighted average number of common shares	**482.1**	510.8
Effect of dilutive securities:		
RSUs	**6.1**	9.2
Stock options and warrants	**21.6**	9.2
Dilutive potential common shares	**27.7**	18.4
Denominator for diluted EPS weighted average number of common shares and dilutive potential common shares	**509.8**	529.2
Basic EPS	**$ 4.53**	$ 4.05
Diluted EPS	**4.29**	3.92

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 for both the three months ended March 2013 and March 2012.

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

	Three Months Ended March	
in millions	**2013**	2012
Number of antidilutive RSUs and common shares underlying antidilutive stock options and warrants	**6.1**	52.5

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

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Note 22. Transactions with Affiliated Funds

Note 22.

Transactions with Affiliated Funds

The firm has formed numerous nonconsolidated investment funds with third-party investors. As the firm generally acts as the investment manager for these funds, it 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	
in millions	**2013**	2012
Fees earned from affiliated funds	**$ 700**	$ 594

	As of	
	March	December
in millions	**2013**	2012
Fees receivable from funds	**$ 569**	$ 704
Aggregate carrying value of interests in funds	**14,114**	14,725

As of March 2013 and December 2012, the firm had outstanding loans and guarantees to certain of its funds of $89 million and $582 million, respectively, which are collateralized by certain fund assets. These amounts relate primarily to certain real estate funds for which the firm voluntarily provided financial support to alleviate liquidity constraints during the financial crisis and, more recently, to enable them to fund investment opportunities. As of March 2013 and December 2012, the firm had no outstanding commitments to extend credit to these funds.

The Volcker Rule, as currently drafted, would restrict the firm from providing additional voluntary financial support to these funds after July 2014 (subject to extension by the Federal Reserve Board). As a general matter, in the ordinary course of business, the firm does not expect to provide additional voluntary financial support to these funds; however, in the event that such support is provided, the amount of any such support is not expected to be material. In addition, 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.

THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

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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.

	Three Months Ended March	
in millions	**2013**	2012
Interest income		
Deposits with banks	**$ 48**	$ 38
Securities borrowed, securities purchased under agreements to resell and federal funds sold [1]	**(24)**	(14)
Financial instruments owned, at fair value	**2,238**	2,442
Other interest [2]	**346**	367
Total interest income	**2,608**	2,833
Interest expense		
Deposits	**93**	91
Securities loaned and securities sold under agreements to repurchase	**164**	211
Financial instruments sold, but not yet purchased, at fair value	**511**	525
Short-term borrowings [3]	**106**	168
Long-term borrowings [3]	**910**	1,009
Other interest [4]	**(101)**	(152)
Total interest expense	**1,683**	1,852

Net interest income	**$ 925**	$ 981

1. Includes rebates paid and interest income on securities borrowed.

2. Includes interest income on customer debit balances and other interest-earning assets.

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

4. Includes rebates received on other interest-bearing liabilities and interest expense on customer credit balances.

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.

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.

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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 2013, 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.

Jurisdiction	As of March 2013
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 in 2011. IRS examination of fiscal 2005, 2006 and 2007 began in 2008. IRS examination of fiscal 2003 and 2004 has been completed, but the liabilities for those years are not yet final. The firm anticipates that the audits of fiscal 2005 through calendar 2010 should be completed in 2013. The audit of 2011 began in 2013 and the audit of 2012 is expected to begin in 2013.

2. New York State and City examination of fiscal 2004, 2005 and 2006 began in 2008. The examination of fiscal 2007 through 2010 began in 2013.

3. Japan National Tax Agency examination of fiscal 2005 through 2009 began in 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.

In January 2013, the firm was accepted into the Compliance Assurance Process program by the IRS. This program will allow the firm to work with the IRS to identify and resolve potential U.S. federal tax issues before the filing of tax returns. The 2013 tax year will be the first year examined under the program.

Note 25. Business Segments

Note 25.

Business Segments

The firm reports its activities in the following four business segments: Investment Banking, Institutional Client Services, Investing & Lending and Investment Management.

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 assets (including allocations of excess liquidity and cash, secured client financing and other assets), 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 assets, revenues and expenses. The allocation process is based on the manner in which management currently views the performance of the segments. 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.

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(Unaudited)

The segment information presented in the table below is prepared according to the following methodologies:

Revenues and expenses directly associated with each segment are included in determining pre-tax earnings.

Net revenues in the firm s segments include allocations of interest income and interest expense to specific securities, commodities and other positions in relation to the cash generated by, or funding requirements of, such underlying positions. Net interest is included in segment net revenues as it is consistent with the way in which management assesses segment performance.

