GOLDMAN SACHS GROUP INC
Form 10-Q
May 10, 2012
Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended March 31, 2012

or

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

For the transition period from to

Commission File Number: 001-14965

The Goldman Sachs Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware **(State or other jurisdiction of** **incorporation or organization)**	13-4019460 **(I.R.S. Employer** **Identification No.)**
200 West Street, New York, N.Y. **(Address of principal executive offices)**	10282 **(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 27, 2012, there were 491,877,148 shares of the registrant s common stock outstanding.

Table of Contents

THE GOLDMAN SACHS GROUP, INC.

QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2012

INDEX

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Earnings

(Unaudited)

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

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

Table of Contents

THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income

(Unaudited)

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

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

3

Table of Contents

THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Financial Condition

(Unaudited)

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

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

Table of Contents

THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Changes in Shareholders Equity

(Unaudited)

in millions	**Three Months Ended March 2012**	Year Ended December 2011
Preferred stock		
Balance, beginning of year	**$ 3,100**	$ 6,957
Repurchased		(3,857)
Balance, end of period	**3,100**	3,100
Common stock		
Balance, beginning of year	**8**	8
Issued		
Balance, end of period	**8**	8
Restricted stock units and employee stock options		
Balance, beginning of year	**5,681**	7,706
Issuance and amortization of restricted stock units and employee stock options	**640**	2,863
Delivery of common stock underlying restricted stock units	**(2,415)**	(4,791)
Forfeiture of restricted stock units and employee stock options	**(16)**	(93)
Exercise of employee stock options	**(1)**	(4)
Balance, end of period	**3,889**	5,681
Additional paid-in capital		
Balance, beginning of year	**45,553**	42,103
Issuance of common stock		103
Delivery of common stock underlying share-based awards	**2,419**	5,160
Cancellation of restricted stock units in satisfaction of withholding tax requirements	**(872)**	(1,911)
Excess net tax benefit/(provision) related to share-based awards	**(64)**	138
Cash settlement of share-based compensation	**(1)**	(40)
Balance, end of period	**47,035**	45,553
Retained earnings		
Balance, beginning of year	**58,834**	57,163
Net earnings	**2,109**	4,442
Dividends and dividend equivalents declared on common stock and restricted stock units	**(185)**	(769)
Dividends on preferred stock	**(35)**	(2,002)
Balance, end of period	**60,723**	58,834
Accumulated other comprehensive income/(loss)		
Balance, beginning of year	**(516)**	(286)
Other comprehensive income/(loss)	**9**	(230)
Balance, end of period	**(507)**	(516)
Stock held in treasury, at cost		
Balance, beginning of year	**(42,281)**	(36,295)
Repurchased	**(368)**	(6,051)
Reissued	**57**	65
Balance, end of period	**(42,592)**	(42,281)
Total shareholders equity	**$ 71,656**	$ 70,379

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

Table of Contents

THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(Unaudited)

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

SUPPLEMENTAL DISCLOSURES:

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

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

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 advisory assignments with respect to mergers and acquisitions, divestitures, corporate defense activities, risk management, restructurings and spin-offs, and debt and equity underwriting of public offerings and private placements, as well as derivative transactions directly related to these activities.

Institutional Client Services

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

Investing & Lending

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

Investment Management

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

Note 2. Basis of Presentation

Note 2.

Basis of Presentation

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

These condensed consolidated financial statements are unaudited and should be read in conjunction with the audited consolidated financial statements included in the firm s Annual Report on Form 10-K for the year ended December 31, 2011. References to the firm s Annual Report on Form 10-K are to the firm s Annual Report on Form 10-K for the year ended December 31, 2011. The condensed consolidated financial information as of December 31, 2011 has been derived from audited consolidated financial statements not included herein.

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

All references to March 2012 and March 2011 refer to the firm s periods ended, or the dates, as the context requires, March 31, 2012 and March 31, 2011, respectively. All references to December 2011 refer to the date December 31, 2011. Any reference to a future year refers to a year ending on December 31 of that year. Certain reclassifications have been made to previously reported amounts to conform to the current presentation.

Table of Contents

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.

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.

THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

In general, the firm accounts for investments acquired subsequent to November 24, 2006, when the fair value option became available, at fair value. In certain cases, the firm applies the equity method of accounting to new investments that are strategic in nature or closely related to the firm s principal business activities, when the firm has a significant degree of involvement in the cash flows or operations of the investee or when cost-benefit considerations are less significant. See Note 12 for further information about equity-method investments.

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

Use of Estimates

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

Revenue Recognition

Financial Assets and Financial Liabilities at Fair Value. Financial instruments owned, at fair value and Financial instruments sold, but not yet purchased, at fair value are recorded at fair value either under the fair value option or in accordance with other U.S. GAAP. In addition, the firm has elected to account for certain of its other financial assets and financial liabilities at fair value by electing the fair value option. The fair value of a financial instrument is the amount that would be received to sell an asset or paid to

transfer a liability in an orderly transaction between market participants at the measurement date. Financial assets are marked to bid prices and financial liabilities are marked to offer prices. Fair value measurements do not include transaction costs. Fair value gains or losses are generally included in Market making for positions in Institutional Client Services and Other principal transactions for positions in Investing & Lending. See Notes 5 through 8 for further information about fair value measurements.

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

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

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

Table of Contents

THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Transfers of Assets

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

Receivables from Customers and Counterparties

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

Insurance Activities

Certain of the firm's insurance and reinsurance contracts are accounted for at fair value under the fair value option, with changes in fair value included in Market making revenues. See Note 8 for further information about the fair values of these insurance and reinsurance contracts.

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

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

Share-based Compensation

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

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

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

THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Foreign Currency Translation

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

Cash and Cash Equivalents

The firm defines cash equivalents as highly liquid overnight deposits held in the ordinary course of business. As of March 2012 and December 2011, Cash and cash equivalents included $7.22 billion and $7.95 billion, respectively, of cash and due from banks, and $49.92 billion and $48.05 billion, respectively, of interest-bearing deposits with banks.

Recent Accounting Developments

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

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

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

Disclosures about Offsetting Assets and Liabilities (ASC 210). In December 2011, the FASB issued ASU No. 2011-11, Balance Sheet (Topic 210) Disclosures about Offsetting Assets and Liabilities. ASU No. 2011-11 will require disclosure of the effect or potential effect of offsetting arrangements on the firm s financial position as well as enhanced disclosure of the rights of setoff associated with the firm s recognized assets and recognized liabilities. ASU No. 2011-11 is effective for periods beginning on or after January 1, 2013. Since these amended principles require only additional disclosures concerning offsetting and related arrangements, adoption will not affect the firm s financial condition, results of operations or cash flows.

11

Table of Contents

THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

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

Note 4.

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

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

financial instruments sold, but not yet purchased, at fair value. Financial instruments owned, at fair value included $4.69 billion and $4.86 billion as of March 2012 and December 2011, respectively, of securities accounted for as available-for-sale, substantially all of which are held in the firm s insurance subsidiaries.

	As of March 2012		As of December 2011	
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	**$ 10,553**	**$**	$ 13,440	$
U.S. government and federal agency obligations	**90,488**	**27,489**	87,040	21,006
Non-U.S. government obligations	**60,812**	**43,791**	49,205	34,886
Mortgage and other asset-backed loans and securities:				
Loans and securities backed by commercial real estate	**6,724**	**1**	6,699	27
Loans and securities backed by residential real estate	**8,815**	**7**	7,592	3
Bank loans and bridge loans	**18,988**	**2,242** [2]	19,745	2,756 [2]
Corporate debt securities	**24,370**	**6,841**	22,131	6,553
State and municipal obligations	**3,407**	**47**	3,089	3
Other debt obligations	**4,702**		4,362	
Equities and convertible debentures	**75,927**	**19,483**	65,113	21,326

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

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

2. Includes the fair value of unfunded lending commitments for which the fair value option was elected.

Table of Contents

THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Gains and Losses from Market Making and Other Principal Transactions

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

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

	Three Months Ended March	
in millions	**2012**	2011
Interest rates	**$1,889**	$ 2,406
Credit	**1,710**	2,051
Currencies	**(724)**	(1,606)
Equities	**1,973**	2,850
Commodities	**471**	957
Other	**524**	416
Total	**$5,843**	$ 7,074

Note 5. Fair Value Measurements

Note 5.

Fair Value Measurements

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

The best evidence of fair value is a quoted price in an active market. If quoted prices in active markets are not available, fair value is determined by reference to prices for similar instruments, quoted prices or recent transactions in less active markets, or internally developed models that primarily use market-based or independently sourced parameters as inputs including, but not limited to, interest rates, volatilities, equity or debt prices, foreign exchange rates, commodities prices, credit spreads and funding spreads.

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.

Table of Contents

THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

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

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

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

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

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

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

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

THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Note 6. Cash Instruments

Note 6.