Overhead expenses not directly allocable to specific segments are allocated ratably based on direct segment expenses.

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

in millions		For the Three Months Ended or as of March 2013	2012
Investment Banking	Net revenues	**$ 1,568**	$ 1,154
	Operating expenses	**1,064**	871
	Pre-tax earnings	**$ 504**	$ 283
	Segment assets	**$ 1,873**	$ 1,944
Institutional Client Services	Net revenues [1]	**$ 5,139**	$ 5,709
	Operating expenses	**3,566**	3,938
	Pre-tax earnings	**$ 1,573**	$ 1,771
	Segment assets	**$848,375**	$842,587
Investing & Lending	Net revenues	**$ 2,068**	$ 1,911
	Operating expenses	**996**	958
	Pre-tax earnings	**$ 1,072**	$ 953
	Segment assets	**$ 97,303**	$ 94,457
	Net revenues	**$ 1,315**	$ 1,175

Investment Management			
	Operating expenses	**1,090**	989
	Pre-tax earnings	**$ 225**	$ 186
	Segment assets	**$ 11,672**	$ 11,944
Total	**Net revenues**	**$ 10,090**	$ 9,949
	Operating expenses	**6,717**	6,768
	Pre-tax earnings	**$ 3,373**	$ 3,181
	Total assets	**$959,223**	$950,932

1. Includes $40 million and $29 million for the three months ended March 2013 and March 2012, respectively, of realized gains on available-for-sale securities held in the firm s reinsurance subsidiaries.

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

charitable contributions of $12 million for the three months ended March 2012; and

real estate-related exit costs of $1 million for the three months ended March 2013. Real estate-related exit costs are included in Depreciation and amortization in the condensed consolidated statements of earnings.

Operating expenses related to net provisions for litigation and regulatory proceedings, previously not allocated to the firm s segments, have now been allocated. This allocation is consistent with the manner in which management currently views the performance of the firm s segments. Reclassifications have been made to previously reported segment amounts to conform to the current presentation.

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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.

	Three Months Ended March	
in millions	**2013**	2012
Investment Banking	**$**	$ (6)
Institutional Client Services	**909**	971
Investing & Lending	**(13)**	(27)
Investment Management	**29**	43
Total net interest income	**$925**	$981

	Three Months Ended March	
in millions	**2013**	2012
Investment Banking	**$ 33**	$ 42
Institutional Client Services	**152**	166
Investing & Lending	**75**	183
Investment Management	**41**	42
Total depreciation and amortization [1]	**$302**	$433

1. Includes real estate-related exit costs of $1 million for the three months ended March 2013 that have not been allocated to the firm s segments.

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.

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

Investment Management: location of the sales team.

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.

$ in millions	Three Months Ended March **2013**		2012	
Net revenues				
Americas [1]	**$ 6,005**	**60%**	$5,787	58%
EMEA [2]	**2,421**	**24**	2,708	27
Asia [3]	**1,664**	**16**	1,454	15
Total net revenues	**$10,090**	**100%**	$9,949	100%
Pre-tax earnings				
Americas [1]	**$ 1,851**	**55%**	$1,668	52%
EMEA [2]	**907**	**27**	1,062	33
Asia [3]	**616**	**18**	463	15
Subtotal	**3,374**	**100%**	3,193	100%
Corporate [4]	**(1)**		(12)	
Total pre-tax earnings	**$ 3,373**		$3,181	

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 real estate-related exit costs of $1 million for the three months ended March 2013, and charitable contributions of $12 million for the three months ended March 2012. Net provisions for litigation and regulatory proceedings, previously included in Corporate, have now been allocated to the geographic regions. Reclassifications have been made to previously reported geographic region amounts to conform to the current presentation.

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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 cash instruments held by the firm. As of March 2013 and December 2012, the firm did not have credit exposure to any other counterparty that exceeded 2% of total assets.

	As of	
	March	December
$ in millions	**2013**	2012
U.S. government and federal agency obligations [1]	**$114,268**	$114,418
% of total assets	**11.9%**	12.2%
Non-U.S. government and agency obligations [1]	**$ 57,666**	$ 62,252
% of total assets	**6.0%**	6.6%

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

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 non-U.S. government and agency obligations. See Note 9 for further information about collateralized agreements and financings.

The table below presents U.S. government and federal agency obligations, and non-U.S. government and agency 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.

	As of	
	March	December
in millions	**2013**	2012
U.S. government and		