Cash Instruments

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

Level 1 Cash Instruments

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

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

Level 2 Cash Instruments

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

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

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

Level 3 Cash Instruments

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

Table of Contents

THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

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

Level 3 Cash Instrument	Valuation Techniques and Significant Inputs
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 for these valuations, which may be determined based on relative value analyses, include: Transaction prices in both the underlying collateral and instruments with the same or similar underlying collateral Market yields implied by transactions of similar or related assets 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 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:

May include tranches of varying levels of subordination	Transaction prices in both the underlying collateral and instruments with the same or similar underlying collateral
	Market yields implied by transactions of similar or related assets
	Cumulative loss expectations, driven by default rates, home price projections, residential property liquidation timelines and related costs
	Duration, driven by underlying loan prepayment speeds and residential property liquidation timelines
Bank loans and bridge loans	Valuation techniques vary by instrument, but are generally based on discounted cash flow techniques.
	Significant inputs are generally determined based on relative value analyses, which incorporate comparisons both to prices of credit default swaps that reference the same or similar underlying instrument or entity and to other debt instruments for the same issuer for which observable prices or broker quotations are available. Significant inputs include:
	Market yields implied by transactions of similar or related assets and/or current levels and trends of market indices such as CDX and LCDX (indices that track the performance of corporate credit and loans, respectively)
	Current performance and recovery assumptions and, where the firm uses credit default swaps to value the related cash instrument, the cost of borrowing the underlying reference obligation
	Duration
Corporate debt securities	Valuation techniques vary by instrument, but are generally based on discounted cash flow techniques.
State and municipal obligations	Significant inputs are generally determined based on relative value analyses, which incorporate comparisons both to prices of credit default swaps that reference the same or similar underlying instrument or entity and to other debt instruments for the same issuer for which observable prices or broker quotations are available. Significant inputs include:

Non-U.S. government obligations Other debt obligations	Market yields implied by transactions of similar or related assets and/or current levels and trends of market indices such as CDX, LCDX and MCDX (an index that tracks the performance of municipal obligations) 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 Private equity investments (including 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 and available: Industry multiples and public comparables Transactions in similar instruments Discounted cash flow techniques Third-party appraisals The firm also considers changes in the outlook for the relevant industry and financial performance of the issuer as compared to projected performance. Significant inputs include: Market and transaction multiples Discount rates, long-term growth rates, earnings compound annual growth rates and capitalization rates For equity instruments with debt-like features: market yields implied by transactions of similar or related assets, current performance and recovery assumptions, and duration

Table of Contents

THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Significant Unobservable Inputs

The table below presents the ranges of significant unobservable inputs used to value the firm s level 3 cash instruments. These ranges represent the significant unobservable inputs that were used in the valuation of each type of cash instrument. These inputs are not representative of the inputs that could have been used in the valuation of any one cash instrument. For example, the highest multiple

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

Level 3 Cash Instrument	**Significant Unobservable Inputs by Valuation Technique**	**Range of Significant Unobservable Inputs as of March 2012**
Loans and securities backed by commercial real estate	Discounted cash flows:	
Collateralized by a single commercial real estate property or a portfolio of properties	Yield	3.3% to 27.7%
	Recovery rate[1]	20.0% to 100.0%
May include tranches of varying levels of subordination	Duration (years)[2]	0.6 to 7.4
Loans and securities backed by residential real estate	Discounted cash flows:	
Collateralized by portfolios of residential real estate	Yield	3.2% to 30.0%
May include tranches of varying levels of subordination	Cumulative loss rate	0.0% to 79.0%
		0.1 to 9.7

	Duration (years)[3]	
Bank loans and bridge loans	Discounted cash flows:	
	Yield	0.7% to 28.1%
	Recovery rate[1]	15.0% to 100.0%
	Duration (years)[3]	0.5 to 7.9
Corporate debt securities	Discounted cash flows:	
State and municipal obligations	Yield	1.5% to 35.3%
Non-U.S. government obligations	Recovery rate[1]	0.0% to 100.0%
Other debt obligations	Duration (years)[3]	0.4 to 18.0
Equities and convertible debentures	Comparable multiples:	
Private equity investments (including investments in real estate entities)	Multiples	0.8x to 20.0x
	Discounted cash flows:	10.0% to 30.0%
	Yield/discount rate	
	Long-term growth rate/compound annual growth rate	(0.7)% to 55.9%

Capitalization rate	5.5% to 11.5%
Recovery rate[1]	45.0% to 100.0%
Duration (years)[2]	1.0 to 9.0

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

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

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

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

Table of Contents

THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Fair Value of Cash Instruments by Level

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

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

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

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

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

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

3. Consists of listed equity securities.

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

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

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

Table of Contents

THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

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

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

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

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

3. Consists of listed equity securities.

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

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

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

Transfers Between Levels of the Fair Value Hierarchy

Transfers between levels of the fair value hierarchy are reported at the beginning of the reporting period in which they occur. Transfers of cash instruments between level 1 and level 2 were $728 million for the three months ended March 2012, consisting of transfers to level 2 of public

equity investments, primarily reflecting the impact of transfer restrictions. See level 3 rollforwards below for further information about transfers between level 2 and level 3.

Table of Contents

THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Level 3 Rollforward

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

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

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

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

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

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 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	Purchases	Sales	Settlements	Transfers into level 3	Transfers out of level 3	Balance, end of period

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

1. Includes both originations and secondary market purchases.

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

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

Transfers into level 3 during the three months ended March 2012 primarily reflected transfers from level 2 of certain bank loans and bridge loans, private equity

investments, and loans and securities backed by commercial real estate, principally due to reduced transparency of market prices as a result of less market activity in these instruments.

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

Table of Contents

THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

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

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

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

in millions	Balance, beginning of period	Net realized (gains)/ losses	Net unrealized (gains)/losses relating to instruments still held at period-end	Purchases	Sales	Settlements	Net transfers in and/or (out) of level 3	Balance, end of period
Total	$ 446	$ (22)	$ 41	$ (59)	$ 90	$ 8	$ (22)	$ 482

1. Includes both originations and secondary market purchases.

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

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

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

Bank loans and bridge loans: net transfer out of level 3 of $326 million, principally due to transfers to level 2 of certain loans due to improved transparency of market
prices as a result of market transactions in these financial instruments, partially offset by transfers to level 3 of certain loans due to reduced transparency of market prices as a result of less market activity in these financial instruments.

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

Table of Contents

THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Investments in Funds That Calculate Net Asset

Value Per Share

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

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

the next 10 years. The firm continues to manage its existing private equity funds taking into account the transition periods under the Volcker Rule of the U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), although the rules have not yet been finalized.

The firm s investments in hedge funds are generally redeemable on a quarterly basis with 91 days notice, subject to a maximum redemption level of 25% of the firm s initial investments at any quarter-end. The firm currently plans to comply with the Volcker Rule by redeeming certain of its interests in hedge funds. The firm redeemed approximately $250 million of these interests in hedge funds during the quarter ended March 2012.

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

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

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

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

3.

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

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

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

The firm enters into various types of derivatives, including:

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

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

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

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

Substantially all gains and losses on derivatives not designated as hedges under ASC 815 are included in Market making and Other principal transactions.

Table of Contents

THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

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

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

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

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

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

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

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

THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Valuation Techniques for Derivatives

Price transparency of derivatives can generally be characterized by product type.

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

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

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

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

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

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

Level 1 Derivatives

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

Level 2 Derivatives

Level 2 derivatives include exchange-traded derivatives that are not actively traded and OTC derivatives for which all significant valuation inputs are corroborated by market evidence.

Level 2 exchange-traded derivatives are valued using models that calibrate to market-clearing levels of OTC derivatives. Inputs to the valuations of level 2 OTC derivatives can be verified to market transactions, broker or dealer quotations or other alternative pricing sources with reasonable levels of price transparency. Consideration is given to the nature of the quotations (e.g., indicative or firm) and the relationship of recent market activity to the prices provided from alternative pricing sources.

Where models are used, the selection of a particular model to value an OTC derivative depends on the contractual terms of and specific risks inherent in the instrument, as well as the availability of pricing information in the market. Valuation models require a variety of inputs, including contractual terms, market prices, yield curves, credit curves, measures of volatility, prepayment rates, loss severity rates and correlations of such inputs. For OTC derivatives that trade in liquid markets, model selection does not involve significant management judgment because outputs of models can be calibrated to market-clearing levels.

THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Level 3 Derivatives

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

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

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

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

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

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

Valuation Adjustments

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

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

Table of Contents

THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Significant Unobservable Inputs

The table below presents the ranges of significant unobservable inputs used to value the firm s level 3 derivatives. These ranges represent the significant unobservable inputs that were used in the valuation of each type of derivative. These inputs are not representative of the inputs that could have been used in the valuation of any one derivative. For example, the highest correlation presented

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

Significant Unobservable Inputs	Derivative Product Type	Range of Significant Unobservable Inputs as of March 2012	Sensitivity of Fair Value Measurement to Changes in Significant Unobservable Inputs [1]
Correlation	Interest rates	14% to 70%	For contracts where the holder benefits from the convergence of the underlying asset or index prices (e.g., interest rates, credit spreads, foreign exchange rates, inflation rates and equity prices), an increase in correlation generally results in a higher fair value measurement.
	Credit	5% to 91%	
	Currencies	66% to 87%	
	Equities	46% to 91%	
	Various [2]	(51)% to 83%	
Volatility	Interest rates	36% to 91%	In general, for purchased options an increase in volatility results in a higher fair value measurement.
	Commodities	4% to 80%	
	Equities	12% to 56%	

Credit spreads	Credit	88 basis points (bps) to 2,250 bps	In general, the fair value of purchased credit protection increases as credit spreads increase, recovery rates decrease or basis widens. Credit spreads, recovery rates and basis are strongly related to distinctive risk factors of the underlying reference obligations, which include reference entity-specific factors such as leverage, volatility and industry, market-based risk factors, such as borrowing costs or liquidity of the underlying reference obligation and macro-economic conditions.
Recovery rates	Credit	0% to 85%	
Basis	Credit	1 point to 10 points	
Spread per million British Thermal units (MMBTU) of natural gas	Commodities	$(0.82) to $3.91	For contracts where the holder is receiving a commodity, an increase in the spread (price difference from a benchmark index due to differences in quality or delivery location) generally results in a higher fair value measurement.

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

2. Represents correlation across derivative product types.

27

Table of Contents

THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Fair Value of Derivatives by Level

The tables below present the fair value of derivatives on a gross basis by level and major product type. Gross fair values in the tables below exclude the effects of both netting under enforceable netting agreements and netting of cash

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

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

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

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

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

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

Table of Contents

THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

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

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

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

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

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

Table of Contents

THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Level 3 Rollforward

If a derivative was transferred to level 3 during a reporting period, its entire gain or loss for the period is included in level 3. Transfers between levels are reported at the beginning of the reporting period in which they occur.

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

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

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

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

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

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

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 [3]	390
Commodities net	(605)	40	206	99	(99)	41	100	119 [3]	(99)
Equities net	(432)	(25)	(277)	73	(100)	306	15	(80)	(520)
Total derivatives net	$5,734	$(44) [1]	$(613) [1,2]	$251	$(280)	$(276)	$1,457	$(196)	$6,033

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

2. Principally resulted from changes in level 2 inputs.

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

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

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

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

Table of Contents

THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

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

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

1. The aggregate amounts include approximately $(501) million and $15 million reported in Market making and Other principal transactions, respectively.

2. Principally resulted from changes in level 2 inputs.

The net unrealized loss on level 3 derivatives of $560 million for the three months ended March 2011 was primarily attributable to increases in equity index prices, tighter credit spreads and changes in foreign exchange rates on the underlying instruments.

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

Credit net: net transfer to level 3 of $385 million, principally due to reduced transparency of the correlation inputs used to value certain mortgage derivatives.

Impact of Credit Spreads on Derivatives

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

The net loss, including hedges, attributable to the impact of changes in credit exposure and credit spreads (counterparty and the firm s) on derivatives was $179 million and $25 million for the three months ended March 2012 and March 2011, respectively.

Bifurcated Embedded Derivatives

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

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

Table of Contents

THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

OTC Derivatives

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

derivatives and generally on remaining contractual maturity for other derivatives.

in millions — **OTC Derivatives as of March 2012**

Assets

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

Liabilities

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

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

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

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

Table of Contents

THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

in millions OTC Derivatives as of December 2011

Assets

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

Liabilities

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

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

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

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

Derivatives with Credit-Related Contingent Features

Certain of the firm s derivatives have been transacted under bilateral agreements with counterparties who may require the firm to post collateral or terminate the transactions based on changes in the firm s credit ratings. The table below presents the aggregate fair value of net derivative liabilities under such agreements (excluding application of collateral posted to reduce these liabilities), the related aggregate fair value of the assets posted as collateral, and the additional collateral or termination payments that could have been called at the reporting date by counterparties in the event of a one-notch and two-notch downgrade in the firm s credit ratings.

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

Credit Derivatives

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

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

Credit Default Swaps. Single-name credit default swaps protect the buyer against the loss of principal on one or more bonds, loans or mortgages (reference obligations) in the event the issuer (reference entity) of the reference obligations suffers a credit event. The buyer of protection pays an initial or periodic premium to the seller and receives protection for the period of the contract. If there is no credit event, as defined in the contract, the seller of protection makes no payments to the buyer of protection. However, if a credit event occurs, the seller of protection is required to make a payment to the buyer of protection, which is calculated in accordance with the terms of the contract.

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

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

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

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

Table of Contents

THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

As of March 2012, written and purchased credit derivatives had total gross notional amounts of $1.97 trillion and $2.10 trillion, respectively, for total net notional purchased protection of $123.20 billion. As of December 2011, written and purchased credit derivatives had total gross notional amounts of $1.96 trillion and $2.08 trillion, respectively, for total net notional purchased protection of $116.93 billion.

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

fair values exclude the effects of both netting under enforceable netting agreements and netting of cash received or posted under credit support agreements, and therefore are not representative of the firm s credit exposure;

tenor is based on expected duration for mortgage-related credit derivatives and on remaining contractual maturity for other credit derivatives; and

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

	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 2012									
Credit spread on underlying (basis points)									
0-250	**$345,122**	**$ 906,230**	**$180,754**	**$1,432,106**	**$1,323,645**	**$212,487**	**$23,214**	**$ 11,569**	**$ 11,645**
251-500	**29,433**	**195,101**	**55,788**	**280,322**	**251,767**	**40,987**	**5,534**	**13,026**	**(7,492)**
501-1,000	**13,226**	**112,724**	**24,416**	**150,366**	**134,781**	**20,049**	**1,368**	**10,701**	**(9,333)**
Greater than 1,000	**19,673**	**77,527**	**12,880**	**110,080**	**91,671**	**20,690**	**488**	**35,757**	**(35,269)**
Total	**$407,454**	**$1,291,582**	**$273,838**	**$1,972,874**	**$1,801,864**	**$294,213**	**$30,604**	**$ 71,053**	**$(40,449)**
As of December 2011									
Credit spread on underlying (basis points)									
0-250	$282,851	$ 794,193	$141,688	$1,218,732	$1,122,296	$180,316	$17,572	$ 16,907	$ 665
251-500	42,682	269,687	69,864	382,233	345,942	47,739	4,517	20,810	(16,293)
501-1,000	29,377	140,389	21,819	191,585	181,003	23,176	138	15,398	(15,260)

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

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

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

Hedge Accounting

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

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

THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Interest Rate Hedges

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

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

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

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

	Three Months Ended March	
in millions	**2012**	2011
Interest rate hedges	**$ (2,238)**	$ (2,658)
Hedged borrowings and bank deposits	**1,778**	2,163
Hedge ineffectiveness [1]	**(460)**	(495)

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

Net Investment Hedges

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

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

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

	Three Months Ended March	
in millions	**2012**	2011
Currency hedges	**$ (212)**	$ (225)
Foreign currency-denominated debt	**221**	82

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

As of March 2012 and December 2011, the firm had designated $2.89 billion and $3.11 billion, respectively, of foreign currency-denominated debt, included in "Unsecured long-term borrowings" and "Unsecured short-term borrowings," as hedges of net investments in non-U.S. subsidiaries.

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:

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

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

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

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

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

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

certain subordinated liabilities issued by consolidated VIEs; and

certain time deposits issued by the firm s bank subsidiaries (deposits with no stated maturity are not eligible for a fair value option election).

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

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

THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

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

Yield: 2.1% to 4.5%

Duration: 2.0 to 5.4 years

Funding spreads: 74 bps to 355 bps

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

See Note 9 for further information about collateralized agreements.

Other Secured Financings. The significant inputs to the valuation of other secured financings at fair value are the amount and timing of expected future cash flows, interest rates, the fair value of the collateral delivered by the firm (which is determined using the amount and timing of expected future cash flows, market yields and recovery assumptions), the frequency of additional collateral calls and the credit spreads of the firm. The ranges of significant unobservable inputs used to value level 3 other secured financings as of March 2012 are as follows:

Yield: 3.5% to 25.0%

Duration: 0.7 to 7.0 years

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

See Note 9 for further information about collateralized financings.

Unsecured Short-term and Long-term Borrowings. The significant inputs to the valuation of unsecured short-term and long-term borrowings at fair value are the amount and timing of expected future cash flows, interest rates, the credit spreads of the firm, as well as commodity prices in the case of prepaid commodity transactions and, for certain hybrid financial instruments, equity prices, inflation rates and index levels. See Notes 15 and 16 for further information about unsecured short-term and long-term borrowings, respectively.

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

Insurance and Reinsurance Contracts. Insurance and reinsurance contracts at fair value are included in Receivables from customers and counterparties and Other liabilities and accrued expenses. The insurance and reinsurance contracts for which the firm has elected the fair value option are contracts that can be settled only in cash and that qualify for the fair value option because they are recognized financial instruments. These contracts are valued using market transactions and other market evidence where possible, including market-based inputs to models, calibration to market-clearing transactions or other alternative pricing sources with reasonable levels of price transparency. Significant level 2 inputs typically include interest rates, inflation rates, volatilities, and policy lapse and projected mortality assumptions. Significant level 3 inputs typically include funding spreads. When unobservable inputs to a valuation model are significant to the fair value measurement of an instrument, the instrument is classified in level 3. The range of significant unobservable inputs used to value level 3 insurance and reinsurance contracts as of March 2012 is as follows:

Funding spreads: 80 bps to 170 bps

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

Table of Contents

THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Receivables from Customers and Counterparties. Receivables from customers and counterparties at fair value, excluding insurance and reinsurance contracts, are primarily comprised of transfers of assets accounted for as secured loans rather than purchases. The significant inputs to the valuation of such receivables are commodity prices, interest rates and the amount and timing of expected future cash flows. Receivables from customers and counterparties not accounted for at fair value are accounted for at amortized cost net of estimated uncollectible amounts, which generally approximates fair value. Such receivables are primarily comprised of customer margin loans. While these margin loans are carried at amounts that approximate fair value, they are not accounted for at fair value under the fair value option or at fair value in accordance with other

U.S. GAAP and therefore are not included in the firm s fair value hierarchy in Notes 6, 7 and 8. Had these margin loans been included in the firm s fair value hierarchy, substantially all would have been classified in level 2 as of March 2012.

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

Fair Value of Other Financial Assets and Financial Liabilities by Level

The tables below present, by level within the fair value hierarchy, other financial assets and financial liabilities accounted for at fair value under the fair value option.

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

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

1. Includes securities segregated for regulatory and other purposes accounted for at fair value under the fair value option, which consists of securities borrowed and resale agreements. The table above includes $24.23 billion of level 1 and $534 million of level 2 securities segregated for regulatory and other purposes accounted for at fair value under other U.S. GAAP, principally consisting of U.S. Treasury securities, money market instruments and insurance separate account assets.

Table of Contents

THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

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

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

1. Includes securities segregated for regulatory and other purposes accounted for at fair value under the fair value option, which consists of securities borrowed and resale agreements. The table above includes $21.26 billion of level 1 and $528 million of level 2 securities segregated for regulatory and other purposes accounted for at fair value under other U.S. GAAP, principally consisting of U.S. Treasury securities, money market instruments and insurance separate account assets.

Table of Contents

THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Level 3 Rollforward

If a financial asset or financial liability was transferred to level 3 during a reporting period, its entire gain or loss for the period is included in level 3. Transfers between levels are recognized at the beginning of the reporting period in which they occur.

The tables below present changes in fair value for other financial assets and financial liabilities accounted for at fair value under the fair value option categorized as level 3 as of

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

	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**	**Issues**	**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**	**Issues**	**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.

Table of Contents

THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

	Level 3 Other Financial Assets at Fair Value for the Three Months Ended March 2011								
in millions	Balance, beginning of period	Net realized gains/ (losses)	Net unrealized gains/(losses) relating to instruments still held at period-end	Purchases	Sales	Issues	Settlements	Net transfers in and/or (out) of level 3	Balance, end of period
Securities purchased under agreements to resell	$ 100	$ 2	$	$ 64	$	$	$ (8)	$	$ 158
Receivables from customers and counterparties	298		16	14			(6)		322
Total	$ 398	$ 2 [1]	$ 16 [1]	$ 78	$	$	$ (14)	$	$ 480

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

	Level 3 Other Financial Liabilities at Fair Value for the Three Months Ended March 2011								
in millions	Balance, beginning of period	Net realized (gains)/ losses	Net unrealized (gains)/losses relating to instruments still held at period-end	Purchases	Sales	Issues	Settlements	Net transfers in and/or (out) of level 3	Balance, end of period
Securities sold under agreements to repurchase, at fair value	$ 2,060	$	$	$	$	$	$ (114)	$	$ 1,946
Other secured financings	8,349		9			11	(1,262)		7,107
Unsecured short-term borrowings	3,476	60	(204)			562	(153)	(532)	3,209
Unsecured long-term borrowings	2,104	4	45			241	(72)	82	2,404
Other liabilities and accrued expenses	2,409		152	4,337			(46)		6,852
Total	$18,398	$64 [1]	$ 2 [1]	$4,337	$	$814	$(1,647)	$(450)	$21,518

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

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

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

Table of Contents

THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Gains and Losses on Other Financial Assets and

Financial Liabilities at Fair Value

The Fair Value Option columns in the table below present the gains and losses recognized as a result of the firm electing to apply the fair value option to certain financial assets and financial liabilities. These gains and losses are included in Market making and Other principal transactions.

The amounts in the table exclude contractual interest, which is included in Interest income and Interest expense, for all instruments other than hybrid financial instruments. See Note 23 for further information about interest income and interest expense. The table also excludes gains and losses related to financial instruments owned, at fair value and financial instruments sold, but not yet purchased, at fair value.

Included in the Other columns in the table below are:

Gains and losses on the embedded derivative component of hybrid financial instruments included in unsecured short-term borrowings and unsecured long-term borrowings. These gains and losses would have been recognized under other U.S. GAAP even if the firm had not elected to account for the entire hybrid instrument at fair value.

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

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

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

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

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

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

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

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

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

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

43

THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Loans and Lending Commitments

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

	As of	
	March	December
in millions	**2012**	2011
Aggregate contractual principal amount of performing loans and long-term receivables in excess of the related fair value	**$ 3,347**	$ 3,826
Aggregate contractual principal amount of loans on nonaccrual status and/or more than 90 days past due in excess of the related fair value	**22,228**	23,034
Total [1]	**$25,575**	$26,860
Aggregate fair value of loans on nonaccrual status and/or more than 90 days past due	**$ 2,378**	$ 3,174

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

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

Long-term Debt Instruments

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

Impact of Credit Spreads on Loans and Lending Commitments

The estimated net gain attributable to changes in instrument-specific credit spreads on loans and lending commitments for which the fair value option was elected was $973 million and $756 million for the three months ended March 2012 and March 2011, respectively. Changes in the fair value of loans and lending commitments are primarily attributable to changes in instrument-specific credit spreads. Substantially all of the firm s performing loans and lending commitments are floating-rate.

Impact of Credit Spreads on Borrowings

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

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

44

THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Note 9. Collateralized Agreements and Financings

Note 9.

Collateralized Agreements and Financings

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

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

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

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

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

2. As of March 2012 and December 2011, $57.06 billion and $47.62 billion of securities borrowed and $550 million and $107 million of securities loaned were at fair value, respectively.

Resale and Repurchase Agreements

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

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

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

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

Even though repurchase and resale agreements involve the legal transfer of ownership of financial instruments, they are accounted for as financing arrangements because they require the financial instruments to be repurchased or resold at the maturity of the agreement. However, repos to maturity are accounted for as sales. A repo to maturity is a transaction in which the firm transfers a security under an agreement to repurchase the security where the maturity date of the repurchase agreement matches the maturity date of the underlying security. Therefore, the firm effectively no longer has a repurchase obligation and has relinquished control over the underlying security and, accordingly, accounts for the transaction as a sale. The firm had no repos to maturity outstanding as of March 2012 or December 2011.

THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Securities Borrowed and Loaned Transactions

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

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

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

Securities borrowed and loaned within Fixed Income, Currency and Commodities Client Execution are recorded at fair value under the fair value option.

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

As of March 2012 and December 2011, the firm had $8.91 billion and $20.22 billion, respectively, of securities received under resale agreements and securities borrowed transactions that were segregated to satisfy certain regulatory requirements. These securities are included in Cash and securities segregated for regulatory and other purposes.

Other Secured Financings

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

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

Other secured financings include arrangements that are nonrecourse. As of March 2012 and December 2011, nonrecourse other secured financings were $2.31 billion and $3.14 billion, respectively.

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

- transfers of assets accounted for as financings rather than sales; and
- certain other nonrecourse financings.

See Note 8 for further information about other secured financings that are accounted for at fair value. Other secured financings that are not recorded at fair value are generally short-term and recorded based on the amount of cash received plus accrued interest, which generally approximates fair value. While these financings are carried at amounts that approximate fair value, they are not accounted for at fair value under the fair value option or at fair value in accordance with other U.S. GAAP and therefore are not included in the firm s fair value hierarchy in Notes 6, 7 and 8. Had these financings been included in the firm s fair value hierarchy, they would have primarily been classified in level 2 as of March 2012.

Table of Contents

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 2012			As of December 2011		
$ 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	**$ 16,980**	**$ 5,213**	**$ 22,193**	$ 18,519	$ 5,140	$ 23,659
At amortized cost	**144**					